

This prospectus constitutes a public offering of securities only in those jurisdictions where such securities may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The securities offered hereunder have not and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or the securities laws of any state of the United States of America (the "United States") and, subject to certain exceptions, may not be offered, sold or otherwise disposed of, directly or indirectly, within the United States or its territories or possessions except in transactions exempt from registration under the 1933 Act and under the securities laws of any applicable state. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States, its territories or possessions. See "Plan of Distribution".

PROSPECTUS

Initial Public Offering and Secondary Offering

June 13, 2006



PETROMINERALES LTD.

Up to \$75,000,000

Up to 20,000,000 Common Shares

This prospectus qualifies the distribution (the "Treasury Offering") of 16,000,000 common shares ("Common Shares") of Petrominerales Ltd. ("Petrominerales" or the "Company") and the distribution (the "Secondary Offering") of up to 4,000,000 Common Shares of the Company held by Petro International Ltd. (the "Selling Shareholder"), a wholly-owned subsidiary of Petrobank Energy and Resources Ltd. ("Petrobank"), in each case at a price of \$3.75 per Common Share (the "Offering Price"). See "Principal Shareholders and Selling Shareholder." The Treasury Offering and the Secondary Offering are collectively referred to herein as the "Offerings" and the Common Shares sold pursuant to the Offerings are collectively referred to as the "Offered Shares". The Offering Price of the Offered Shares was determined by negotiation between the Company, the Selling Shareholder, Petrobank and the underwriter, being Haywood Securities Inc. (the "Underwriter"). The Company will not receive any proceeds from the Secondary Offering.

There is currently no market through which the Common Shares may be sold and purchasers may not be able to resell Common Shares purchased under this prospectus. The Toronto Stock Exchange ("TSX") has conditionally approved the listing of the Common Shares. Listing will be subject to the Company fulfilling all of the listing requirements of the TSX on or before September 5, 2006.

Price: \$3.75 per Offered Share

	<u>Offering Price</u>	<u>Underwriter's Fee⁽¹⁾</u>	<u>Net Proceeds to the Company⁽²⁾</u>	<u>Net Proceeds to the Selling Shareholder⁽²⁾</u>
Per Common Share	\$3.75	\$0.225	\$3.525	\$3.525
Total⁽³⁾	\$75,000,000	\$4,500,000	\$56,400,000	\$14,100,000

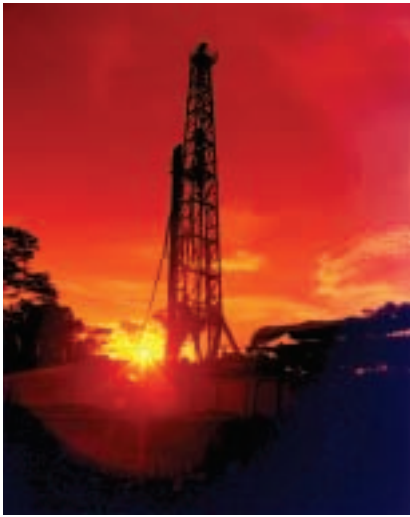
Notes:

- (1) The Underwriter will be paid a fee (the "Underwriter's Fee") equal to six percent of the aggregate gross proceeds of the Offerings other than with respect to sales of Offered Shares to officers and directors of the Company, Petrobank and the Selling Shareholder, for which the Underwriter will not receive a fee.
- (2) Before deducting expenses of the Offerings, estimated to be \$750,000, which will be paid by the Company and the Selling Shareholder on a *pro rata* basis. The Company's share of expenses and the Underwriter's Fee in respect of the Treasury Offering will be paid by the Company from the proceeds of the Treasury Offering. The Selling Shareholder's share of expenses and the Underwriter's Fee in respect of the Secondary Offering will be paid by the Selling Shareholder from the proceeds of the Secondary Offering. See "Plan of Distribution".
- (3) The Offered Shares offered pursuant to the Secondary Offering are being sold on a "best efforts" basis. Total numbers assume that all of the Offered Shares under the Secondary Offering are subscribed for.

(continued on next page)



- Pipelines
- Cities/Towns
- Rivers



(continued from cover)

The Underwriter has agreed to offer the Offered Shares distributed under the Treasury Offering on an underwritten basis and the Offered Shares under the Secondary Offering on a “best efforts” basis. The Underwriter, as principal in the case of the Treasury Offering, and as agent on behalf of the Selling Shareholder in the case of the Secondary Offering, conditionally offers the Offered Shares, if, as and when issued, sold and delivered by the Company in accordance with the conditions contained in the underwriting agreement referred to under “Plan of Distribution”, subject to approval of certain legal matters relating to the Offerings on behalf of the Company by McCarthy Tétrault LLP and on behalf of the Underwriter by Blake, Cassels & Graydon LLP. In connection with the Offerings, the Underwriter may effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market. See “Plan of Distribution”.

Subscriptions for Offered Shares will be received subject to rejection or allotment in whole or in part. It is expected that the certificates representing the Offered Shares will be available for delivery at the closing of the Offerings, which is expected to occur on or about June 29, 2006, or such later date as the Company, the Selling Shareholder, Petrobank and the Underwriter may agree, but in any event no later than July 14, 2006 (the “Closing Date”).

The Company and the Selling Shareholder are incorporated under the laws of The Bahamas. Although each have appointed McCarthy Tétrault LLP at 3300, 421 - 7th Avenue SW, Calgary, Alberta T2P 4K9 as their agent for service of process in Canada, it may not be possible for investors to collect from the Company or the Selling Shareholder judgments obtained in courts in Canada predicated on the civil liability provisions of securities legislation.

An investment in the Offered Shares is speculative and involves a high degree of risk that should be considered by potential investors. The Company’s business is subject to the risks normally encountered in the oil and gas industry and the Company’s early stage of development. An investment in the Offered Shares is suitable only for those investors who are willing to risk a loss of some or all of their investment and who can afford to lose some or all of their investments. See “Risk Factors”.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Petrominerales is hereby providing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in forward-looking statements made in this prospectus. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "believes," "estimated," "intends," "plans," "projection" and "outlook") are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the factors discussed throughout this prospectus. Among the key factors that have a direct bearing on the Company's results of operations are the nature of the Company's involvement in the business of exploration for, and development and production of oil reserves, fluctuations in prices received for oil, fluctuations in interest rates and the fluctuation of the exchange rate between the Canadian dollar and the United States dollar. These and other factors are discussed herein under "Risk Factors" and elsewhere in this prospectus.

Because actual results or outcomes could differ materially from those expressed in any forward-looking statements of the Company made by or on behalf of the Company, investors should not place undue reliance on any such forward-looking statements. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in oil and gas prices; the results of exploration and development of drilling and related activities; fluctuation in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; risks associated with oil and gas operations; the risks described under the heading "Risk Factors" and other factors, many of which are beyond the control of the Company. Further, any forward-looking statement is made only as of a certain date, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by applicable securities laws. New factors emerge from time to time, and it is not possible for management to predict all of these factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

MARKET AND INDUSTRY DATA

Unless otherwise indicated, the market and industry data contained in this prospectus is based upon information from the Colombian government, independent industry information and other publications and the Company's management's knowledge of and experience in the markets in which the Company operates. While the Company believes this data to be reliable, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. None of the Company, Petrobank, the Selling Shareholder or the Underwriter has independently verified any of the data from third party sources referred to in this prospectus or ascertained the underlying assumptions relied upon by such sources. In addition, the Underwriter has not independently verified any of the industry data prepared by management of the Company.

PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offerings and is qualified by and should be read in conjunction with the more detailed information, reserve data and financial data and statements appearing elsewhere in this prospectus. See "Glossary of Terms" for the meanings given to certain capitalized terms used in this prospectus summary.

INVESTMENT HIGHLIGHTS

Opportunity to Invest in a Pure Colombian-Focused Oil and Gas company. The Company believes that Colombia provides an excellent opportunity for investment in the oil and gas sector with its revitalized oil and gas laws, revamped fiscal regime and greater access to land with no initial land bonus payments or state back-in rights. The Company views Colombia as an oil rich country with significant potential for value creation through the application of modern technology and exploitation strategies to under-capitalized producing fields. In addition to these improvements in the oil and gas industry in Colombia, the overall business and security environments in Colombia have improved significantly since the election of President Alvaro Uribe in 2002, who implemented policies that have resulted in a significant decrease in crime levels in the country. The Company enjoys a significant "early mover" advantage in Colombia, having been active in the country since 1996 through its predecessor companies.

Significant Producing Assets and Reserves in Colombia. Petrominerales provides investors with exposure to significant existing oil production and potential upside through two incremental production contracts ("IPCs") at the Orito and Neiva fields in Colombia. As a result of earlier drilling operations, recompletions on certain existing wells and the completion of the Orito 117 and 118 wells, the Company's working interest production at Orito and Neiva in May 2006 averaged 2,588 bbl/d before deduction of an eight percent royalty. The most recent wells completed by the Company, the Orito 117 and 118 wells, are currently producing combined gross incremental production of approximately 2,000 bbl/d. The Company's independent engineers have identified 30 additional drilling locations at Orito, which have the potential to significantly increase production.

From December 2004 to December 2005, the Company's oil reserves increased by 69 percent. The most recent independent reserve evaluation, effective as of March 31, 2006, indicated proved, probable and possible reserves of 25.7 mmbbls at March 31, 2006, compared to 22.3 mmbbls at December 31, 2005 (in each case based on the forecast prices and costs case), representing an additional 16 percent increase over that three-month period.

Large Exploration Land Base with Identified Targets. Exploration is playing an increasingly important role in the Company's activities in Colombia. During the course of 2005, Petrominerales capitalized on the opportunities provided by the new Exploration Contracts now being offered by the Colombian government. Under the new regime, all operators are afforded access to any uncontracted lands by committing to an exploration work plan with no initial payment to the government. Since the introduction of these changes, Petrominerales has signed agreements giving it access to over 2.5 million acres of land, with the potential for 100 percent working interests in some of Colombia's most promising oil basins.

Of the 2.5 million acres, approximately 372,000 acres are subject to five Exploration Contracts in respect of which the Company has shot and is interpreting 3-D seismic data and is initiating plans to drill identified targets. The approximately 2.14 million remaining acres are part of five technical evaluation agreements ("TEAs") in which the Company has the first right to evaluate and select desirable exploration lands by way of proposing work commitments on those lands.

The Company has acquired four new 3-D seismic programs and, to date, has identified 16 initial leads or prospects on these exploration blocks.

Potential for Development of Heavy Oil. Of the five TEAs the Company has executed, three demonstrate heavy oil potential. These deposits may be candidates for the patented in-situ heavy oil recovery technology, THAI™, owned by Archon Technologies Ltd. ("Archon"), a wholly-owned subsidiary of Petrobank. There is evidence of a heavy oil belt in Colombia that extends along the Llanos basin. A number of fields have been

discovered and are producing heavy oil that is trucked or mixed with diluent and transported to market via pipeline. Management of the Company believes that these areas have the highest potential in Colombia. Consequently, considering the geological similarities between the belt in Colombia and parts of Venezuela where heavy oil has been developed, the Company believes there is a good potential for discovering and exploiting heavy oil resources in these areas. Petrominerales has negotiated agreements with Archon Technologies International Ltd. (“ATI”), an indirect, wholly-owned subsidiary of Petrobank, pursuant to which Petrominerales has access to the THAI™ technology, subject to a licensing fee equal to 10 percent of gross production. See “Heavy Oil Technology”.

Experienced Management & Board. Petrominerales’ management, technical team and key personnel have substantial operational and exploration experience in South America, including Colombia. The Company’s team has demonstrated the ability to successfully carry out exploration and development programs while delivering profitable operations. Management and personnel also have extensive Colombian experience, and have developed a network of local and regional contacts and relationships which enhance their operations and ability to execute on their programs. John D. Wright, the Company’s President and Chief Executive Officer, has previously demonstrated an ability to operate in South America. As Chief Executive Officer (1996 to 1999), Mr. Wright built Pacalta Resources Ltd. from 3,448 bbl/d to 44,825 bbl/d. That company was acquired by Alberta Energy Company (now Encana Corporation) in 1999 for \$1.05 billion. The Board of Directors of the Company are experienced directors of oil and gas companies and several have extensive experience in Latin America. The Company’s officers and directors own 4,351,559 shares of Petrobank, representing approximately 6.5 percent (basic) of Petrobank’s outstanding common shares. Following the Closing of the Offerings (assuming all of the Offered Shares are sold under the Secondary Offering), Petrobank will hold 75,000,000 Common Shares, representing approximately 78.9 percent of the outstanding Common Shares.

THE COMPANY

The Company, through its wholly-owned subsidiary, Petrominerales Colombia Ltd. (“PCL”), is engaged in the exploration for, and the acquisition, development and production of, oil resources in Latin America and, specifically, Colombia. The Company’s strategy is to realize near term cash flow from exploitation opportunities by applying modern North American technical and business models to mature, but under-exploited Colombian properties formerly operated by Empresa Colombiana de Petroleos (“Ecopetrol”), the Colombian state-owned oil company. In addition, the Company plans to further its growth through opportunity driven exploration on the Company’s undeveloped properties in Colombia.

The Company’s current production is derived from two IPCs, at Orito in southern Colombia’s Putumayo basin, and at Neiva in the Upper Magdalena Valley basin, each in partnership with Ecopetrol. The IPC concept was developed in 2000 by Ecopetrol in order to attract additional capital investment to fields that Ecopetrol felt had significant potential, but that Ecopetrol didn’t have the financial capacity to fully develop. Each IPC provides that PCL will share in a portion (initially 79 percent in the case of the Orito field and 69 percent in the case of the Neiva field) of the incremental production generated by its development activities above baseline production. Each IPC’s established baseline production is based upon the decline curve corresponding to the field’s original production history. Except for internal operating expenses, all field expenses are covered by a per barrel tariff that Ecopetrol, as operator, receives from the partner in the field. Working interest production on each field is subject to an eight percent royalty paid to the Colombian Government. The Company’s production averaged 2,588 bbl/d in May 2006 before deduction of the eight percent royalty. The Company’s working interest proved plus probable plus possible reserves totaled 25.7 mmbbls as at March 31, 2006. The IPCs for each of Orito and Neiva expire in June 2023. See “General Development of the Business”, “Narrative Description of the Business” and “Property Descriptions”.

To provide a platform for future growth, the Company has, to date, contracted a total of 2,516,966 acres of prospective exploratory lands in the Llanos and Putumayo basins, making it one of the largest landholders in the country. These lands are close to known production with available infrastructure nearby. The Company has undertaken an extensive exploratory program involving the acquisition and/or interpretation of large 3-D seismic surveys over five exploration blocks and the re-processing and re-interpretation of existing 2-D seismic data and

geological information over the areas subject to TEAs. This land position and associated database is generating an inventory of drillable prospects and potential leads that will be further assessed and drilled through the primary terms of the Exploration Contracts. The new Exploration Contract model in Colombia offers the Company a very competitive fiscal regime and the opportunity to develop new discoveries with 100 percent ownership of all reserves discovered, subject to an initial eight percent royalty, with complete internal control of any investment and development programs. The Company continues to pursue other exploration opportunities in Colombia. See “Property Descriptions — Exploration Contracts and TEAs”.

PCL, through its relationship with its indirect parent company, Petrobank, is pursuing various heavy oil opportunities in Colombia. These opportunities may be open to the application of Archon’s THAI™ technology, which the Company has a right to use under a licensing agreement with ATI. Independent authorities in Colombia have identified a heavy oil belt in the Llanos basin, which may have resource and productivity characteristics similar to the Faja del Orinoco heavy oil belt in Venezuela. Two of the Company’s TEAs border an extensive land position controlled by Ecopetrol (Caño Sur), which is currently the focus of a negotiating process wherein Ecopetrol is attempting to attract a large oil company as a partner in an up to US\$1.7 billion project to develop heavy oil resources. The Company’s land also appears prospective for heavy oil resource accumulation. See “Property Descriptions — Exploration Contracts and TEAs” and “Heavy Oil Technology”.

The following table sets forth additional summary information relating to the Company’s reserves, production and exploration lands. Reserves and net present value estimates are based on the March D&M Report.

Reserves as of March 31, 2006 — Forecast Pricing

Company Working Interest (mbbls)

Proved	10,485
Proved plus probable	16,754
Proved plus probable plus possible	25,725

Increase in reserves from January 1, 2005 to March 31, 2006

Proved	86%
Proved plus probable	77%
Proved plus probable plus possible	34%

Net Present Value at 10% before tax (US\$ millions)

Proved	198.8
Proved plus probable	310.3
Proved plus probable plus possible	411.6

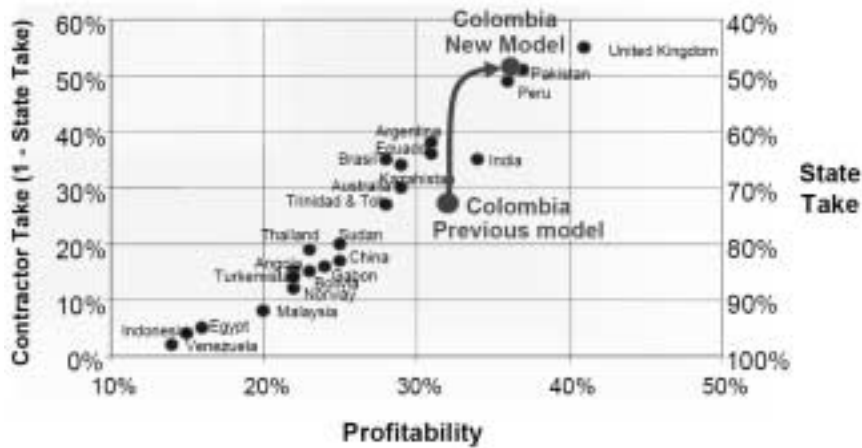
Working interest production before 8% royalty (bbl/d)

2005	1,031
First quarter 2006	1,356
May 2006	2,588
May 2006 increase versus 2005	151%
May increase versus first quarter 2006	91%

Exploration acreage (acres)

Exploration Contracts	372,262
TEAs	2,144,704
Total	<u>2,516,966</u>

The following diagram shows the percentage working interest to companies and Ecopetrol, respectively, under Colombia's new fiscal regime, as compared to that available to companies under the prior fiscal regime and in certain other comparator countries.



Source: ANH.

See “Statement of Reserves Data and Other Related Information” and “Property Descriptions”.

PROPERTIES

Orito

The Orito field (42,492 gross acres) is the largest oil discovery in southern Colombia's Putumayo basin and has extensive field infrastructure, good seismic control and connection to an underutilized export pipeline with a deep water port and loading facilities on the Pacific Coast. The field was discovered in 1963 by Texaco, commenced production in 1968, reached peak production of 82 mbb/d in July 1970 and reverted back to Ecopetrol in 1979. Historically, Ecopetrol managed the Orito field without the capital resources required for a comprehensive program of late primary exploitation and secondary recovery. PCL acquired its interest in the Orito field in April 2001 pursuant to an IPC. Petrominerales has access to all existing infrastructure and data, while Ecopetrol partially shares (initially 21 percent) in the incremental production, above baseline production, generated by the Company's development activities during the term of the IPC. The IPC in respect of the Orito field expires in June 2023.

During the first quarter of 2006, gross field production at Orito averaged 4,118 bbl/d and baseline production averaged 2,829 bbl/d, resulting in average incremental production of 1,289 bbl/d (1,018 bbl/d working interest to the Company before deduction of an eight percent royalty). As a result of recompletions on certain existing wells and the completion of the Orito 117 and 118 wells, the Company's working interest production at Orito in April 2006 averaged 2,423 bbl/d before deduction of an eight percent royalty. Based on early April 2006 well tests, the Orito 117 and 118 wells are producing 1,262 bbl/d and 950 bbl/d (997 bbl/d and 751 bbl/d working interest to the Company), respectively. The proved, probable and possible reserve forecast prepared for the Company by DeGolyer and MacNaughton, independent oil and gas reserve engineers, of Dallas, Texas, USA (“D&M”), assumes 30 new wells can be drilled with maximum initial production rates of 400 bbl/d per well. In addition to those locations identified by D&M, the Company has identified 10 further potential drilling locations.

To date, the Orito field has produced just over 226 mmbbls, including approximately 187 mmbbls from the Caballos zone, the most significant of three reservoirs at Orito. The Company believes this recovery rate to be considerably below average for a field of this type. The majority of the Company's expenditures to date have targeted the Caballos zone, as will be the case for the remainder of 2006. The Company believes that the Orito field offers numerous opportunities to create value through in-fill drilling, field extension, facilities upgrades,

secondary recovery and other enhancement techniques proven in Canada and elsewhere. The Company has secured two drilling rigs under long-term contracts and commenced a continuous drilling program at Orito in June 2006. See “General Development of the Business”, “Narrative Description of the Business” and “Property Descriptions — Orito”.

Neiva

The 2,395 acre Neiva field in the Upper Magdalena Valley basin lies approximately 300 kilometres northeast of Orito. Neiva is characterized by shallow multi-zone reservoirs which facilitates low risk exploitation drilling. Neiva’s reservoir consists of sand shale sequences totalling up to 1,500 feet of gross pay in the Honda and Doima/Chicoral zones. To date, Petrominerales has drilled seven Honda zone wells, one Doima/Chicoral well and performed 16 workovers. Petrominerales is considering a phase one drilling program of up to 10 new wells at Neiva commencing in 2006. Baseline production averaged 2,398 bbl/d in the first quarter of 2006, while incremental production averaged 489 bbl/d (338 bbl/d working interest to the Company before deduction of an eight percent royalty). Since its discovery in 1963, the Neiva Honda and Doima Chicoral reservoirs have cumulatively produced 49 mmbbls. See “General Development of the Business”, “Narrative Description of the Business” and “Property Descriptions — Neiva”.

Exploration Blocks and TEAs

Petrominerales has signed Exploration Contracts and TEAs for nine blocks totalling 2,483,295 acres in the Llanos basin and an Exploration Contract for one block of 33,671 acres in the Putumayo basin. See “General Development of the Business”, “Property Descriptions” and “Industry Conditions — Colombian Market”.

SELECTED FINANCIAL INFORMATION AND OPERATING RESULTS OF PCL

The following table sets out certain selected financial information of PCL as at and for the three months ended March 31, 2006, as at December 31, 2005 and 2004 and for each of the years in the three-year period ended December 31, 2005. Following completion of the Reorganization Transactions on June 9, 2006, but prior to the completion of the Offerings, the Company legally and beneficially owns 100 percent of the outstanding shares of PCL. PCL constitutes substantially all of the assets of the Company. This financial information has been derived from the audited and unaudited financial statements of PCL appearing elsewhere in this prospectus. The financial information should also be read in conjunction with the disclosure under the heading “Management’s Discussion and Analysis”.

	Three months ended March 31, 2006	Year ended December 31,		
		2005	2004	2003
		(\$000s)		
Crude oil revenue	7,204	20,177	21,734	12,560
Funds flow from operations ⁽¹⁾	3,883	9,701	12,048	5,984
Net income (loss)	1,625	2,727	1,851	(16,593)
Capital expenditures	21,871	38,424	13,906	71,342
<i>Balance Sheet Data:</i>				
Total assets	126,100	102,970	70,683	
Cash and working capital (deficiency)	(10,443)	(17,751)	(2,549)	

Note:

(1) Funds flow from operations before changes in other non-cash working capital.

Selected Operating Results

The following table sets out certain selected operating results of PCL for the three months ended March 31, 2006 and for each of the years in the three-year period ended December 31, 2005. The operating results for the periods set forth in the table below should not be relied upon as any indication of operating results for any future period.

	Three months ended March 31, 2006	Year ended December 31,		
		2005	2004	2003
Operating netback (\$/bbl)				
Crude oil revenue	59.03	53.62	43.70	32.22
Royalties	4.72	4.29	3.51	2.56
Production expenses	9.66	9.49	7.67	10.48
Operating netback	44.65	39.84	32.52	19.18
Average daily crude oil production (bbls) ⁽¹⁾	1,356	1,031	1,359	1,068

Note:

(1) Average production increased to 2,588 bbl/d in May 2006.

See “Selected Financial Information and Operating Results of PCL” and “Management’s Discussion and Analysis”.

SUMMARY RESERVES INFORMATION

The Company's reserves are currently comprised of crude oil. Petrobank engaged D&M to evaluate PCL's oil reserves as at December 31, 2005, and in connection therewith D&M prepared a report, dated March 8, 2006 and effective December 31, 2005 (the "December D&M Report") evaluating the Company's oil reserves as at December 31, 2005. The Company engaged D&M to provide an updated evaluation of the Company's oil reserves as at March 31, 2006, taking into account pricing and production information between January 1, 2006 and March 31, 2006. D&M prepared a report dated April 27, 2006 and effective March 31, 2006 (the "March D&M Report", and together with the December D&M Report, the "D&M Reports") evaluating the Company's oil reserves as at March 31, 2006. The following tables set forth certain summary information relating to the crude oil reserves of the Company and the present value of future net cash flows associated with such reserves as at March 31, 2006.

The information set forth below is derived from the March D&M Report which has been prepared in accordance with the standards contained in the COGE Handbook (as defined herein) and the reserves definitions contained in NI 51-101 (as defined herein). **All evaluations of future net cash flows are stated prior to provision for indirect costs and after deduction of royalties, estimated future capital expenditures and well abandonment and lease reclamation costs. It should not be assumed that the present values of estimated future net cash flows shown below is representative of the fair market value of the crude oil reserves. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of oil reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil reserves may be greater than or less than the estimates provided herein.**

SUMMARY OF OIL AND GAS RESERVES

<u>Reserves</u>	Light and Medium Oil (mmbbls)			
	March 31, 2006			
	Forecast Prices		Constant Prices	
	Company Working Interest ⁽¹⁾	Net ⁽²⁾	Company Working Interest ⁽¹⁾	Net ⁽²⁾
Proved Developed Producing	4,117	3,788	4,029	3,706
Total Proved	10,485	9,620	9,797	8,989
Total Proved Plus Probable	16,754	15,329	15,532	14,211
Total Proved Plus Probable Plus Possible	25,725	23,471	23,503	21,444

Notes:

(1) After Ecopetrol's share, but before royalties.

(2) After royalties.

CONSTANT PRICES AND COSTS
NET PRESENT VALUES OF FUTURE NET REVENUE
AS OF MARCH 31, 2006

<u>RESERVES CATEGORY</u>	<u>BEFORE INCOME TAXES DISCOUNTED</u>				<u>AFTER INCOME TAXES DISCOUNTED</u>			
	<u>AT (%/year)</u>				<u>AT (%/year)</u>			
	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>
	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)
PROVED								
Developed Producing	183,648	154,229	132,450	115,743	166,550	142,616	124,342	109,953
Undeveloped	192,493	143,401	108,066	81,963	126,013	91,872	67,130	48,744
TOTAL PROVED	376,141	297,630	240,516	197,706	292,563	234,488	191,472	158,697
PROBABLE	213,755	166,364	133,056	108,645	138,811	107,276	85,082	68,820
TOTAL PROVED PLUS PROBABLE	589,896	463,994	373,571	306,352	431,374	341,764	276,554	227,517
POSSIBLE	277,443	191,878	135,763	97,819	180,156	122,915	85,451	60,242
PROVED PLUS PROBABLE PLUS POSSIBLE	<u>867,339</u>	<u>655,872</u>	<u>509,334</u>	<u>404,171</u>	<u>611,530</u>	<u>464,679</u>	<u>362,005</u>	<u>287,759</u>

Note:

* Table may not add due to rounding.

FORECAST PRICES AND COSTS
NET PRESENT VALUE OF FUTURE NET REVENUE
AS OF MARCH 31, 2006

<u>RESERVES CATEGORY</u>	<u>BEFORE INCOME TAXES DISCOUNTED</u>				<u>AFTER INCOME TAXES DISCOUNTED</u>			
	<u>AT (%/year)</u>				<u>AT (%/year)</u>			
	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>
	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)
PROVED								
Developed Producing	156,561	132,168	114,223	100,509	149,660	128,083	111,738	98,955
Undeveloped	160,319	115,907	84,542	61,766	103,969	73,798	52,211	36,344
TOTAL PROVED	316,880	248,075	198,765	162,275	253,629	201,881	163,949	135,299
PROBABLE	182,246	140,598	111,501	90,313	118,773	90,867	71,335	57,100
TOTAL PROVED PLUS PROBABLE	499,126	388,673	310,266	252,588	372,402	292,748	235,284	192,399
POSSIBLE	222,197	148,728	101,366	70,007	144,265	94,791	62,964	42,000
PROVED PLUS PROBABLE PLUS POSSIBLE	<u>721,323</u>	<u>537,401</u>	<u>411,632</u>	<u>322,595</u>	<u>516,667</u>	<u>387,539</u>	<u>298,248</u>	<u>234,399</u>

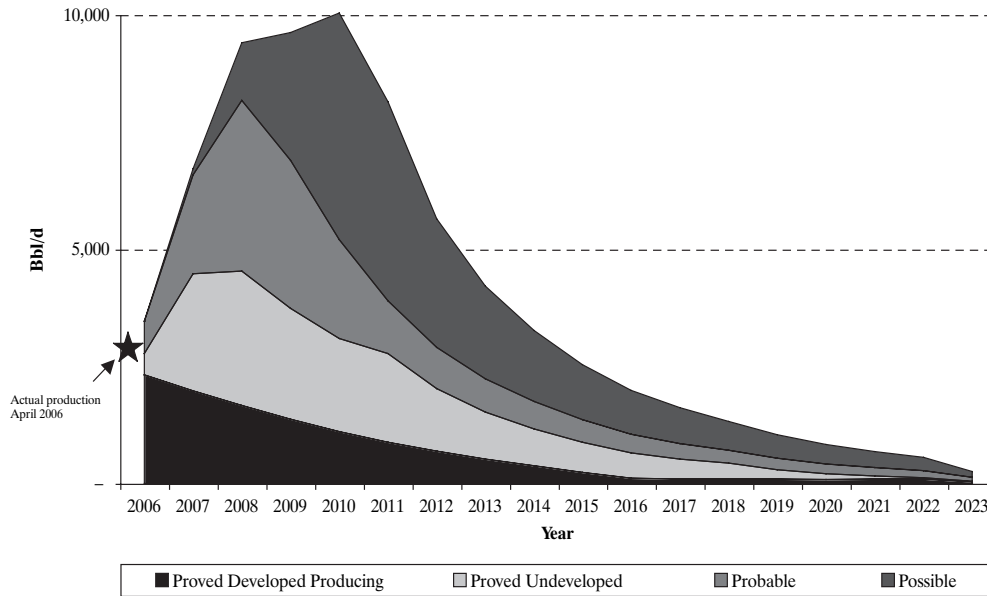
Note:

* Table may not add due to rounding.

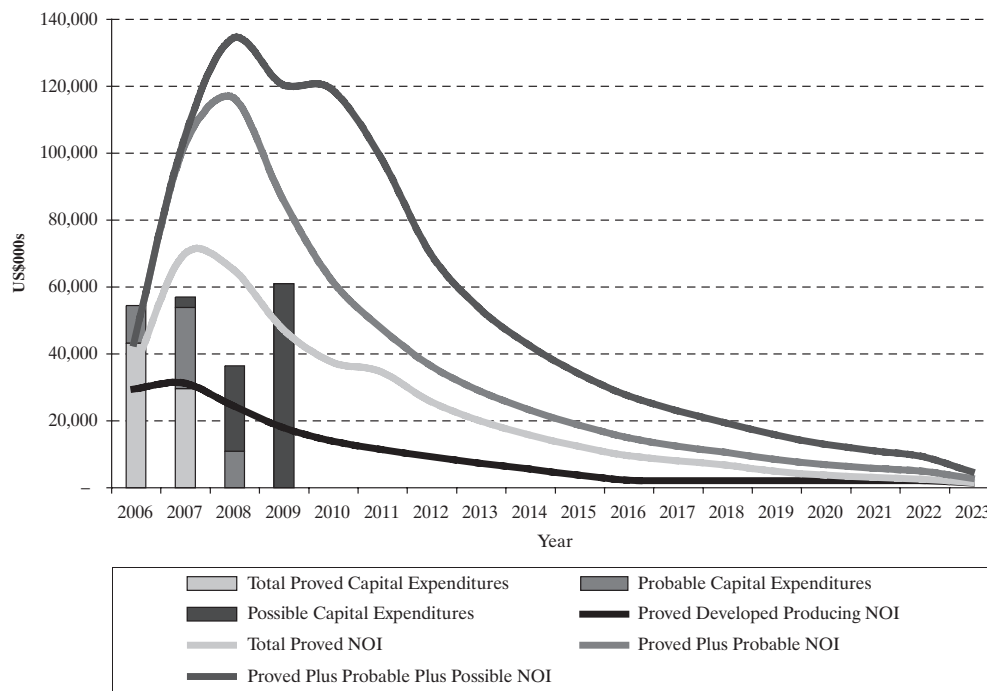
FORECAST PRODUCTION, NET OPERATING INCOME AND CAPITAL EXPENDITURES

The following diagrams represent the Company's working interest production before royalties, net operating income (revenues less royalties and operating costs) and capital expenditures by reserve category as forecast in the March D&M Report along with current production. This forecast does not incorporate any production from the Company's exploration land.

Annual Average Daily Working Interest Production (Before Royalties) By Reserve Case — March D&M Report — Forecast Prices and Costs



Capital Expenditures and Net Operating Income (NOI) By Reserve Case — March D&M Report — Forecast Prices and Costs



See "Statement of Reserves Data and Other Related Information".

PROPOSED WORK PROGRAM

The following table details the Company's current proposed work program through 2009 based on a three rig drilling program (one rig dedicated to Orito, another rig to be shared between Orito and the Llanos basin exploration program (both of which rigs are contracted) and one rig dedicated to Neiva). To date, the Company has secured two drilling rigs under long-term contracts. The Company plans to actively pursue contracting a third rig to enable it to undertake its drilling program at Neiva.

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Orito:				
Development Wells	8	11	14	7
Workovers	2	1	*	*
Fracture Stimulations	6	6	*	*
Waterflood Pilot		1	*	*
Neiva:				
Development Wells	4	16	14	*
Fracture Stimulations	5	*	*	*
Waterflood Pilot	1	*	*	*
Exploration Contracts:				
Joropo Exploration Well		1	*	*
Casimena Exploration Well		1	*	*
Casanare Este Exploration Well		1	*	*
Corcel Exploration Well		1	*	*
Las Aguilas Exploration Well		1	*	*

Note:

* Future development and exploration is contingent on initial success and/or future prospects.

The Company's exploration plan initially focuses on the plains region of the Llanos basin where pool sizes have historically averaged approximately 8 mmbbls and have been as high as 45 mmbbls. The Company has identified a number of leads and drilling prospects and is targeting pool sizes with potential reserves of between 3 and 25 mmbbls each. These prospects are typically well defined through 3-D seismic data and incorporate both conventional structural traps as well as stratigraphic traps, which have seldom been targeted to date in the basin. The Company uses the latest 2-D and 3-D seismic data acquisition protocols and modern interpretation and evaluation tools to refine these prospects. If the Company's initial drilling on these blocks is successful, the Company plans to expand the 3-D seismic coverage on these blocks to further assess and develop their full productive potential. The Company has currently identified a total of 16 leads and prospects.

Due to the nature of the oil and gas industry, work programs are regularly reviewed with respect to the success of expenditures and other opportunities that become available. The Company's actual work program will vary depending upon a number of factors, including drilling success, availability of drilling equipment and assessment of newly acquired seismic data over the Company's exploration blocks. Accordingly, while the proposed work program described above reflects the Company's current expectation, the actual work program carried out by the Company may in fact differ from that set forth above. See "Proposed Work Program" and "Risk Factors".

THE COLOMBIAN MARKET

Management of the Company considers the overall investment climate in Colombia to be very positive. The Colombian economy has grown every year since 1999. Foreign direct investment in Colombia increased by 221 percent in 2005 compared to 2004. Inflation in the country has decreased every year since 1991 and was 5.3 percent in 2005, Colombia's lowest annual rate since 1955 and 0.72 percent lower than in 2004. Estimated gross domestic product per capita in 2005 grew almost 33 percent over 2004. During 2005, mergers and

acquisitions worth just over US\$10 billion were completed, making Colombia second only to Brazil (US\$11.5 billion) in the value of acquisition transactions completed in 2005 in South America. Furthermore, Standard & Poor's increased its rating for Colombian governmental long-term debt from BB (stable) to BB (positive) on February 22, 2006. In February 2006, Colombia and the United States negotiated a free trade agreement that the industry expects will contribute to further growth in the Colombian economy. In addition, the security environment in Colombia has improved significantly since the election of President Alvaro Uribe in 2002 along with a significant decrease in overall crime levels.

Management of the Company also considers Colombia to be an oil-rich country with significant potential for value-creation through the application of modern technology and exploitation strategies to under-capitalized producing fields. Alongside this potential, the Colombian government has demonstrated its willingness to encourage foreign participation in new exploration projects with the introduction of the Exploration Contracts, which provide companies with 100 percent of new production, subject to an initial eight percent royalty and normal income taxes, and TEAs, which provide companies with low cost access to larger areas for preliminary evaluation prior to committing to broader exploration programs. Management feels that these changes, along with increased commodity prices, have made Colombia one of the most attractive countries in which to carry on Petrominerales' business.

Oil is currently Colombia's leading export and source of foreign income, constituting an estimated one third of the country's export revenue. Historically, all oil production was from concessions granted to foreign operators or undertaken by state-owned Ecopetrol in contracts of association with foreign companies. Ecopetrol was formally responsible for all exploration, extraction, production, transportation, and marketing oil for export. During 1999 and 2000, the country was considered to be at risk of becoming a net oil importer unless significant additional reserves were discovered. As a result, the regulatory regime in Colombia underwent a significant change effective January 1, 2004 with the formation of the Agencia Nacional de Hidrocarburos, or National Hydrocarbon Agency ("ANH"). The ANH is now responsible for regulating the Colombian oil industry, including managing all exploration lands not subject to a previously existing association contract. The ANH began offering all undeveloped and unlicensed exploration areas in the country under Exploration Contracts and TEAs which resulted in a significant increase in Colombian exploration activity and competition according to the ANH. Since the introduction of these new contract terms, 52 new Exploration Contracts and 35 TEAs were signed by the end of 2005. Within this new environment, the Company has acquired a significant exploratory land base in Colombia of approximately 2.5 million acres under Exploration Contracts and TEAs. There are now approximately 76 oil and gas companies operating in Colombia.

All data and information described above in this section was provided by the National Police and Proexport Colombia, both of which are agencies of the Colombian Government.

See "Industry Conditions — Colombian Market" and "Risk Factors".

THE OFFERINGS

Issuer: Petrominerales Ltd.

Selling Shareholder: Petro International Ltd. (a wholly-owned subsidiary of Petrobank)

Treasury Offering: 16,000,000 Offered Shares

Secondary Offering: Up to 4,000,000 Offered Shares

Offering Price: \$3.75 per Offered Share

Offering Amount: \$60,000,000 pursuant to the Treasury Offering
Up to \$15,000,000 pursuant to the Secondary Offering
Up to \$75,000,000 total under the Offerings

Form of Offerings: Offerings in all provinces of Canada other than Québec by way of long form prospectus. The Underwriter has agreed to offer the Offered Shares distributed under the Treasury Offering on an underwritten basis and the Offered Shares under the Secondary Offering on a “best efforts” basis. Private placement in the United States pursuant to exemptions from the requirements of the *U.S. Securities Act of 1933*, as amended, and offering to other jurisdictions as permitted by applicable securities laws and as mutually agreed upon by the Underwriter, Petrobank, the Selling Shareholder and the Company.

	As at June 13, 2006	
	Prior to Completion of the Treasury Offering ⁽¹⁾	After Completion of the Treasury Offering ⁽¹⁾
Common Shares Outstanding:		
Common Shares (basic and diluted)	79,000,000	95,000,000

Note:

(1) Following the issuance of 78,999,900 Common Shares pursuant to the Reorganization Transactions.

Shareholdings Post-Closing: After giving effect to the Closing of the Offerings, Petrobank will indirectly hold approximately 78.9 percent of the issued and outstanding shares of the Company, the remaining 21.1 percent of which will be held by investors under the Offerings, assuming that the full amount of the Secondary Offering is subscribed for (83.2 percent and 16.8 percent, respectively, if no Offered Shares are sold in the Secondary Offering). See “Principal Shareholders and Selling Shareholder”.

Closing: On or about June 29, 2006, subject to change, as the Underwriter, the Company, the Selling Shareholder and Petrobank may agree, but not later than July 14, 2006. See “Plan of Distribution”.

Use of Proceeds: The Company expects to receive approximately \$55.8 million of net proceeds from the Treasury Offering, after deducting the Underwriter’s Fee in respect of the Treasury Offering and the Company’s share of the estimated expenses of the Offerings. The Company’s intention is to use these proceeds over the next 12 months for development drilling and recompletions at Orito; repayment of debt owing to Petrobank; work commitments on the Company’s exploration blocks; general and administrative expenses, including working capital; and possible acquisitions of additional exploration

and development properties, as more particularly described in the following table:

	<u>US\$ millions</u>
Orito — 5 wells (US\$5.5 million per well)	27.5
Orito recompletions	4.0
Exploration blocks (2 wells)	10.0
Repayment of Petrobank loan ⁽¹⁾	7.0
Other	<u>2.3</u>
	US\$50.8
	Cdn\$55.8

Note:

(1) Pursuant to a loan agreement entered into between Petrobank and PCL. Petrobank agreed to continue to fund PCL's capital requirements from April 1, 2006 to the Closing Date. Any amounts outstanding under the loan agreement, and any interest payable thereon, as at the Closing Date are expected to be repaid by the Company using a portion of the proceeds from the Treasury Offering. The Company anticipates the outstanding amount of the loan at the Closing Date will be approximately US\$7 million.

Actual expenditures by the Company in 2006 and 2007 are expected to exceed the net proceeds from the Treasury Offering. Such expenditures, including those relating to additional development wells at Orito and Neiva, will be funded through cash flow from operations and drawdowns on the Company's secured credit facility. See "Use of Proceeds" and "Capitalization".

The amounts and timing of the expenditures will vary depending upon a number of factors, including drilling success, availability of drilling equipment, assessment of newly acquired seismic data over the Company's exploration blocks and unexpected expenses. While it is currently intended by management of the Company that the net proceeds of the Treasury Offering will be expended as set forth above, actual expenditures may in fact differ from these amounts and allocations. See "Use of Proceeds" and "Risk Factors".

The estimated net proceeds to Petrobank from the Secondary Offering, after deducting the Underwriter's Fee in respect of the Secondary Offering and the Selling Shareholder's share of the estimated expenses for the Offerings, will be \$13,950,000, assuming the full amount of the Secondary Offering is subscribed for. The Company will not receive any proceeds from the Secondary Offering. See "Use of Proceeds".

Eligibility for Investment:

In the opinion of McCarthy Tétrault LLP, counsel for the Company, and Blake, Cassels & Graydon LLP, counsel for the Underwriter, the Common Shares, if issued on the date hereof, would be qualified investments under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans provided that the Common Shares were listed on a prescribed stock exchange which includes the TSX.

Reorganization Transactions:

On June 9, 2006, the Company, the Selling Shareholder and PCL completed the Reorganization Transactions, being the share exchange transactions contemplated by the Share Exchange Agreement. Pursuant to the Reorganization Transactions, the Selling Shareholder exchanged

12,000 common shares of PCL, being all of the issued and outstanding shares of PCL, held by the Selling Shareholder, for 78,999,900 newly issued Common Shares of Petrominerales. On May 11, 2006, the Company amended its Memorandum of Association and Articles of Association to increase the authorized share capital to 200 million Common Shares and to remove the restrictions on the Company's ability to offer shares to the public. See "General Development of the Business — Reorganization Transactions".

RISK FACTORS

An investment in the Common Shares should be considered highly speculative due to the nature of the Company's involvement in the exploration for, and the acquisition, development and production of, crude oil reserves in Colombia. The Company's business is subject to the risks normally encountered in the oil industry such as: competition with companies having greater resources; fluctuations in the market price and demand for crude oil; uncertainty regarding acquisitions, exploration and production; risks relating to hedging activities; the need for, and ability to obtain, funding; political, economic and other uncertainties; foreign currency risks; the effect of government regulation and policies; foreign legal and regulatory regimes; security concerns; variability between production and reported reserves evaluations; availability of equipment; various operating hazards such as fire, explosion and others; environmental regulation, risks and obligations; reliance on third party operators and key personnel; costs associated with new products and the use of new technologies, potential conflicts of interests involving the Company's controlling shareholder and some of the Company's directors and the reliance of the Company on Petrobank and the Selling Shareholder. There are additional risks to purchasers of Offered Shares associated with the nature and structure of the Offerings such as: the absence of a market through which Common Shares may be resold; share price volatility; discretion of the Company over the use of proceeds from the Offering; uncertainty regarding the declaration of dividends; investment dilution and the potential inability to enforce judgments outside of Canada. The reserve and recovery information contained in this prospectus are estimates only and the actual production and ultimate reserves recovered from the Company's properties may be greater or less than the estimates contained in this prospectus. See "Risk Factors".

GLOSSARY OF TERMS

In this prospectus, the abbreviations set forth below have the following meanings:

bbl/d	Barrels of oil per day	M\$	Thousands of Canadian dollars
bbls	Barrels of oil	mbbls	Thousand barrels of oil
boe	Barrels of oil equivalent	mmbbls	Million barrels of oil
boe/d	Barrels of oil equivalent per day	psi	Pounds per square inch
US M\$	Thousands of United States dollars	US\$	United States dollars

Note: Disclosure provided herein in respect of boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

In this prospectus, the capitalized terms set forth below have the following meanings:

“**ACIPET**” means Asociación Colombiana de Ingenieros Petróleos, the Colombian society of petroleum engineers;

“**ANH**” means Agencia Nacional de Hidrocarburos, or National Hydrocarbon Agency, an agency of the Colombian government;

“**API**” means American Petroleum Institute, but is generally referred to as a degree of gravity that provides a relative measure of crude oil density;

“**ATI**” means Archon Technologies International Ltd., an indirect wholly-owned subsidiary of Petrobank;

“**Archon**” means Archon Technologies Ltd., a wholly-owned subsidiary of Petrobank;

“**Board of Directors**” means the board of directors of the Company, as constituted from time to time;

“**baseline production**” means, with respect to the IPCs for Orito and Neiva, an established decline curve corresponding to the field’s original production history;

“**Canadian GAAP**” means Canadian generally accepted accounting principles;

“**Closing**” means the completion of the issue and sale of Offered Shares pursuant to the Offerings;

“**Closing Date**” means the date on which Closing is expected to occur, being June 29, 2006, subject to postponement, as the Underwriter, the Company, the Selling Shareholder and Petrobank may agree, but not later than July 14, 2006;

“**COGE Handbook**” means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum;

“**Common Shares**” means common shares in the share capital of the Company;

“**Company**” and “**Petrominerales**” means Petrominerales Ltd. and includes, except where the context otherwise requires, the Company’s wholly-owned subsidiary, PCL;

“**D&M**” means DeGolyer and MacNaughton, independent oil and gas reservoir engineers, of Dallas, Texas, USA;

“**D&M Reports**” means, collectively, the March D&M Report and the December D&M Report;

“**December D&M Report**” means the independent engineering evaluation of the Company’s crude oil reserves prepared by D&M, dated March 8, 2006 and effective December 31, 2005;

“**Ecopetrol**” means Empresa Colombiana de Petroleos, the Colombian state-owned oil company;

“**ESP**” means electrical submersible pump;

“**Exploration Contract**” means an exploration contract in Colombia established by the ANH, as more particularly described under the heading “Industry Conditions — Exploration Contracts and TEAs”;

“**gross**” means:

- (a) in relation to the Company’s interest in production and reserves, its “Company gross reserves”, which represent the Company’s working interest (operating and non-operating) share of gross reserves before deduction of royalties and without including any royalty interest of the Company;
- (b) in relation to wells, the total number of wells in which the Company has an interest; and
- (c) in relation to properties, the total area of properties in which the Company has an interest;

“**IPC**” means an incremental production contract in Colombia, as more particularly described under the heading “Industry Conditions — Incremental Production Contracts (IPCs)”;

“**Joint Operating Agreement**” means the joint operating agreement to be entered upon Archon exercising the option granted under the Option Agreement, which joint operating agreement will govern the operations of certain heavy oil projects in Colombia in which ATI has acquired a working interest pursuant to the Option Agreement;

“**March D&M Report**” means the independent engineering evaluation of the Company’s crude oil reserves prepared by D&M, dated April 27, 2006 and effective March 31, 2006;

“**Neiva**” means the 2,395 acre Neiva field in the Upper Magdalena Valley basin in Colombia;

“**net**” means:

- (a) in relation to the Company’s interest in production and reserves, its “Company net reserves”, which represent the Company’s working interest (operating and non-operating) share of gross reserves after deduction of royalties obligations;
- (b) in relation to wells, the number of wells obtained by aggregating the Company’s current working interest in each of its gross wells; and
- (c) in relation to the Company’s interest in a property, the total area in which the Company has an interest multiplied by the working interest owned by the Company;

“**NI 51-101**” means National Instrument 51-101 — *Standards of Disclosure for Oil and Gas Activities* of the Canadian Securities Administrators;

“**Offerings**” means, collectively, the Treasury Offering and the Secondary Offering;

“**Offering Price**” means \$3.75 per Offered Share;

“**Option Agreement**” means the option agreement dated May 18, 2006 between Petrominerales and ATI pursuant to which ATI has been granted an option to acquire a working interest in, and to act as operator of, certain heavy oil projects in Colombia using THAI™;

“**Orito**” means the 42,492 acre Orito field in the Putumayo basin of south western Colombia;

“**PCL**” means Petrominerales Colombia Ltd., a wholly-owned subsidiary of the Company;

“**Petrobank**” means Petrobank Energy and Resources Ltd., the parent company of Petrominerales;

“**R Factor**” means the ratio of cumulative revenues to cumulative costs, as more particularly described under the heading “Statement of Reserves Data and Other Related Information — Significant Factors or Uncertainties Affecting Reserve Data” and used in the calculation of the Company’s interest in reserves with regards to its IPCs;

“**Reorganization Transactions**” means the share exchange transactions contemplated by the Share Exchange Agreement completed on June 9, 2006 pursuant to which the Company acquired all of the outstanding shares of PCL;

“**Secondary Offering**” means the public offering of an aggregate of up to 4,000,000 Offered Shares held by the Selling Shareholder pursuant to this prospectus;

“**Selling Shareholder**” means Petro International Ltd., a wholly-owned subsidiary of Petrobank;

“**Share Exchange Agreement**” means the share exchange agreement dated June 9, 2006 between the Selling Shareholder and Petrominerales;

“**Tax Act**” means the *Income Tax Act* (Canada), R.S.C. 1985, c.1 (5th Supp.), as amended;

“**TEA**” means a Technical Evaluation Agreement in the country of Colombia, as more particularly described under the heading “Industry Conditions — Exploration Contracts and TEAs”;

“**Technical Services Agreement**” means the technical services agreement dated July 1, 2003 between Petrobank and PCL as more particularly described under the heading “Management’s Discussion and Analysis — Related Party Transactions”;

“**Technology License Agreement**” means the technology license agreement dated May 18, 2006 between ATI and Petrominerales respecting the use of the THAI™ technology in heavy oil projects in Colombia;

“**THAI™**” means Archon’s patented Toe-to-Heel-Air-Injection in-situ heavy oil recovery technique, which combines a vertical air injection well with a horizontal production well;

“**Treasury Offering**” means the public offering of 16,000,000 Offered Shares from the treasury of the Company pursuant to this prospectus;

“**Underwriter**” means Haywood Securities Inc.;

“**Underwriter’s Fee**” means the fee of six percent of the aggregate gross proceeds of the Offerings payable to the Underwriter pursuant to the Underwriting Agreement;

“**Underwriting Agreement**” means the underwriting agreement dated June 13, 2006 relating to the Offerings among Petrominerales, the Selling Shareholder, Petrobank and the Underwriter, as more particularly described under the heading “Plan of Distribution”; and

“**WTI**” means West Texas Intermediate.

Certain other technical terms used in this prospectus but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101. See “Statement of Reserves Data and Other Related Information”.

Unless otherwise noted, the Company’s average daily production volumes disclosed herein are based on the Company’s working interest production before deduction of royalties paid to others.

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

GENERAL MATTERS

As used in this prospectus, unless the context otherwise requires or indicates, the terms “Company”, “we”, “us” and “our” mean Petrominerales, including Petrominerales and its wholly-owned subsidiary, PCL, taken together as a whole.

Unless otherwise indicated, all information in this prospectus assumes 4,000,000 Offered Shares are sold under the Secondary Offering.

Certain technical terms used throughout this prospectus are defined in the Glossary of Terms.

For reporting purposes, the Company prepares its financial statements in Canadian dollars and in conformity with Canadian GAAP. Unless otherwise indicated, all dollar amounts in this prospectus are expressed in Canadian dollars. References to “\$” are to Canadian dollars, references to “US\$” are to United States dollars.

The following table sets out (1) the rate of exchange for one U.S. dollar per Canadian dollar in effect at the end of each of the following periods, (2) the high and low rate of exchange during those periods, (3) the average rate of exchange for those periods and (4) the rate of exchange at the end of each period, each based on the noon buying rate certified by the Federal Reserve Bank of New York for customs purposes in New York City for cable transfers in Canadian dollars.

	Three months ended March 31, 2006	Year ended December 31,		
		2005	2004	2003
High	\$1.1726	\$1.2703	\$1.3970	\$1.5750
Low	\$1.1320	\$1.1507	\$1.1775	\$1.2923
Average ⁽¹⁾	\$1.1547	\$1.2083	\$1.2984	\$1.3916
End of Period	\$1.1670	\$1.1656	\$1.2034	\$1.2923

Note:

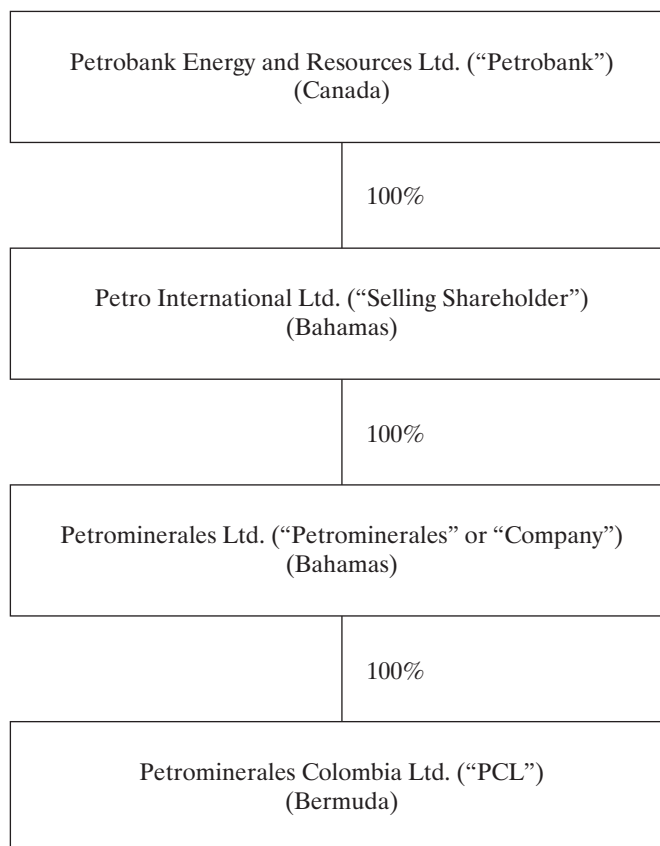
(1) The average of the daily noon buying rates on the last business day of each month during the period.

On June 12, 2006, the noon buying rate for one U.S. dollar per Canadian dollar certified by the Federal Reserve Bank of New York was \$1.00 = \$1.0991.

THE COMPANY

Company Structure

The Company was incorporated under the *International Business Companies Act, 2000* (Bahamas) on April 20, 2006 in order to facilitate the completion of the Offerings. The Company is currently an indirect wholly-owned subsidiary of Petrobank. The corporate ownership structure of Petrominerales upon completion of the Reorganization Transactions and prior to the completion of the Offerings is as follows:



Upon completion of the Offerings, Petrobank will continue to indirectly hold, through the Selling Shareholder, approximately 78.9 percent of the outstanding Common Shares, assuming the full amount of the Secondary Offering is subscribed for. The remaining Common Shares will be held by purchasers who purchase Offered Shares sold under the Offerings.

The Company's registered office is located at Mareva House, 4 George Street, Nassau, Bahamas. The Company conducts substantially all of its operations through PCL's Colombian head office which is located at Calle 114 No. 9-45 Torre B Oficina 1506, Bogotá, Colombia (telephone: 011 571 629 2701; facsimile: 011 571 629 4723).

GENERAL DEVELOPMENT OF THE BUSINESS

Reorganization Transactions

On June 9, 2006, the Company, the Selling Shareholder and PCL completed the Reorganization Transactions, being the share exchange transactions contemplated by the Share Exchange Agreement. Pursuant to the Reorganization Transactions, the Selling Shareholder exchanged 12,000 common shares of PCL, being all of the issued and outstanding shares of PCL, held by the Selling Shareholder, for 78,999,900 newly issued Common Shares of Petrominerales. The Reorganization Transactions did not involve the payment of any cash consideration by any of the Selling Shareholder, Petrominerales or PCL.

The transfer of the shares of PCL to the Company was made on an "as-is" basis, and the Share Exchange Agreement does not contain any representations or warranties with respect to the business of PCL. The Share Exchange Agreement does not require the Selling Shareholder to indemnify the Company with respect to

matters relating to the Reorganization Transactions, including any liabilities that may arise with respect to environmental, tax or other matters.

As a result of the Company having a limited authorized share capital, on May 11, 2006 the Company amended its Memorandum of Association and Articles of Association to increase the authorized share capital to 200 million Common Shares and to remove the restrictions on the Company's ability to offer shares to the public.

Company History

PCL, through its predecessor companies, was originally incorporated in September 1996 to engage in oil exploration and development activities in Colombia. From 1996 to 2000, PCL undertook the assessment and evaluation of a number of exploration blocks and other opportunities. In April 2001, PCL signed the IPCs in respect of the Orito and Neiva fields. In May 2002, Petrobank, through the Selling Shareholder, acquired all the issued and outstanding shares of PCL. PCL initiated drilling operations in the latter part of 2002, with first production commencing in January 2003.

During 2002, 2003 and 2004, the Company executed a program of well recompletions, facility upgrading, and new well drilling which resulted in eight new wells at Neiva, six new wells at Orito and average production levels of 1,068 bbl/d in 2003 and 1,359 bbl/d in 2004.

During 2003, the Company encountered a series of operational difficulties at Orito associated with equipment failures, service deficiencies, and unexpected challenges associated with drilling and completion operations. The Company also accumulated technical data surrounding reservoir pressures, composition of reservoir fluids, depth intersection with the aquifer and the existence and non-existence of a gas cap in the field, which were initially considered anomalous, but when considered as a whole, required the Company to fully reassess its reservoir model and exploitation strategy.

This reassessment necessitated a complete shutdown and re-engineering of the Company's drilling and completion program as well as a complete, bottom-up redevelopment of its reservoir models and associated geological and geophysical architecture. The new model incorporates the concepts of a tilted oil/water contact, a high carbon dioxide concentration and a composition gradient in the oil column ranging from 30° API at the base to 45° API at the highest elevations.

The Company's new interpretation of the reservoir was first tested in 2005 with the drilling of the Orito 116 well, the results of which confirmed the southwest extension of the field outside of the previously interpreted zero edge of the field. This well was followed by the Orito 117 and 118 wells which further confirmed the new reservoir model and provided additional support for the Company's long-term development plan and its revised reserve engineering analysis. The Orito 117 and 118 wells are currently producing 1,262 bbl/d and 950 bbl/d (997 bbl/d and 751 bbl/d working interest to the Company), respectively, with the potential for further increases with the installation of larger pumps. The Orito 116 well also tested commercial quantities of oil prior to applying the Company's standard fracture stimulation treatment. The bottom portion of this well was lost during testing due to collapsed casing and the Company plans to sidetrack the well later this year.

Following a variety of drilling program modifications designed to address the complex geology pressure regimes and fluid sensitivities in the Orito field, the Company currently implements a standardized drilling and completion program that allows for segregation of the individual Caballos sands through selective completion and fracture stimulation, and the ultimate installation of high volume lift pumps.

As a result of recompletions at Orito and Neiva and the completion of the Orito 117 and 118 wells, aggregate production at Orito and Neiva in May 2006 averaged 2,588 bbl/d working interest to the Company, before deduction of an eight percent royalty.

During 2005 and the first quarter of 2006, the Company negotiated Exploration Contracts on five exploration blocks and five TEAs covering a total of 2,483,295 acres in the Llanos basin and 33,671 acres in the Putumayo basin. Collectively, these blocks cover 2,516,966 acres (3,933 square miles).

NARRATIVE DESCRIPTION OF THE BUSINESS

Overview

The Company's strategy is to realize near term cash flow from exploitation opportunities by applying modern North American technical and business models to mature, but under-exploited Colombian properties formerly operated by Ecopetrol. In addition, the Company plans to further its growth through opportunity

driven exploration on the Company's undeveloped properties in Colombia. The Company is also pursuing potential heavy oil opportunities that would allow it to apply Archon's THAI™ technology.

The Company's current production is derived from two IPCs, at Orito in southern Colombia's Putumayo basin, and at Neiva in the Upper Magdalena Valley basin, in each case in partnership with Ecopetrol. In addition, Petrominerales has acquired a significant exploratory land base of approximately 2.5 million acres under Exploration Contracts (372,262 acres), which provide companies with 100 percent of new production, subject to an initial eight percent royalty and normal income taxes, and TEAs (2,144,704 acres), which provide companies with low cost access to larger areas for preliminary evaluation prior to committing to broader exploration programs.

Land Holdings

The following table summarizes the Company's principal properties in Colombia:

Property	Basin	Gross Acreage (acres)	Expiry/Option ⁽¹⁾ Date
IPCs			
Orito	Putumayo	42,492	06/2023
Neiva	Upper Magdalena Valley	2,395	06/2023
Total IPCs		44,887	
Exploration Contracts			
Joropo	Llanos	72,257	12/2006
Corcel	Llanos	79,815	09/2006
Casanare Este	Llanos	78,815	06/2006
Casimena	Llanos	107,704	11/2006
Las Aguilas	Putumayo	33,671	10/2006
Total Exploration Contracts		372,262	
TEAs			
Chicago	Llanos	433,967	06/2006
Rio Ariari	Llanos	607,137	08/2006
Guatiquia	Llanos	391,595	12/2006
Chiguiro	Llanos	539,785	10/2006
Corito	Llanos	172,220	12/2006
Total TEAs		2,144,704	
Total Company Acreage		2,561,853	

Note:

(1) The Option Date represents the end of current contractual phase for Exploration Contracts and TEAs. Exploration contracts may, with additional work commitments, be extended and a portion of the TEAs (a maximum of 607,137 acres in the case of Rio Ariari and 111,150 acres in the case of the other TEAs) may be converted to Exploration Contracts.

Management of the Company considers Colombia to be an oil-rich country with significant potential for value-creation through the application of modern technology and exploitation strategies to under-capitalized producing fields. Colombia's remaining discovered oil reserves are estimated at 1.45 billion bbls. Alongside this potential, the Colombian government has demonstrated its willingness to encourage foreign participation in new exploration projects with the introduction of Exploration Contracts and TEAs. Petrominerales has IPCs in two fields in southern Colombia, at Orito and Neiva. Each IPC provides that Petrominerales will share in a portion (initially 79 percent in the case of the Orito field and 69 percent in the case of the Neiva field) of the incremental production, above baseline production, generated by its development activities. The baseline production for each IPC is based upon the decline curve corresponding to the field's original production history. Working interest production is subject to an initial eight percent royalty paid to the government and normal income taxes. *Source: ANH.*

Production

The following table summarizes average daily production from the Company's properties for the periods indicated.

	<u>2005</u>	<u>Q1 2006</u>	<u>April 2006</u>
Orito			
Gross field	3,810	4,118	5,959
Baseline	<u>(2,944)</u>	<u>(2,829)</u>	<u>(2,803)</u>
Incremental	866	1,289	3,156
Petrominerales, interest before royalty	685	1,018	2,493
Royalty (8%)	<u>(55)</u>	<u>(82)</u>	<u>(199)</u>
Petrominerales, interest net of royalty	630	936	2,294
Neiva			
Gross field	2,993	2,887	2,857
Baseline	<u>(2,492)</u>	<u>(2,398)</u>	<u>(2,373)</u>
Incremental	501	489	484
Petrominerales, interest before royalty	346	338	334
Royalty (8%)	<u>(28)</u>	<u>(27)</u>	<u>(27)</u>
Petrominerales, interest net of royalty	318	311	307
Total			
Petrominerales, interest before royalty	<u>1,031</u>	<u>1,356</u>	<u>2,827⁽¹⁾</u>
Petrominerales, interest after royalty	<u>949</u>	<u>1,248</u>	<u>2,601</u>

Note:

(1) Production was 2,588 bbl/d in May 2006. The decrease was mainly a result of taking certain wells offline during the month to perform workovers and due to expected declines.

Marketing

The Company's current production is sold to two counterparties: Ecopetrol and Hocol S.A., an international oil company. Sales to these counterparties for the years ended December 31, 2005 and 2004 are broken down as follows:

	<u>Sales as % of revenues</u>	
	<u>2005</u>	<u>2004</u>
Ecopetrol	70%	76%
Hocol S.A. ⁽¹⁾	26%	nil
BP ⁽¹⁾	4%	24%

Note:

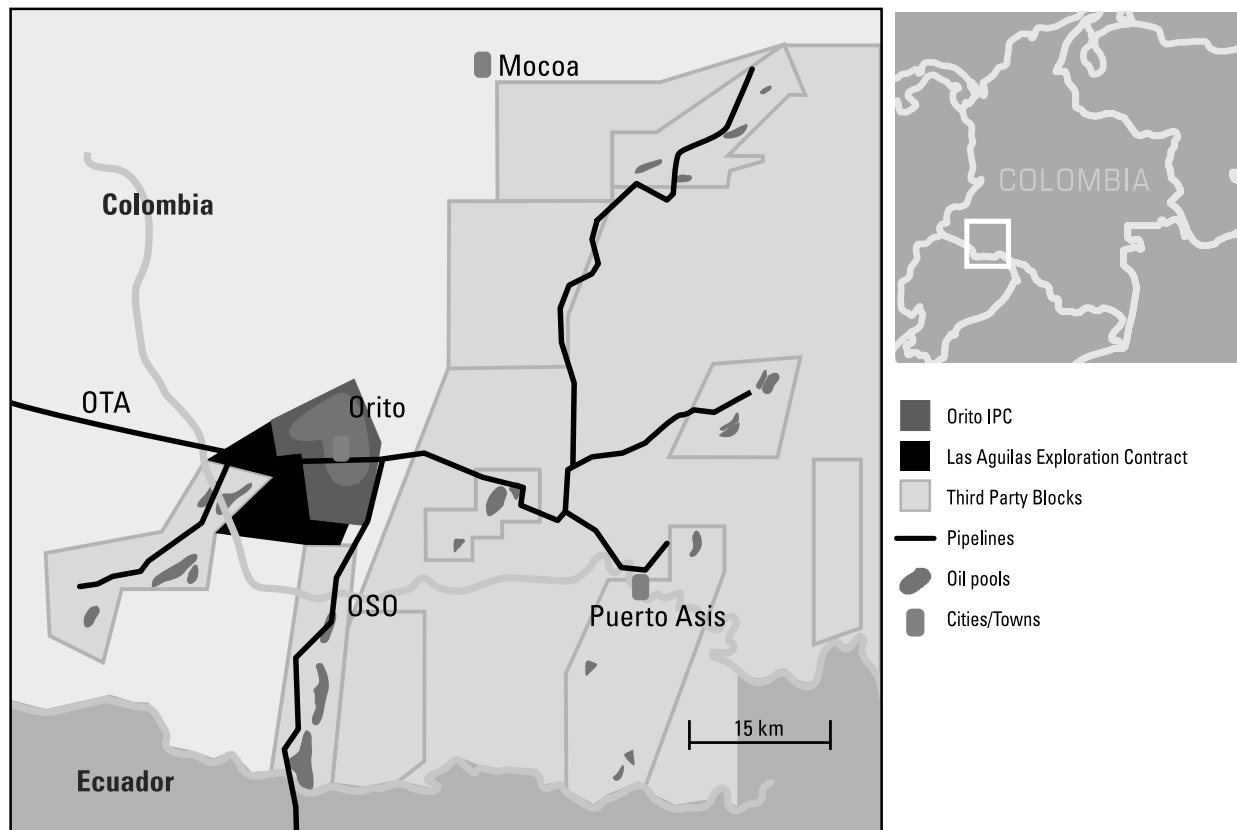
(1) All Neiva crude oil sales were transferred from British Petroleum Company Colombia Ltd. ("BP") to Hocol S.A. effective March 1, 2005.

PROPERTY DESCRIPTIONS

Orito

The Orito field (42,492 gross acres) is the largest oil discovery in southern Colombia's Putumayo basin and has extensive field infrastructure, good seismic control and connection to an underutilized export pipeline with a deep water port and loading facilities on the Pacific Coast. The field was discovered in 1963 by Texaco, commenced production in 1968, reached peak production of 82 mbbbl/d in July 1970 and reverted back to Ecopetrol in 1979. Historically, Ecopetrol managed the Orito field without the capital resources required for a comprehensive program of late primary exploitation and secondary recovery. PCL acquired its interest in the Orito field in April 2001 pursuant to an IPC. Petrominerales has access to all existing infrastructure and data,

while Ecopetrol partially shares (initially 21 percent) in the incremental production, above baseline production, generated by the Company’s development activities during the term of the IPC. The IPC in respect of the Orito field expires in June 2023. The following map shows the Putumayo basin and the location of the Orito field.

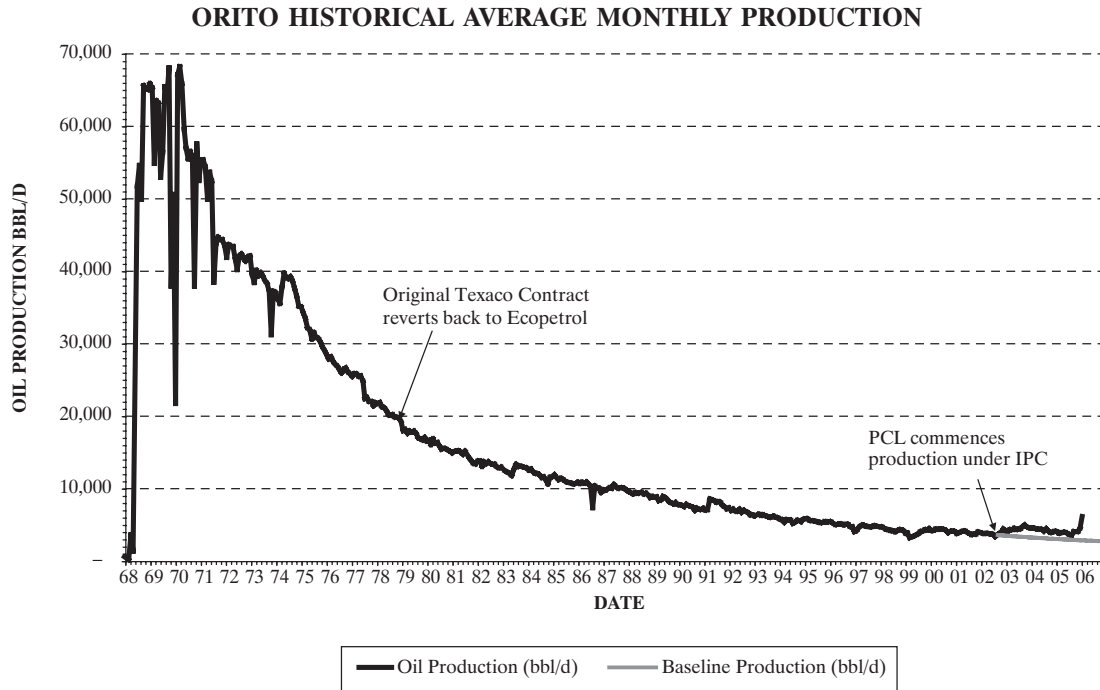


Source: ANH, Ecopetrol and the Company.

To date, the Orito field has produced just over 226 mmbbls, including approximately 187 mmbbls from the Caballos zone, the most significant of three reservoirs at Orito. The Company believes this recovery rate to be considerably below average for a field of this type. The majority of the Company’s expenditures to date have targeted the Caballos zone, as will be the case in the remainder of 2006. The Company believes that the Orito field offers numerous opportunities to create value through in-fill drilling, field extension, facilities upgrades, secondary recovery and other enhancement techniques proven in Canada and elsewhere. The Company has secured two drilling rigs under long-term contracts and commenced a continuous drilling program at Orito in June of 2006.

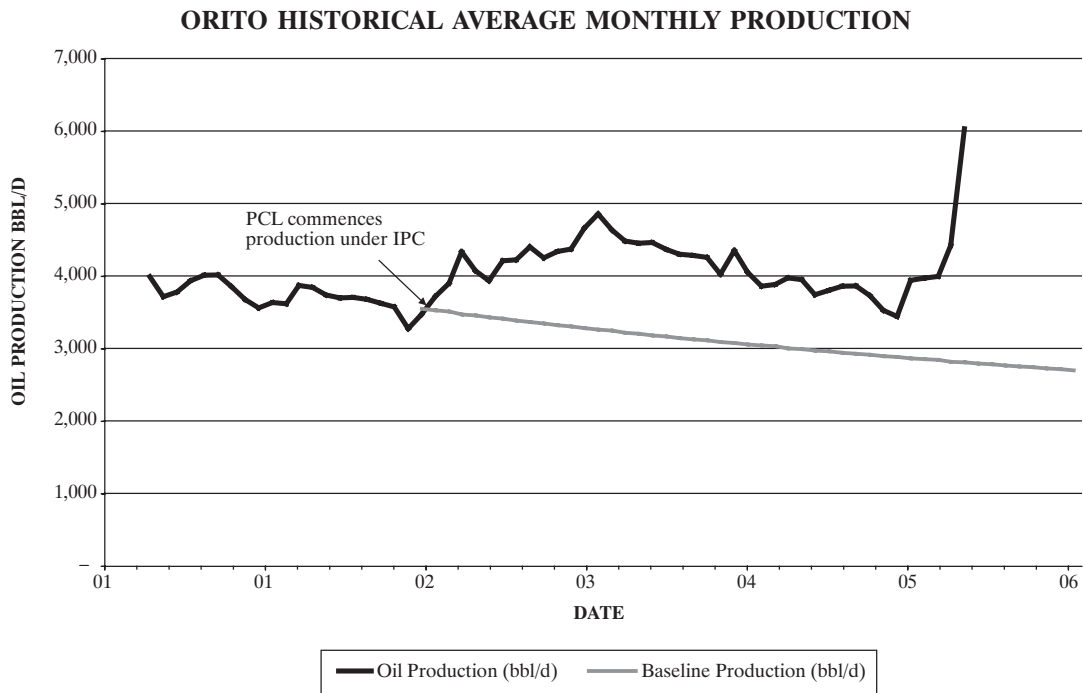
The Caballos formation is a reservoir containing four major sand packages. The Company interprets the formation to have a strongly tilted oil-water contact that varies from a depth of 5,200 feet sub-sea in the northern part of the field to 6,200 feet sub-sea in the south. This aquifer provides pressure support to the Caballos reservoir as evidenced by relatively unchanged pressures since 1980. In addition, the Caballos reservoir fluid is compositionally graded, ranging at original conditions from a conventional black 29° API oil at structurally low positions in the field, increasing to $\pm 45^\circ$ API oil in structurally higher locations, and culminating in a gas-condensate region at the very top of the reservoir. The complex fluid combined with the tilted contact and structural nature of the reservoir results in a system that has several drive processes occurring simultaneously. “Combination drive” reservoirs (water drive, solution gas drive, and gas cap expansion) tend to exhibit high recovery efficiencies that can reach over 40 percent of the original-oil-in-place. To enhance current production, Petrominerales is employing a combination of late-stage primary recovery techniques, such as in-fill drilling, changing from gas lift to electrical submersible pumps, and recompleting wells to enhance oil inflow.

The following graph shows average monthly production at Orito since discovery in 1968.



Source: Ecopetrol and the Company.

The following graph shows Orito's average monthly production since April 2001 when PCL signed the IPC in respect of the Orito field. The Company receives a share (initially 79 percent) of incremental production above baseline production.



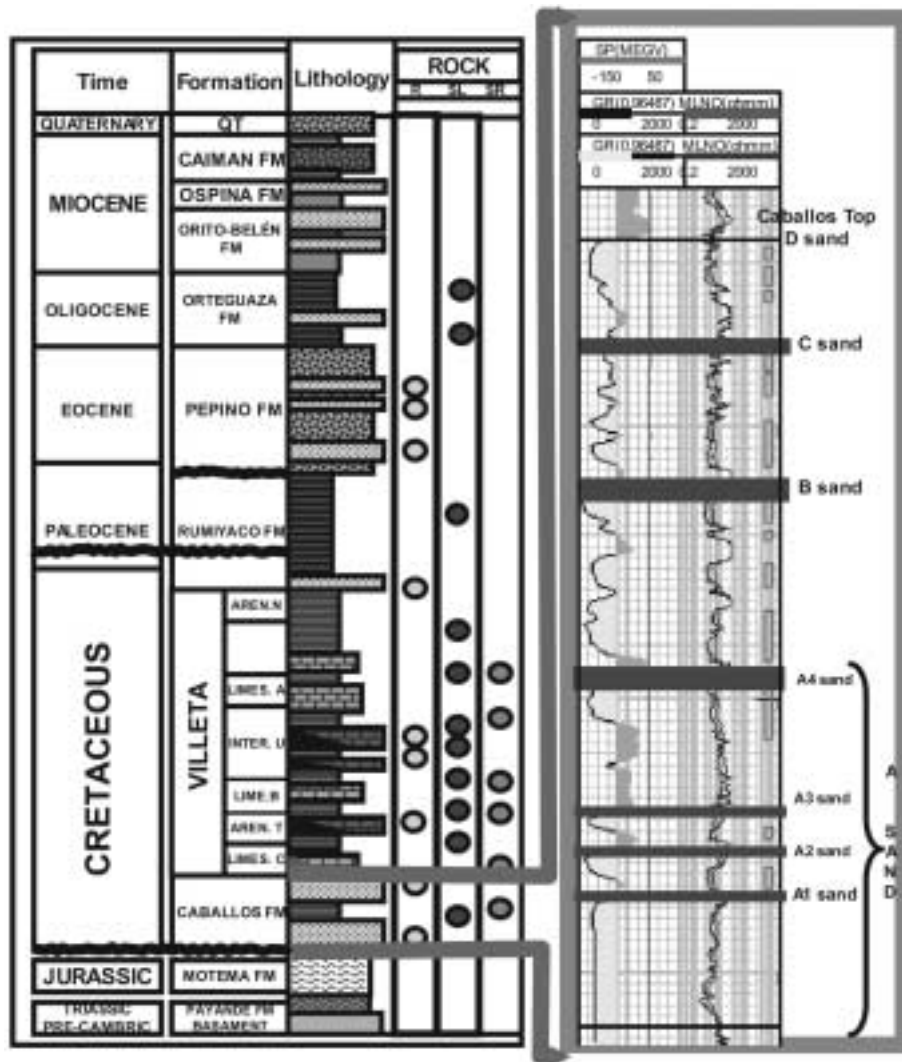
Source: Ecopetrol and the Company.

In 2005, Petrominerales initiated a development plan targeting a southwest extension to the Orito field. Three wells, Orito 116, 117 and 118, were drilled during the year. Drilling went as scheduled for each well, but due to problems encountered during logging and completion operations, expected production from these three wells was delayed to the first quarter 2006.

As the Company’s understanding of the Caballos reservoir has evolved, so has its drilling and completion methodology. Following a variety of drilling programs designed to address the complex geology pressure regimes and fluid sensitivities of the reservoir, the Company implemented a standardized drilling and completion program that allows for segregation of the individual Caballos sands through selective completion and fracture stimulation, and the ultimate installation of high volume lift pumps.

The Orito 116 well tested significant oil from the Cretaceous Caballos ‘A3’ and ‘A4’ sands as well as water-free production from the Caballos ‘B’, ‘C’ and ‘D’ sands (see figure below); however immediately after installing the final electrical submersible pump (“ESP”) completion assembly, the well experienced a casing collapse. The Company currently plans to sidetrack this well during one of the drilling windows later this year.

The following diagram shows the general stratigraphic column of the Caballos formation in the Orito field.



Source: The diagram above is based on public knowledge in the Colombian oil industry and the Company has included a geological interpretation of the well logs to highlight the productive sand intervals.

The Orito 117 well produced approximately 150 bbl/d from the Caballos 'A', 'B', 'C' and 'D' sands, but with water cuts as high as 98 percent. In late March 2006 the well was recompleted with the water in the lower 'A' interval isolated, and a fracture stimulation of the 'B', 'C' and 'D' sands. In April 2006 the well was producing at 1,262 bbl/d using a gas lift completion, with 1.5 percent water cut, and a bottom hole pressure of 1,100 psi. Ultimately, the Company plans to install an ESP to further optimize production from this well.

The Orito 118 well experienced a collapsed hole during the drilling of the final interval of the original well bore, which resulted in the well being sidetracked. The Company perforated and fracture stimulated the Caballos 'B', 'C' and 'D' sands and tested the uppermost Caballos 'A3' and 'A4' sands. An ESP completion was installed and the well most recently tested at 950 bbl/d with a 50 percent water cut, and a bottom hole pressure of 900 psi. For the purposes of the D&M Reports, D&M has assigned a total of 10 proven undeveloped, five probable and 15 possible locations in Orito. Undeveloped locations were assumed to have initial production rates of 400 bbl/d per well in the D&M Reports. In addition to those locations identified by D&M, the Company has identified 10 further potential drilling locations, for a total of 40 potential drilling locations.

During the fourth quarter of 2005, Petrominerales acquired a 40-square kilometre 3-D seismic survey covering the western part of the Orito field and a prospect on the Las Aguilas exploration block. This seismic survey confirmed the continuation of the southwest extension, and the Las Aguilas prospect. Additional locations have been confirmed targeting the area in the vicinity of the Company's Orito 113 well and another west lead, south of the Orito 113 well.

To address the fact that there are currently no drilling rigs available in the Putumayo basin, two drilling rigs have been contracted for future single well and/or pad drilling operations in Orito, as well as exploratory drilling operations on the Company's extensive landholdings in the Llanos basin. This drilling rig has the operational capability to drill Orito development wells and deeper Llanos exploration wells. The Company has executed a contract to take one rig for a minimum 16-month term which is expected to commence in the third quarter of 2006. The Company has contracted the second rig for an 18-month term which commenced drilling in June 2006 at Orito. Wells targeting the Caballos reservoir are typically drilled to a depth of 7,500 feet, with drilling and completion costs estimated to be approximately US\$5.5 million including completion.

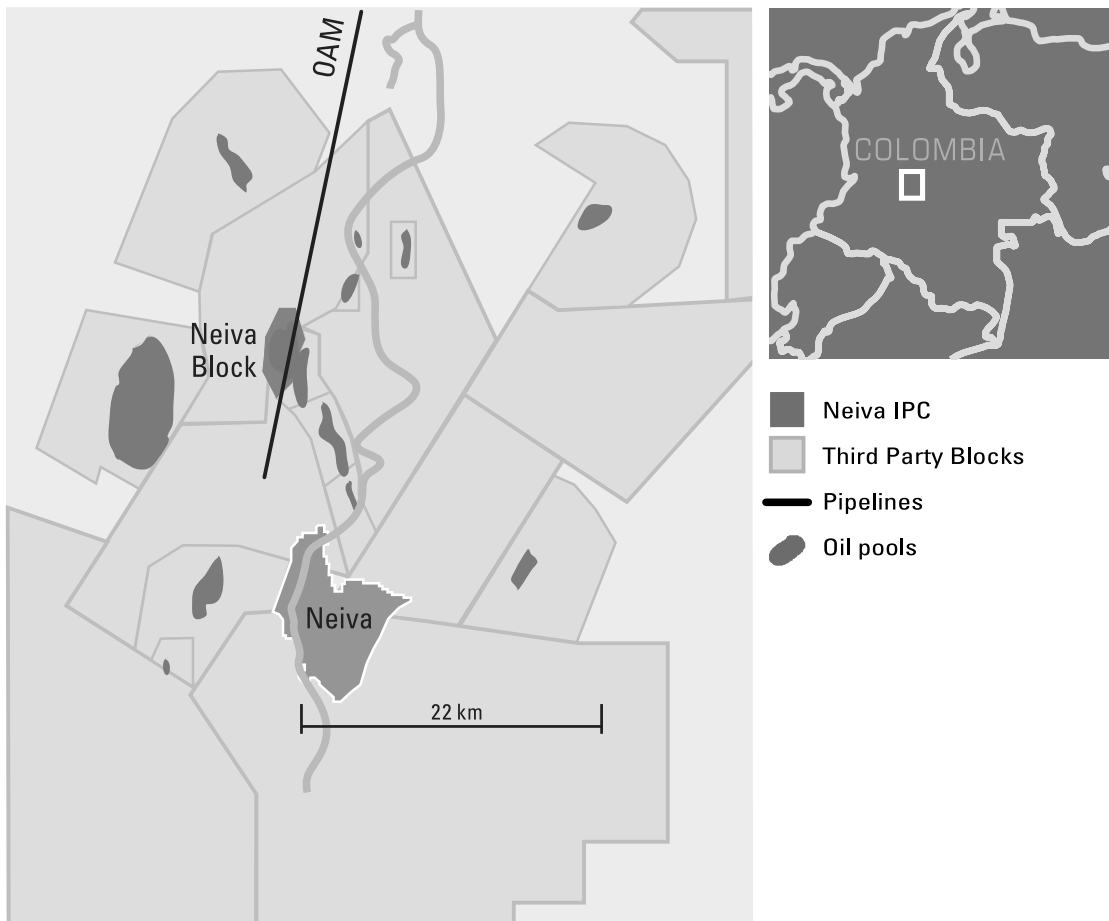
See "Proposed Work Program" for a table describing the Company's proposed work program through 2009 with respect to the Orito field.

At the end of 2005, the two main batteries at Orito were operating at 50 percent utilization for total fluid production and separation, with the oil storage facilities utilizing 25 percent of their capacity. The capacities of current water treatment and handling facilities limit the amount of produced fluid that can be processed but can easily be expanded as required using free water knockout and/or other surface handling facilities. The estimated cost to process an additional 25 mbbbl/d of fluid is approximately US\$3 million. The Oleoducto TransAndino is the main pipeline that transports Orito crude to the Pacific coast terminal at Tumaco. The pipeline has available capacity to pump up to 100 mbbbl/d, but is currently limited to 50 mbbbl/d due to pump limitations. Production from Putumayo basin fields is currently only 13 mbbbl/d, resulting in significant excess pipeline and pumping capacity.

Neiva

The Dina Terciarios field in the Neiva field, located in the Upper Magdalena Valley basin, lies approximately 300 kilometres northeast of Orito. Neiva features shallow multi-zone reservoirs facilitating low-risk exploitation drilling. Neiva's reservoirs consist of sand-shale sequences totalling up to 1,500 feet of gross pay in the Honda and Doima/Chicoral Formations. Petrominerales holds 2,395 gross acres (1,653 net acres) of land at Neiva under an IPC that expires in June 2023. Baseline production averaged 2,398 bbl/d in the first quarter of 2006, while incremental production averaged 489 bbl/d (338 bbl/d working interest to the Company before deduction of an eight percent royalty). To date, Petrominerales has drilled seven Honda Formation wells, one Doima/Chicoral well and performed 16 workovers. As is the norm in the Honda and Doima Chicoral reservoirs, the best well, DT-71 drilled in 2003, had an initial production rate of 184 bbl/d from the Honda, which declined to 100 bbl/d within the first year and is currently producing 83 bbl/d. The other wells have lower initial production rates (150 bbl/d average), and are currently producing at an average of 45 bbl/d. Workovers completed in the field, including perforating additional intervals in the thick Honda reservoir, resulted in

100 bbl/d of incremental production. Petrominerales has commenced engineering studies for a pilot five-well fracture stimulation program and two injector conversions for a pilot water flood project, both anticipated to start in the third quarter of 2006, and is considering drilling up to 10 wells at Neiva in 2006. The following map shows the location of the Neiva field in the Upper Magdalena Valley basin.



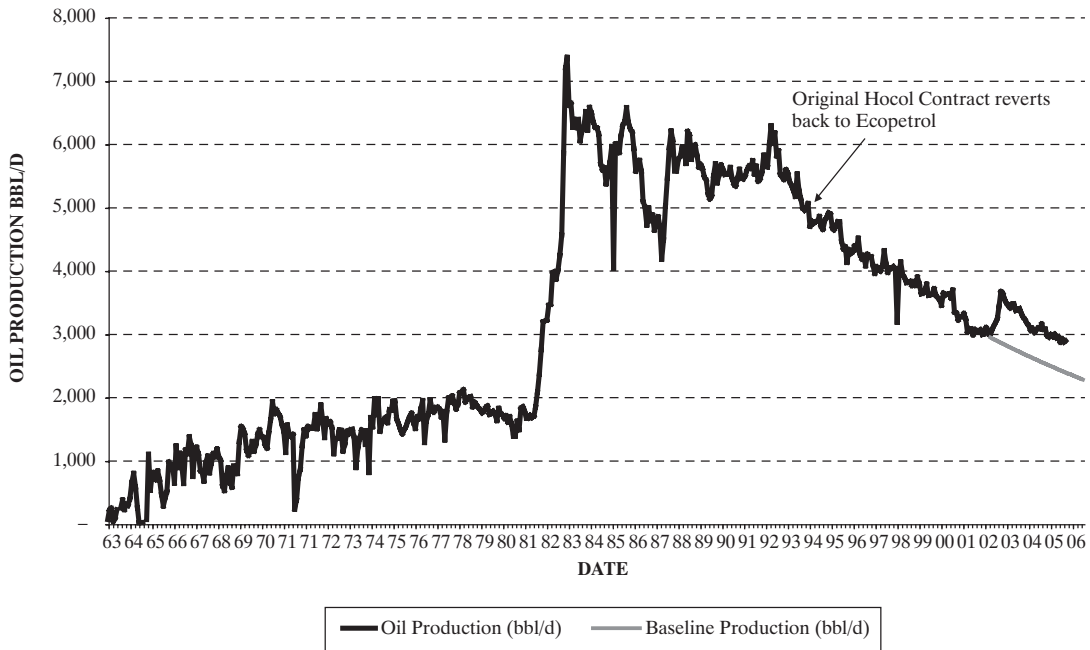
Source: ANH, Ecopetrol and the Company.

The D&M Reports include nine proved undeveloped locations and 15 probable locations at Neiva. The Company believes there are up to 34 total locations (including those locations identified in the D&M Reports) that could potentially be drilled at Neiva. Wells targeting the Honda reservoir are drilled to a depth of approximately 3,300 feet, with drilling and completion costs estimated to be US\$1.1 million per well.

See “Proposed Work Program” for a table describing the Company’s proposed work program through 2008 with respect to Neiva.

The following graph shows average monthly production at Neiva since the discovery of the field in 1963.

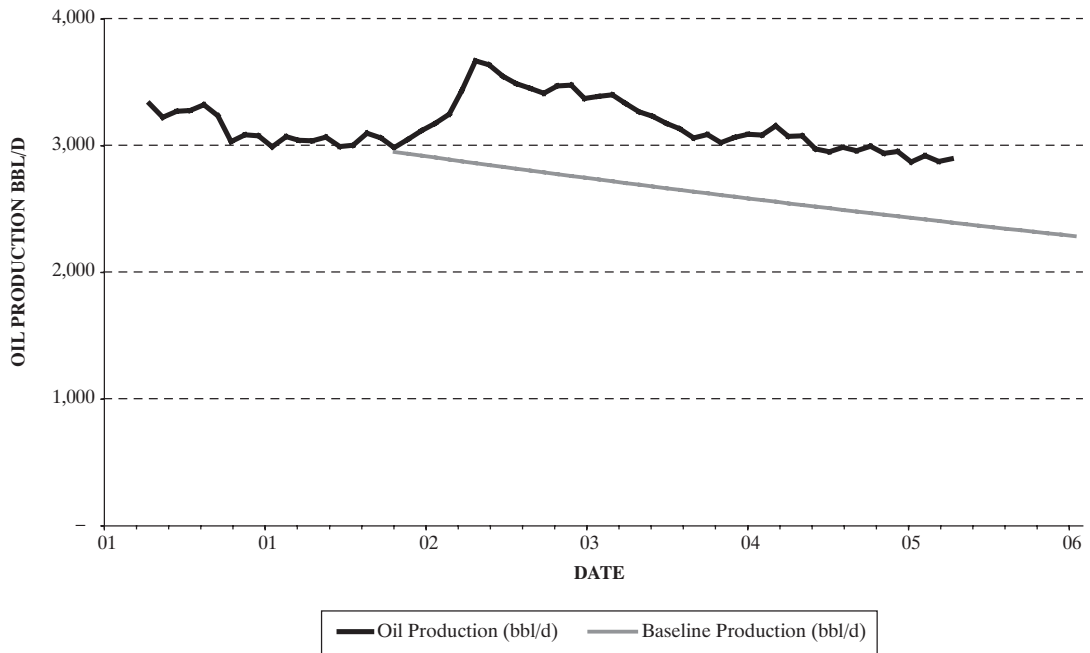
NEIVA HISTORICAL AVERAGE MONTHLY PRODUCTION



Source: Ecopetrol and the Company.

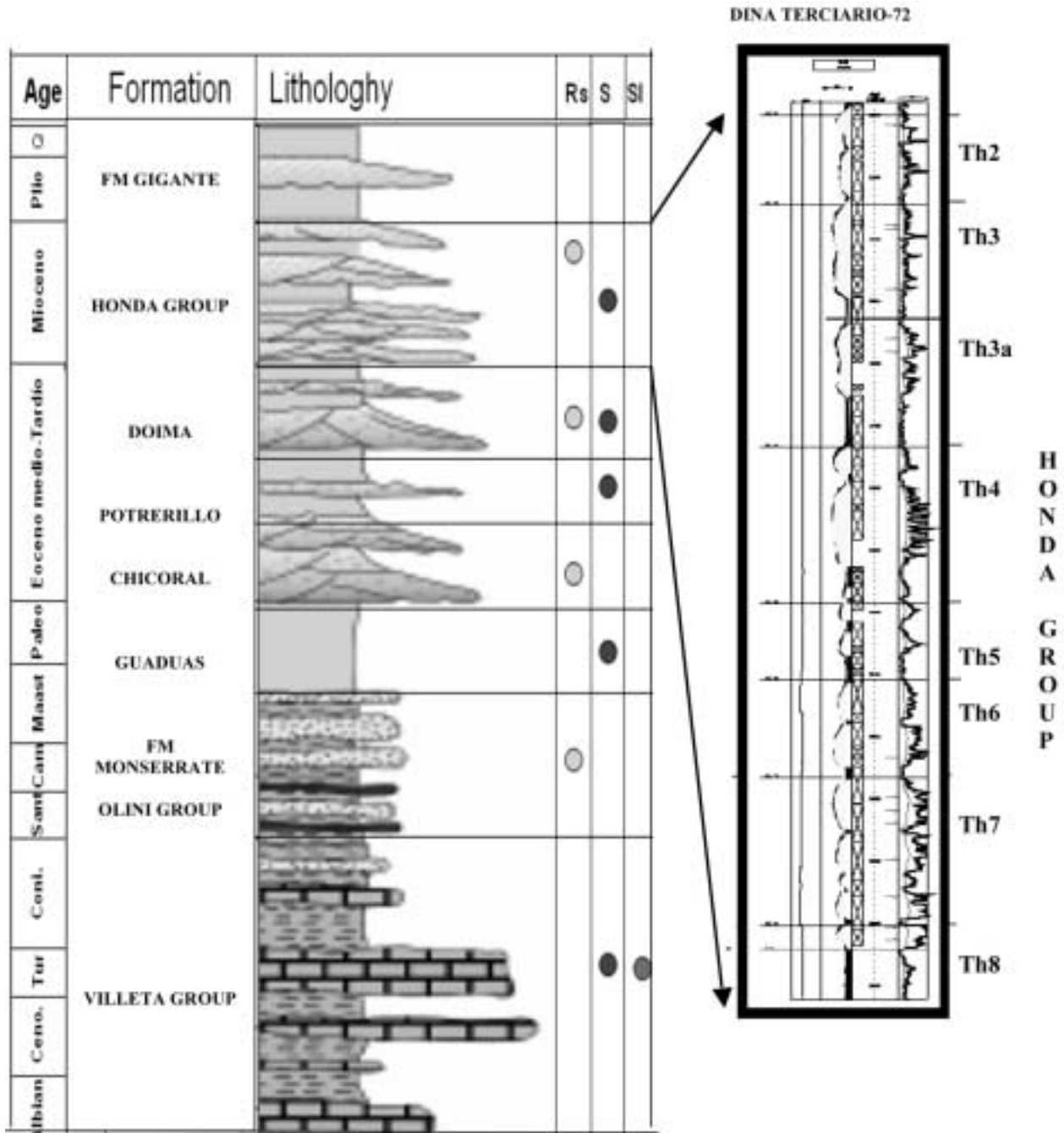
The following graph shows Neiva's average monthly production since April 2001 when PCL signed the IPC in respect of the Neiva field. The Company receives a share (initially 69 percent) of incremental production above baseline production.

NEIVA HISTORICAL AVERAGE MONTHLY PRODUCTION



Source: Ecopetrol and the Company.

The following diagram shows the general stratigraphic column of the Neiva field.



Source: The diagram above is based on public knowledge in the Colombian oil industry and the Company has included a geological interpretation of the well logs to highlight the productive sand intervals.

Exploration Blocks and TEAs

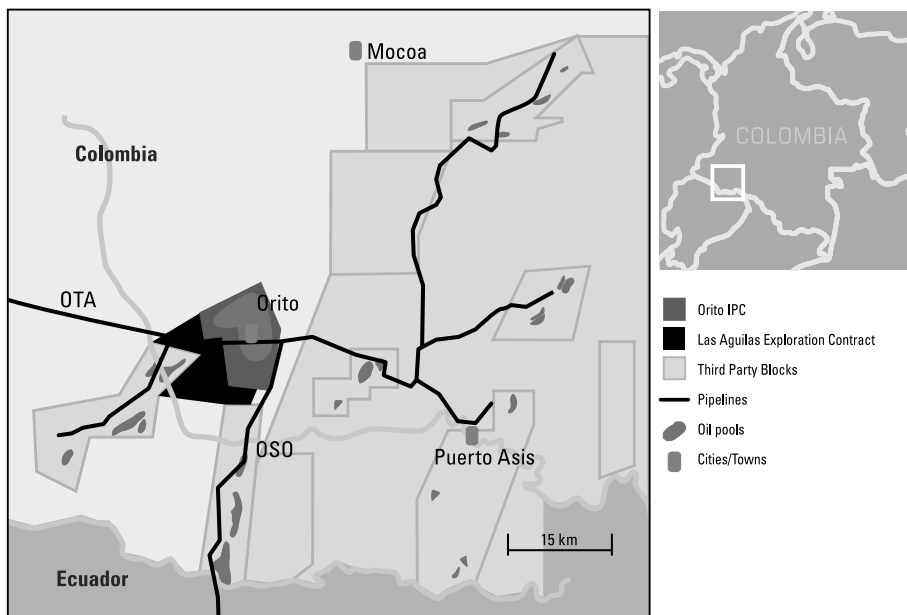
Exploration is playing an increasingly important role in the Company's activities in Colombia. During the course of 2005, Petrominerales capitalized on the opportunities provided by the new Exploration Contracts and TEAs now being offered by the ANH. Under the new regime, all operators were afforded access to any uncontracted lands by committing to a minimum exploration work plan with no initial upfront payment to the government. Petrominerales has signed Exploration Contracts or TEAs for ten blocks totalling 2,483,295 net and

gross acres in the Llanos basin and 33,671 net and gross acres in the Putumayo basin. The properties that are subject to the Company’s Exploration Contracts and TEAs are described below. Historical production information is based upon information provided by the ANH. See also “Industry Conditions — Colombian Market”.

See “Proposed Work Program” for a table describing the Company’s proposed work program through 2009 pursuant to the Company’s Exploration Contracts and TEAs.

Putumayo Basin

The Putumayo basin covers approximately 28,000 square kilometres in southern Colombia and represents the northern extension of the prolific Oriente Basin of Ecuador. Production is predominantly oil, derived from approximately 21 fields. Traps are faulted three way and four way closures. Oil is found in several reservoirs, with the most important being the Cretaceous Caballos and Villeta formations, but the larger fields can have up to four different productive horizons. Reserves vary greatly, but Orito, the largest field in the basin, has produced in excess of 226 mmbbls from four reservoirs, predominately from the Caballos formation which has produced 187 mmbbls. The entire basin has produced 320 mmbbls. Average basin production in 2005 was 13 mbbbl/d. Reservoirs in the basin are characterized by multiple drives, which result in highly variable production rates, and specific treatment programs may result in wells that produce in excess of 1,000 bbl/d. Recovery rates vary greatly, however, the Company estimates that with secondary recovery it could approach 40 percent of the original-oil-in-place. The following map shows the location of the Company’s interests in the Putumayo basin. Sources: ANH; ACIPET; Ecopetrol; Petrominerales.



Source: ANH, Ecopetrol and the Company.

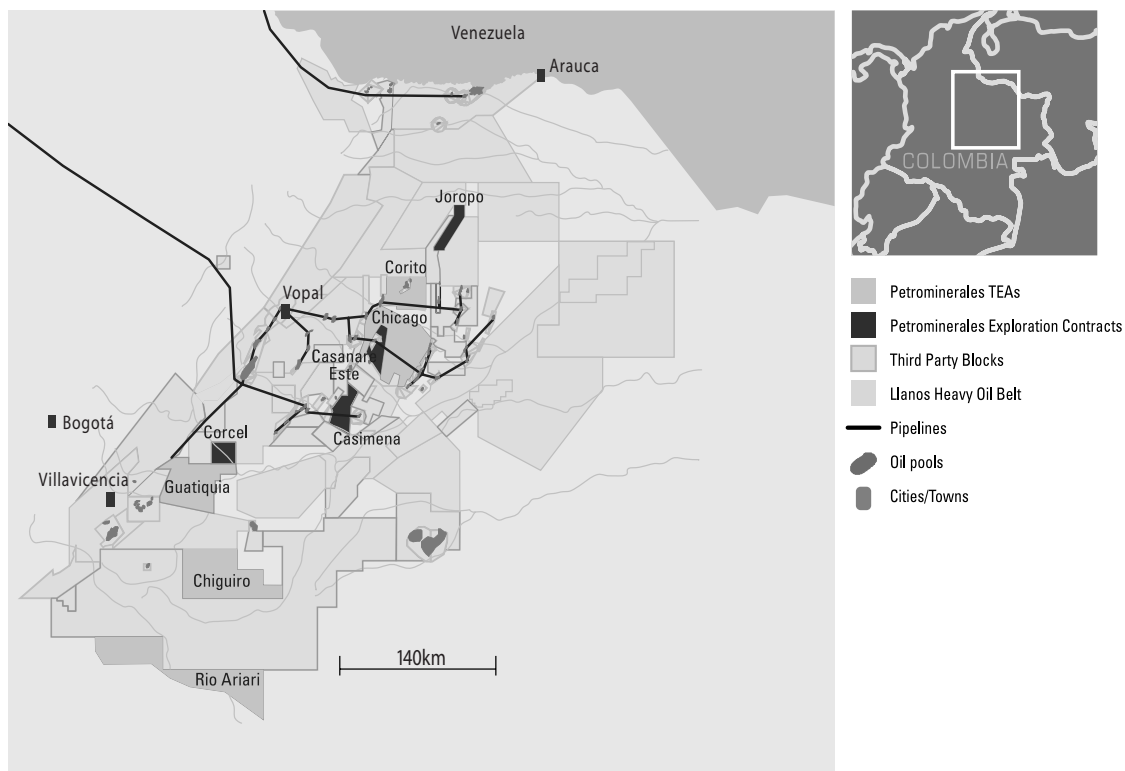
Las Aguilas (Exploration Block)

Located in the Putumayo basin, the Las Aguilas block covers 33,671 acres and is west of and adjoins Petrominerales’ Orito field. The primary target in this block is the Caballos formation, the main producer in the Orito field. The initial phase-one work commitment was a 3-D seismic program, which was integrated into the survey recently acquired over the Orito field. Initial interpretation of the data indicates the presence of the expected structure, the apex of which is estimated to be approximately 350 feet high to a dry hole drilled during 2004 by a competitor. With a final interpretation tied to the future development of Orito, Petrominerales will make the decision to go into the second phase of exploration (the first exploration well) during October 2006. The Las Aguilas block is particularly attractive due to Orito’s tilted oil/water contact dipping from northeast to southwest, suggesting additional upside extending onto the Las Aguilas block.

Llanos Basin — Plains Region

The Llanos basin covers approximately 220,000 square kilometres in the eastern part of Colombia. Production consists of mostly oil, derived from 72 fields. Reservoirs are trapped in three way and four way closures against northeast-southwest oriented faults. The exploration success rate is high in the basin, with oil found in Tertiary and Cretaceous aged reservoirs which are commonly stacked in the larger fields. Recoverable reserves typically range from 3 mmbbls to approximately 45 mmbbls per field, with the average being approximately 8 mmbbls per field. Not including the giant Cãno Limon field or the foothills fields such as Cusiana, the plains region of the Llanos basin has produced some 269 mmbbls, with remaining discovered reserves of approximately 330 mmbbls. Production in the Llanos basin averaged 60 mmbbl/d during 2005. Reservoirs in the basin are characterized by active water drives, which result in high initial rates of production, with single well rates often between 1,000 bbl/d and 2,000 bbl/d, and high primary recovery rates of between 30 and 50 percent of the original-oil-in-place. No secondary recovery schemes are necessary.

The following map shows the location of the Company's interests in the Llanos basin.



Source: ANH, Ecopetrol and the Company.

The following table summarizes the largest oil fields (by estimated total reserves) in the Llanos basin, excluding the Caño Limon field:

Field Name	Discovery Year	Original-Oil-in-Place (mmbbls)	Estimated Total Reserves (mmbbls)	Cumulative Production (mbbls)	2005 Production	Producing Wells	Number of Dry Wells
Rubiales	1981	942	211	6,230	7,809	48	1
Trinidad	1974	112	45	37,460	2,362	11	*
Santiago	1985	100	40	41,448	3,447	10	*
La Gloria	1987	75	30	26,108	3,432	20	0
Rancho Hermoso	1984	90	30	6,671	3,782	2	0
La Gloria Norte	1983	54	19	15,538	526	7	1
Tocaria	1980	56	18	12,806	310	12	0
Guarilaque	1988	40	15	11,245	3,098	4	0
Palmarito	1988	37	14	11,303	855	3	0
Morichal	1984	40	13	3,344	262	5	1
Caño Garza	1979	34	12	10,226	670	8	1
La Flora	1985	30	10	7,967	584	2	0
Trompillos	1990	28	10	3,588	176	4	0
Sardinas	1982	26	9	8,709	2,281	4	0
Cravo Sur	1982	25	8.7	6,966	251	2	0
Caño Garza Norte	1983	25	8.7	4,871	615	2	0
Los Toros	1989	24	8	5,457	261	4	0
Barquerena	1982	22	6.5	6,512	384	3	0
El Palmar	1990	20	6.5	*	*	1	0
Cravo Este	1987	18	6.2	468	60	1	0
Jordan	1985	21	6	4,744	1,277	2	0
Remaining 51 fields	—	218	72	37,592	27,684	75	12
Total		<u>2,037</u>	<u>599</u>	<u>269,253</u>	<u>60,126</u>	<u>230</u>	<u>16</u>

Note:

* Limited data is available for certain fields. Estimated total reserves are based on the latest available data and include historical production. Sixteen of the remaining 51 fields have no estimated total reserves (as the required data is not available). Sources: ACIPET, ANH and Ecopetrol.

Although pipeline infrastructure exists across much of the Llanos basin, the current infrastructure could create bottlenecks for future production. The majority of new production to date is being trucked to the main Ecopetrol receiving station at Araguaney, located approximately 30 kilometres north-northeast of Yopal. New pipelines are being installed during the 2005-2006 dry season (January through March) by operators who have made discoveries over the past three years. The main delays for new installations are the permitting process and the short dry season when the actual civil and mechanical works can actually be performed.

The Llanos basin poses specific operational and production hurdles that, if properly planned for, can be overcome. The entire basin is essentially a flat flood plain, which leaves most of the area under a shallow blanket of floodwater from April through December due to the significant rainfall in the area. Drilling activities are normally confined to the three dry “summer” months of January through March. With proper planning, drilling and production facilities can be made capable for year round activities by raising drilling or facility pads between one to two meters.

The Company’s exploration plan initially focuses on the plains region of the Llanos basin where pool sizes have historically averaged approximately 8 mmbbls and have been as high as 45 mmbbls. The Company has identified a number of drilling leads and prospects and is targeting pool sizes with potential reserves of between 3 and 25 mmbbls each. These prospects are typically well defined through 3-D seismic and incorporate both conventional structural traps as well as stratigraphic traps, which have seldom been targeted to date in the basin.

The Company uses the latest 2-D and 3-D seismic data acquisition protocols and modern interpretation and evaluation tools to refine these prospects. If the Company's initial analysis of these blocks is successful, the Company plans to increase the 3-D seismic coverage on these blocks to further assess and develop their full productive potential.

Joropo (Exploration Contract)

In 2005, Petrominerales finalized an Exploration Contract pursuant to which it acquired an interest in the Joropo block, subject to a 10 percent overriding royalty before payout granted to the original operator of the block, which converts to a 22 percent net profits interest after payout. The Company spud the Ojo de Tigre-1 well on February 14, 2006 and drilled the well to a total depth of 8,616 feet. The well targeted the main 'C7' sand in the Tertiary Carbonera formation and was abandoned.

The Company has committed to a second exploration phase expiring on December 7, 2006, which requires drilling of an additional exploration well in order to retain the block. The Company has identified a drillable prospect north of the Ojo de Tigre-1 location, which indicates the presence of a sizeable stratigraphic anomaly. Additional structures on the block will be evaluated during the remaining exploration term of this block.

Corcel (Exploration Contract)

In 2005, Petrominerales finalized an Exploration Contract pursuant to which it acquired an interest in the Corcel block, subject to a three percent overriding royalty before payout is granted to Petrobank's partner, which converts to an eight percent net profits interest after payout. The Corcel block covers 79,815 acres and is located in the western part of the Llanos basin. Existing seismic indicates the presence of a fault system running through the block and a potential structural closure and trapping of Mirador sandstones against that fault. During 2005 Petrominerales detailed the lead by acquiring a 47 square kilometre 3-D seismic survey over the southwest part of the block. The processed seismic confirms the presence of a large structure, essentially in the same area and orientation as the original interpretation. The primary reservoirs are the Cretaceous Guadalupe, Ubaque and the Tertiary Mirador Formation, which all appear to close against the structure-controlling fault. Petrominerales' interpretation will be completed during the second quarter of 2006. If the structural interpretation and economic feasibility of the prospect are confirmed, the second term exploration commitment will require drilling an exploration well by September 2007. This decision must be made during August 2006. An additional two leads on the same structural trend are also evident on the seismic. These should evolve into drillable prospects if the first lead is confirmed as a prospect as well. There are also two strong structural leads off-setting the main fault system. Important fields near the Corcel block include Apiay (1981), a heavy and medium oil producing field that has produced almost 70 mmbbls through 2005, and Trompillos (1990), which has produced approximately 3.6 mmbbls through 2005.

Casanare Este (Exploration Contract)

The Casanare Este block is located in the central Llanos basin and covers 78,815 acres. This block is exploratory in nature and was selected by the Company because the fault systems that provide the main mechanism for trapping hydrocarbons have been identified in the license area from previous seismic surveys. In addition, the block is on trend with producing oil fields associated with the regional faults which extend across the blocks. The nearby La Flora field was discovered in 1985 and is operated by Perenco. Through the end of 2005 La Flora has produced almost 8 mmbbls and is currently producing almost 600 bbl/d from two wells. As with Petrominerales' other blocks, primary targets in this area are sandstones of the Carbonera and Mirador Formations. Another important field near the Casanare Este block is the Rancho Hermoso field, discovered in 1986. It produced approximately 6.7 mmbbls through the end of 2005 and produced approximately 3,800 bbl/d from two wells in 2005.

All available 2-D seismic data over the block was reprocessed and interpreted during 2005, resulting in a number of leads being identified. A 30 square kilometre 3-D seismic survey was acquired over the northern part of the block in order to detail the potential in that area. Initial interpretation of the data indicates at least five leads or prospects, both structural and stratigraphic in character, which will be evaluated in detail prior to deciding which to drill first during Petrominerales' second exploration phase, which begins in June 2006.

Casimena (Exploration Contract)

Casimena is another exploration block in the central Llanos basin, located southwest of the Casanare Este block, covering 107,704 acres. During the initial interpretation of the available 2-D seismic and well data, a number of leads were identified along a regional fault that cuts northeast-southwest across the entire length of the block. Of particular interest is the La Punta-1 well, originally drilled by Ecopetrol in 1986 and recently recompleted by a third party. The well initially produced in excess of 2,000 bbl/d from the Mirador Formation. The structure and trapping mechanism for this well is analogous to what the Company sees on its Casimena leads. Nearby fields include Rancho Hermoso (discussed above) and the La Punta field (drilled in 1985 with first production in 2005) that has already produced almost 700 mmbbls to date.

Petrominerales has recently finished the acquisition phase of a 150 square kilometre 3-D seismic survey in Casimena designed to detail a number of original leads that were identified on the block. An interpretation and evaluation of which prospects have the highest potential will be completed before a commitment is made for the second exploration phase starting in November 2006. Initial interpretation of the new 3-D data confirms at least four leads and prospects.

Chicago (TEA/Exploration Contract)

Chicago is a large TEA, also in the central Llanos basin, that adjoins Petrominerales' Casanare Este block to the east, north and west. The block contains 433,967 acres and has a number of the regional trapping fault trends present in this part of the basin. A proposal for an Exploration Contract was submitted to the ANH during the month of March 2006 by another operator which covers 107,701 acres within the eastern quarter of the Chicago TEA. Petrominerales has submitted a work commitment proposal to the ANH in respect of this portion of the block. The proposal includes the acquisition of 40 square kilometres of 3-D seismic and drilling two exploration wells during a 23-month period. The exploration trend of this area lies parallel to an analogous series of fields to the east which includes the Sardinias (1985) and Guarilaque (1988) fields which have produced more than 8.7 and 11.2 mmbbls, respectively, through 2005. Sardinias is currently producing approximately 2,000 bbl/d from four wells, while Guarilaque is producing approximately 3,000 bbl/d from four wells.

The Company will finalize its evaluation of the remaining area of the Chicago TEA with a plan to propose a second Exploration Contract over the most prospective part of the block before the license expires in June 2006.

Corito (TEA)

The Corito TEA (172,220 acres) lies between Petrominerales' Joropo and Casanare Este blocks and adjoins the Trinidad field, which is estimated by Ecopetrol to have 45 mmbbls of recoverable reserves to the east, south and west. The TEA expires in December 2006. The work commitment for the block is reprocessing and interpreting existing 2-D seismic data and historical analysis of any previously drilled wells on the block. In addition to the Trinidad field (1974) which has produced approximately 37.5 mmbbls, the nearby Caño Garza field has produced approximately 10 mmbbls since its discovery in 1979.

Rio Ariari / Chiguiro / Guatiquia (TEA)

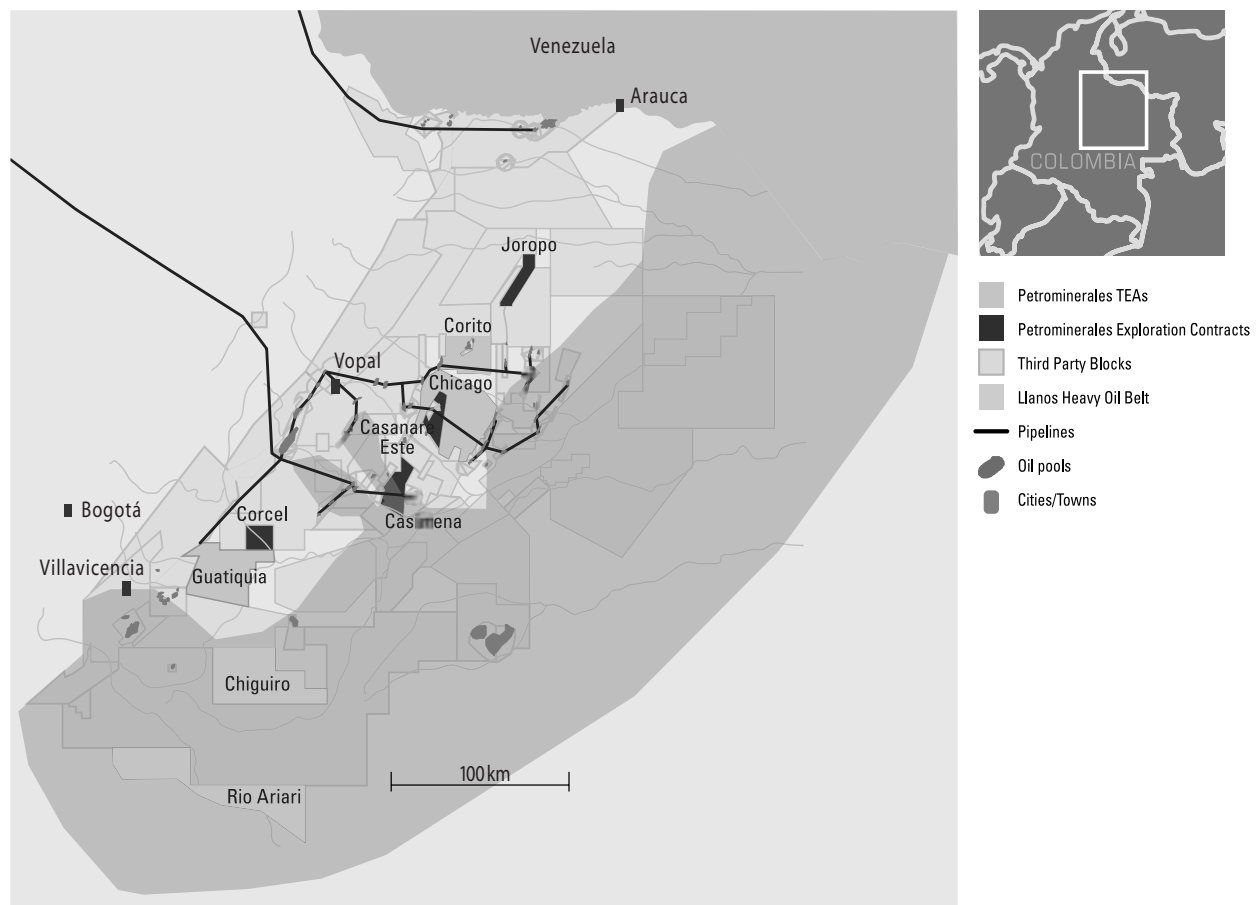
The Rio Ariari (607,137 acres), Chiguiro (539,785 acres) and Guatiquia (391,595 acres) TEAs were chosen due to their position in the Colombian heavy oil belt that extends from the western limits of the Llanos basin across the southern updip limits of potential reservoirs to the south eastern part of the basin. The Colombian heavy oil belt has the same La Luna source rock, similar reservoirs with excellent reservoir qualities and similar migration and timing scenarios as Faja del Orinoco in Venezuela. Additionally, cores in the updip areas of the Rio Ariari block exhibit the presence of heavy oil in most of the sands of the basal Tertiary Formation that overlies the regional pre-Mesozoic unconformity and provides a trapping mechanism, similar to much of Venezuela's heavy oil.

Petrominerales' initial commitments on these TEAs include reprocessing and interpretation of existing 2-D seismic data, studies of the stratigraphy and trapping potential of the area and an evaluation of the potential heavy oil resource present in the blocks.

Llanos Basin — Heavy Oil Belt

There is evidence of an extensive heavy oil belt that extends from the western and south western limits of the basin across the updip limit of potential tertiary reservoirs along the southern edge of the basin to the south eastern flank of the Llanos. A number of significant fields have been discovered and are producing heavy oil that is trucked or mixed with diluent and transported via pipeline. Ecopetrol is currently negotiating with a number of large multinational companies with the goal of fully developing its heavy oil resources in the western fields and exploring the Caño Sur block which lies between the Company's Rio Ariari and Chiguiro TEAs. Under optimum depositional and migration circumstances this heavy oil belt could extend across the southern length of the basin and could be aerially as large as the giant Faja del Orinoco in Venezuela. For comparison purposes only, the four heavy oil production and upgrading projects (Petrozuata, Sincor, Ameriven and Cerro Negro) in Venezuela are currently producing approximately 600 mbb/d. Management of the Company believes that these areas have the highest potential, but considering that Colombia has the same La Luna source rock, similar geological history, reservoirs and geographic distribution of potential production and an area equal to or larger than the Faja del Orinoco, the Company believes there is good potential for discovering and exploiting heavy oil resources in these areas.

The following map outlines the location of the Llanos basin heavy oil belt.



Source: ANH, Ecopetrol and the Company.

The following table summarizes the fields located in the Llanos basin heavy oil belt (plains and foothills regions).

<u>Field Name</u>	<u>Discovery Date</u>	<u>Original-Oil-in-Place (mmbbls)</u>	<u>Reserves (mmbbls)</u>	<u>Cumulative Production (mmbbls)</u>	<u>2005 Average Production</u>	<u>API</u>
Rubiales	1981	942	211	6	7,800	12-14
Valdivia	1988	12	4	2	800	23
Apiay	1981	610	276	70	7,200	9-16
Castilla	1969	2,330	203	155	45,980	13
Chichimene	1969	210	44	36	5,800	9

Note:

(1) Certain fields have only limited data available. Estimated total reserves are based on the latest available data and include historical production.

Source: ANH and Ecopetrol.

HEAVY OIL TECHNOLOGY

Petrominerales has negotiated the Technology License Agreement and the Option Agreement with ATI pursuant to which Petrominerales and ATI have agreed to evaluate the use of Archon's THAI™ heavy oil technology and any improvements or enhancements on potential heavy oil resources in Colombia. THAI™ is owned indirectly by Petrobank and is a patented in situ combustion technology for the recovery of bitumen and heavy oil combining a vertical air injection well with a horizontal production well. THAI™ integrates existing proven technologies and provides the opportunity to create a step change in the development of heavy oil resources globally. THAI™ is currently being field tested in the Canadian oil sands, which is an immobile heavy oil reservoir. In Colombia, the Company believes THAI™ could be used in a mobile heavy oil reservoir and has the potential to increase heavy oil recovery and upgrade the oil in situ without the need for natural gas or fuel oil to generate steam or fresh water use. Management of the Company is of the view that the benefits of the THAI™ technology may address a number of issues impacting the development of heavy oil potential in Colombia. The Company believes that the successful application of THAI™ could significantly advance the development of heavy oil in Colombia.

Under the terms of the Technology License Agreement, Petrominerales will have the right to use the THAI™ technology, know how and any improvements or enhancements, in heavy oil opportunities in Colombia, subject to a licensing fee equal to 10 percent of gross production. Under certain circumstances, including but not limited to a change of control of Petrominerales, ATI may elect to terminate the Technology License Agreement. A voluntary disposition by Petrobank of all or part of its interest in Petrominerales shall not constitute a change of control. Under the terms of the Option Agreement, ATI will have the right to acquire a working interest of between 10 percent and 50 percent in any Petrominerales heavy oil project using the THAI™ technology and ATI, upon electing a working interest in a heavy oil project, can also elect to be the operator of the project, which would then be governed by the Joint Operating Agreement and would share the actual costs on a *pro rata* basis. The initial areas of interest are the Rio Ariari, Chiguiro, and Guatiquia TEAs. In each of these TEAs, Petrominerales plans to identify areas with the highest potential for heavy oil and application of the technology and propose an Exploration Contract on each block, by August 2006 on the Rio Ariari block, by October 2006 on the Chiguiro block and by December 2006 on the Guatiquia block. See "Management's Discussion and Analysis — Transactions with Related Parties".

PROPOSED WORK PROGRAM

The following table details the Company's current proposed work program through 2009 based on a three rig drilling program (one rig dedicated to Orito, another rig to be shared between Orito and the Llanos basin exploration program (both of which rigs are contracted) and one rig dedicated to Neiva). To date, the Company has secured two drilling rigs under long-term contracts. The Company plans to actively pursue contracting a third rig to enable it to undertake its drilling program at Neiva.

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Orito:				
Development Wells	8	11	14	7
Workovers	2	1	*	*
Fracture Stimulations	6	6	*	*
Waterflood Pilot		1	*	*
Neiva:				
Development Wells	4	16	14	*
Fracture Stimulations	5	*	*	*
Waterflood Pilot	1	*	*	*
Exploration Blocks:				
Joropo Exploration Well		1	*	*
Casimena Exploration Well		1	*	*
Casanare Este Exploration Well		1	*	*
Corcel Exploration Well		1	*	*
Las Aguilas Exploration Well		1	*	*

Note:

* Future Development/Exploration contingent on initial success and/or future prospects.

The Company's exploration plan initially focuses on the plains region of the Llanos basin where pool sizes have historically averaged approximately 8 mmbbls and have been as high as 45 mmbbls. The Company has identified a number of leads and drilling prospects and is targeting pool sizes with potential reserves of between 3 and 25 mmbbls each. These prospects are typically well defined through 3-D seismic data and incorporate both conventional structural traps as well as stratigraphic traps, which have seldom been targeted to date in the basin. The Company uses the latest 2-D and 3-D seismic data acquisition protocols and modern interpretation and evaluation tools to refine these prospects. If the Company's initial drilling on these blocks is successful, the Company plans to expand the 3-D seismic coverage on these blocks to further assess and develop their full productive potential. The Company has currently identified a total of 16 leads and prospects.

Due to the nature of the oil and gas industry, work programs are regularly reviewed with respect to the success of expenditures and other opportunities that become available. The Company's actual work program will vary depending upon a number of factors, including drilling success, availability of drilling equipment and assessment of newly acquired seismic data over the Company's exploration blocks. Accordingly, while the proposed work program described above reflects the Company's current expectation, the actual work program carried out by the Company may in fact differ from that set forth above. See "Risk Factors".

STATEMENT OF RESERVES DATA AND OTHER RELATED INFORMATION

Disclosure of Reserves Data

Petrobank engaged D&M to evaluate PCL's oil reserves as at December 31, 2005, and in connection therewith D&M prepared the December D&M Report evaluating the Company's oil reserves as at December 31, 2005. The Company engaged D&M to provide an updated evaluation of the Company's oil reserves as at March 31, 2006, taking into account pricing and production information between January 1, 2006 and March 31, 2006. D&M has prepared the March D&M Report evaluating the Company's oil reserves as at March 31, 2006.

The reserves data set forth below and in Appendices A and B (collectively, the “Reserve Statements”) are based upon evaluations by D&M with an effective date of March 31, 2006, in the case of the Reserve Statements set forth in Appendix A, and December 31, 2005, in the case of the Reserve Statements set forth in Appendix B contained in the applicable D&M Report. The reserves data summarizes the crude oil reserves of the Company and the net present values of future net revenue for these reserves using constant prices and costs and forecast prices and costs. The reserves data set forth complies with the requirements of NI 51-101. Additional information not required by NI 51-101 has been presented to provide continuity and additional information which we believe is important to the readers of this information. D&M was engaged by the Company’s parent company, Petrobank, to provide evaluations of proved, probable, and possible reserves.

All of the Company’s reserves are located in Colombia.

In preparing the D&M Reports, basic information was obtained from Petrominerales, which included land data, well information, geological information, reservoir studies, estimates of on-stream dates, contract information, current hydrocarbon product prices, operating cost data, capital budget forecasts, financial data and future operating plans. Other engineering, geological or economic data required to conduct the evaluations and upon which the D&M Reports are based was obtained from public records, other operators and from D&M non-confidential files. The extent and character of ownership and the accuracy of all factual data supplied for the independent evaluation, from all sources, was accepted by D&M as represented.

Estimated future net revenue based on the D&M Reports is presented in U.S. dollars. All evaluations and reviews of future net cash flow are stated prior to any provision for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimated future net cash flow shown below is representative of the fair market value of the Company’s properties. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of crude oil reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil reserves may be greater than or less than the estimates provided herein.

SUMMARY OF OIL AND GAS RESERVES AS OF MARCH 31, 2006

SUMMARY OF OIL AND GAS RESERVES

	Light and Medium Oil (mbbls)			
	March 31, 2006			
	Forecast Prices		Constant Prices	
	Working Interest ⁽¹⁾	Net ⁽²⁾	Working Interest ⁽¹⁾	Net ⁽²⁾
Reserves				
Proved Developed Producing	4,117	3,788	4,029	3,706
Total Proved	10,485	9,620	9,797	8,989
Total Proved Plus Probable	16,754	15,329	15,532	14,211
Total Proved Plus Probable Plus Possible	25,725	23,471	23,503	21,444

Notes:

(1) After Ecopetrol’s share, but before royalties.

(2) After royalties.

**RECONCILIATION OF COMPANY NET RESERVES BY
PRINCIPAL PRODUCT TYPE
FORECAST PRICES AND COSTS RESERVES
(MARCH 31, 2006)**

	Light and Medium Oil		
	Net Proved (mbbls)	Net Probable (mbbls)	Net Proved Plus Probable (mbbls)
December 31, 2005	8,795	5,929	14,724
Technical Revisions	1,011	—	1,011
Economic Factors ⁽¹⁾	(74)	(220)	(294)
Production	(112)	—	(112)
March 31, 2006	9,620	5,709	15,329
Change in Reserves	9%	(4)%	4%
Production Replacement	837%	—	640%

Note:

(1) The Company's IPCs are subject to an R Factor calculation (see "Industry Conditions — Incremental Production Contracts (IPCs)") pursuant to which net reserves can decrease despite increased revenues and net present values. In the event of an increased price forecast, future revenues and net present values to the Company will increase, but the underlying reserve volumes net to the Company, can decrease.

* Table may not add due to rounding.

**RECONCILIATION OF COMPANY NET RESERVES BY
PRINCIPAL PRODUCT TYPE
FORECAST PRICES AND COSTS RESERVES
(DECEMBER 31, 2005)**

	Light and Medium Oil		
	Net Proved (mbbls)	Net Probable (mbbls)	Net Proved Plus Probable (mbbls)
December 31, 2004	5,192	3,511	8,703
Technical Revisions	4,503	4,098	8,601
Economic Factors ⁽¹⁾	(554)	(1,680)	(2,234)
Production	(346)	—	(346)
December 31, 2005	8,795	5,929	14,724
Increase in Reserves	69%	69%	69%
Production Replacement	1,141%	—	1,840%

Note:

(1) The Company's IPCs are subject to an R Factor calculation (see "Industry Conditions — Incremental Production Contracts (IPCs)") pursuant to which net reserves can decrease despite increased revenues and net present values. In the event of an increased price forecast, future revenues and net present values to the Company will increase, but the underlying reserve volumes net to the Company, can decrease.

* Table may not add due to rounding.

CONSTANT PRICES AND COSTS
NET PRESENT VALUES OF FUTURE NET REVENUE
AS OF MARCH 31, 2006

<u>RESERVES CATEGORY</u>	<u>BEFORE INCOME TAXES DISCOUNTED</u>				<u>AFTER INCOME TAXES DISCOUNTED</u>			
	<u>AT (%/year)</u>				<u>AT (%/year)</u>			
	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>
	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)
PROVED								
Developed Producing	183,648	154,229	132,450	115,743	166,550	142,616	124,342	109,953
Undeveloped	192,493	143,401	108,066	81,963	126,013	91,872	67,130	48,744
TOTAL PROVED	376,141	297,630	240,516	197,706	292,563	234,488	191,472	158,697
PROBABLE	213,755	166,364	133,056	108,645	138,811	107,276	85,082	68,820
TOTAL PROVED PLUS								
PROBABLE	589,896	463,994	373,571	306,352	431,374	341,764	276,554	227,517
POSSIBLE	277,443	191,878	135,763	97,819	180,156	122,915	85,451	60,242
PROVED PLUS PROBABLE								
PLUS POSSIBLE	867,339	655,872	509,334	404,171	611,530	464,679	362,005	287,759

Note:

* Table may not add due to rounding.

FORECAST PRICES AND COSTS
NET PRESENT VALUE OF FUTURE NET REVENUE
AS OF MARCH 31, 2006

<u>RESERVES CATEGORY</u>	<u>BEFORE INCOME TAXES DISCOUNTED</u>				<u>AFTER INCOME TAXES DISCOUNTED</u>			
	<u>AT (%/year)</u>				<u>AT (%/year)</u>			
	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>
	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)
PROVED								
Developed Producing	156,561	132,168	114,223	100,509	149,660	128,083	111,738	98,955
Undeveloped	160,319	115,907	84,542	61,766	103,969	73,798	52,211	36,344
TOTAL PROVED	316,880	248,075	198,765	162,275	253,629	201,881	163,949	135,299
PROBABLE	182,246	140,598	111,501	90,313	118,773	90,867	71,335	57,100
TOTAL PROVED PLUS								
PROBABLE	499,126	388,673	310,266	252,588	372,402	292,748	235,284	192,399
POSSIBLE	222,197	148,728	101,366	70,007	144,265	94,791	62,964	42,000
PROVED PLUS PROBABLE								
PLUS POSSIBLE	721,323	537,401	411,632	322,595	516,667	387,539	298,248	234,399

Note:

* Table may not add due to rounding.

Notes to Reserve Data Tables

In the tables set forth in Appendices A and B, the following definitions and other notes are applicable:

1. Crude oil reserves estimates presented in the D&M Reports are based on the definitions and guidelines contained in the COGE Handbook. A summary of those definitions is set forth below:

Reserve Categories

Reserves are estimated remaining quantities of crude oil anticipated to be recoverable from known accumulations, from a given date forward, based on:

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology; and
- specified economic conditions.

Reserves are classified according to the degree of certainty associated with the estimates.

- (a) **Proved reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (b) **Probable reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- (c) **Possible reserves** are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

Other criteria that must also be met for the categorization of reserves are provided in the COGE Handbook.

Each of the proved and probable reserve categories may be divided into developed and undeveloped categories:

- (d) **Developed reserves** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
 - (i) **Developed producing reserves** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
 - (ii) **Developed non-producing reserves** are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.
- (e) **Undeveloped reserves** are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserve estimates are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves;
- (b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves; and
- (c) at least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserve estimates and the effect of aggregation is provided in the COGE Handbook.

2. Forecast prices and costs

Future prices and costs that are:

- (a) generally acceptable as being a reasonable outlook of the future; and
- (b) if and only to the extent that, there are fixed or presently determinable future prices or costs to which the Company is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

The forecast summary table contained on page A-5 of Appendix A identifies benchmark reference pricing utilized in the March D&M Report. The forecast summary table contained on page B-4 of Appendix B identifies benchmark reference pricing utilized in the December D&M Report.

3. Constant prices and costs

Prices and costs used in an estimate that are:

- (a) the Company's prices and costs as at the effective date of the estimation, held constant throughout the estimated lives of the properties to which the estimate applies; and
- (b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which the Company is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

For the purposes of paragraph (a), the Company's prices are the posted prices for oil after historical adjustments for quality transportation, gravity and other factors.

The constant crude oil benchmark reference pricing utilized in the March D&M Report were as set forth on page A-4 of Appendix A. The constant crude oil benchmark reference pricing utilized in the December D&M Report were as set forth on page B-4 of Appendix B.

- 4. Estimated future abandonment and reclamation costs related to a property have not been taken into account by D&M in determining reserves that should be attributed to a property and in determining the aggregate future net revenue therefrom.
- 5. Columns may not add due to rounding.

6. Both the constant and forecast price and cost assumptions assumed the continuance of current laws and regulations.
7. The extended character of all factual data supplied to D&M was accepted by D&M as represented. No field inspection was conducted.
8. Undeveloped Reserves

Subject to the success of operations, within the next two years, the Company has the following plans regarding the development of proved and probable undeveloped reserves:

The Company's undeveloped medium to light oil reserves in the D&M Reports are located in Colombia within the Orito Caballos reservoir and at Neiva. The Company's proved undeveloped reserves are planned to be developed through the drilling of nine locations at Orito and nine at Neiva during 2006 and 2007, along with workovers and fracture stimulations at Orito in 2006. The D&M Reports include an additional five probable and 15 possible locations at Orito and 15 probable locations at Neiva, which are expected to be drilled starting in 2006 and continuing through 2009.

Undeveloped reserves, like all projects, are subject to competition for capital and consequently may be delayed or accelerated from time to time.

9. Income Taxes

After Income Tax amounts are shown after Colombian income tax. The Company does not expect that it will be required to pay Canadian income tax.

Significant Factors or Uncertainties Affecting Reserves Data

There are numerous uncertainties inherent in estimating quantities of proved reserves, including many factors beyond the control of the Company. The reserve data included herein represents estimates only. In general, estimates of economically recoverable crude oil reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary considerably from actual results. The actual production, revenues, taxes and development and operating expenditures of the Company with respect to these reserves will vary from such estimates, and such variances could be material. There is an inherent degree of certainty associated with the particular reserves category disclosed.

Estimates with respect to proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be substantial, in the estimated reserves.

Consistent with the securities disclosure legislation and policies of Canada, the Company has used forecast prices and costs in calculating reserve quantities included herein. Actual future net cash flows also will be affected by other factors such as actual production levels, supply and demand for oil, curtailments or increases in consumption by oil purchasers, changes in governmental regulation or taxation, currency exchange rates and the impact of inflation on costs.

The Company's reserves at the Orito and Neiva fields are also subject to an R Factor calculation under which the Company's interest in reserves decreases as the ratio of cumulative revenues to cumulative costs increases. Accordingly, at higher prices the Company's reserve values increase but reserve volumes decline, thereby increasing reserve uncertainty. See "Industry Conditions — Incremental Production Contracts (IPCs)".

Oil Wells

The following table summarizes the Company's interests as at December 31, 2005 and March 31, 2006 in oil wells, all of which are located onshore.

	Oil			
	Producing		Non-Producing ⁽¹⁾	
	Gross	Net	Gross	Net
Orito	53	42	65	51
Neiva	65	45	14	10
Total	<u>118</u>	<u>87</u>	<u>79</u>	<u>61</u>

Note:

(1) Wells also include wells that were drilled by the original holder of the blocks or Ecopetrol.

Undeveloped Land Holdings

The undeveloped land holdings of the Company total 2,516,966 acres (gross and net). Undeveloped acreage includes rights granted pursuant to Exploration Contracts and TEAs, which require certain work commitments. First term commitments for exploration licenses include evaluation of existing data and acquisition, processing and interpretation of additional seismic to be acquired by the Company. In the case of the Joropo Exploration Contract, the Company is in the second term, with a work commitment of drilling one exploration well. In the case of TEAs, the work commitment is interpretation of existing data. If, at the end of the exploration term, the Company elects not to proceed with additional work commitments, all or a portion of this acreage may revert back to the ANH. In addition, a portion of the Company's TEAs will revert to the ANH at the end of their term. The amount the Company retains will ultimately depend on the location and size of any acreage, if any, selected within the TEA for conversion to an Exploration Contract. See "Industry Conditions — Exploration Contracts and TEAs."

Forward Contracts and Future Commitments

See "Management's Discussion and Analysis — Liquidity and Capital Resources" in this prospectus for a description of future commitments, see Note 11, "Commitments and Contingencies", to PCL's financial statements as at and for the year ended December 31, 2005, and see Note 4, "Commitments and Contingencies", to PCL's interim financial statements as at and for the three months ended March 31, 2006 included in this prospectus and under the heading "Narrative Description of the Business" in this prospectus for a description of the forward contracts and future commitments of the Company.

The nature of the crude oil operations exposes the Company to risks associated with fluctuations in commodity prices and foreign currency exchange rates. To date, the Company has not utilized derivative instruments to manage these risks.

Abandonment and Reclamation Costs

Abandonment and reclamation costs were estimated for all legal obligations associated with the retirement of long-lived tangible assets such as wells, facilities and plants based on market prices or on the best information available where no market price was available. The estimated costs are then inflated at two percent over time until the actual retirement is expected to occur. In Colombia, Ecopetrol maintains ownership of all wells once the IPCs expire. Until the contracts expire, the Company is potentially liable for abandonment and reclamation costs for all wells drilled or intervened by the Company. As of December 31, 2005 and March 31, 2006, 50 wells have either been drilled or intervened; however, the Company expects to incur costs on only 15 wells, due to the fact that most wells are expected to produce beyond the term of the IPCs. The Company estimates the total abandonment and reclamation costs net of salvage values of all the Company's operations to be \$2.4 million on an undiscounted basis and \$0.5 million discounted at 10 percent. In the next three financial years the Company does not anticipate incurring significant abandonment and reclamation costs. The calculation of future net

revenue in Colombia excludes \$2.4 million on an undiscounted basis and \$0.5 million discounted at 10 percent, as these calculations do not include any costs for abandonment and reclamation activities in Colombia.

Tax Horizon

In Colombia, the Company's tax pools shelter it from paying current cash income taxes. The Company is subject to presumptive income tax and remittance tax in Colombia, see "Industry Conditions — Taxes". Based on the Company's current exploration and development plans, the Company does not expect to pay income tax within the next two years. As at December 31, 2005, the Company had \$145.3 million (March 31, 2006 — \$165.8 million) of Colombian tax pools available.

Environment

The Company continued its third year of operations in Colombia with 100 percent environmental compliance in executing its development programs and without any lost time accidents or environmental incidents. The Company's social responsibility strategies include environmental compliance and promoting fundamental relationships with local communities and the provincial and national authorities.

The Ministry of Environment in Colombia requires environmental licenses for all new exploration activity in accordance with strict national regulations. The Company's comprehensive environmental impact assessments and management plans ensured that the environmental license for the first exploration well in the Joropo block was obtained in the shortest time possible. The Company also presented environmental management plans covering 3-D seismic projects on the Casanare Este, Corcel, Casimena and Las Aguilas exploration blocks.

The Company carries out its activities and operations in compliance with all relevant and applicable environmental regulations and best industry practice. At present, the Company believes that it meets all applicable environmental standards and regulations and has included appropriate amounts in its capital expenditure budget to continue to meet its continuing environmental obligations. The costs incurred by the Company in respect of continued environmental compliance and site abandonment and reclamation costs amounted to less than one percent of the total capital expenditures incurred by the Company in 2005. See "Industry Conditions — Environmental Regulation" and "Risk Factors — Risks Related to the Company and its Business — Environmental".

Community Relations

Petrominerales has established a community relations approach that is based on three principles:

- Local employment is promoted by identifying, providing and supporting job opportunities within Petrominerales' operating areas. This has been well received by the local communities and contributed to maintaining a positive relationship in and around our operations;
- Education and training programs are focused on strengthening the relationships between communities and the local authorities and on helping communities identify new markets for their goods and services to reduce their dependence on the oil business. Petrominerales' approach also encourages local community engagement in the government development planning process, and reinforces the link between oil revenues and municipal budgets; and
- Community engagement creates a partnership in the preparation of environmental base line studies for local environmental management, which strengthens the relationship with communities by combining Petrominerales' expertise and environmental approach with local knowledge of the environment and land management. The Company is continuing to build a relationship of trust by encouraging communities to become involved in all aspects of the Company's environmental management processes.

Petrominerales' approach has been cited by both the government and the oil industry as the best practice model to follow. As an example of this approach, Petrominerales recently conducted a highly successful community consultation process with the traditional Embera people of the La Venada indigenous reservation in connection with the west Orito/Las Aguilas 3-D seismic project. In Colombia during 2005, 99 indigenous consultation processes were undertaken by industry, with only three yielding positive agreements. The Petrominerales agreement resulted in participation of indigenous representatives in the environmental impact

studies, which covered an important portion of their traditional territory. The process produced a set of agreements with the people of La Venada that, in the national context, was accomplished in a very short time frame and at a low cost. By the end of March 2006, the Company's seismic acquisition was completed with total environmental compliance and no health or safety incidents.

Fundación Vichituni

Petrominerales has created and initially funded Fundación Vichituni to assist in developing and enhancing basic social and environmental values in the regions directly influenced by the Company's operations. Vichituni, from the traditional Embera language, translates as "you are worthy". Fundación Vichituni's mission is to promote community growth and an enhanced quality of life. This Foundation involves entire communities, governments and third party partners contributing to the creation and completion of educational projects with a focus on developmental issues. After comprehensive research and a careful strategic planning process, the Foundation has created two main lines of work in which this community development program will be focused on:

- Working with authorities and communities in the Land Use Plan of Putumayo, which will strengthen the local government's capacity to plan their development; and
- Increasing the knowledge of the cultural and traditional diversity of the communities in Putumayo, allowing a better use of the land by harmonizing diverse development approaches.

This foundation is also seeking international funding and partnerships with the goal of self-sustainability within the first two years of its operation.

Security

Although there are certain security risks associated with operating in Colombia, as there are in many countries, the security environment in Colombia has improved significantly since the election of President Alvaro Uribe in 2002, and the Company believes these risks can be effectively managed. Working with local communities promotes an atmosphere of mutual respect, benefit and trust, and thereby decreases the risk of serious security issues. Within Bogotá and in field operating areas, Petrominerales maintains contact with appropriate local, regional and national bodies to monitor any local security situations and mitigate risk. Crime statistics from the Colombian National Police indicate that in 2005, compared to 2002, homicides decreased by 37 percent, kidnapping decreased by 73 percent and auto theft decreased approximately 37 percent. In the case of the energy industry, pipeline attacks decreased only slightly, but their impact on the industry has been significantly minimized. During the same period, terrorist actions, including terrorism against electricity infrastructure and oil pipelines, decreased by approximately 63 percent.

Capital Expenditures

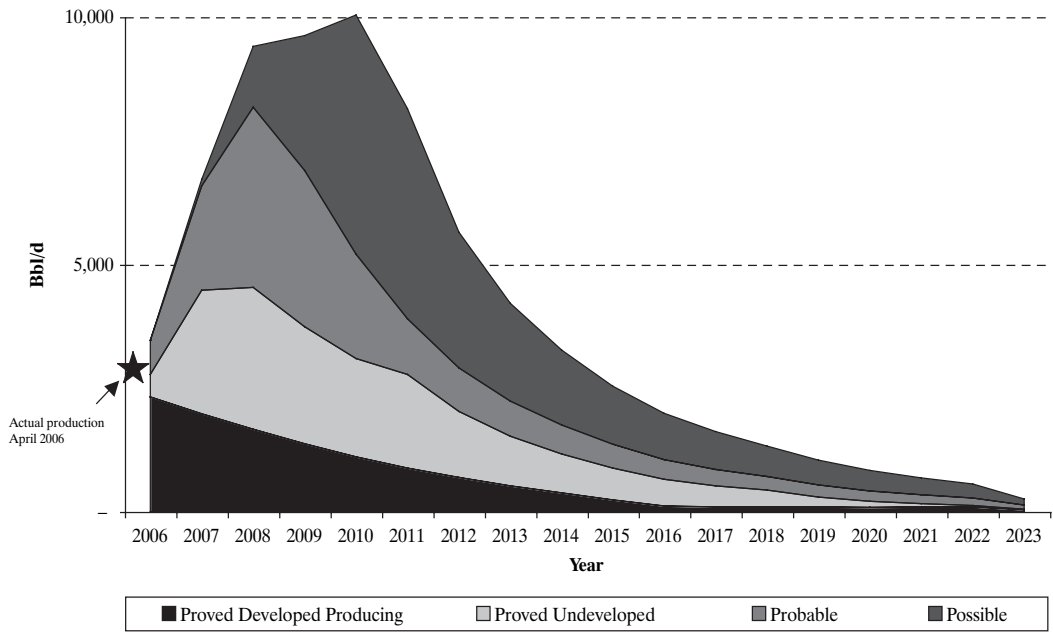
The following table summarizes capital expenditures related to the Company's activities for the year ended December 31, 2005:

	<u>(\$000)</u>
Development drilling and completions	18,683
Facilities and equipment	293
Seismic	5,095
Workovers and other	<u>14,353</u>
Total capital expenditures	<u><u>38,424</u></u>

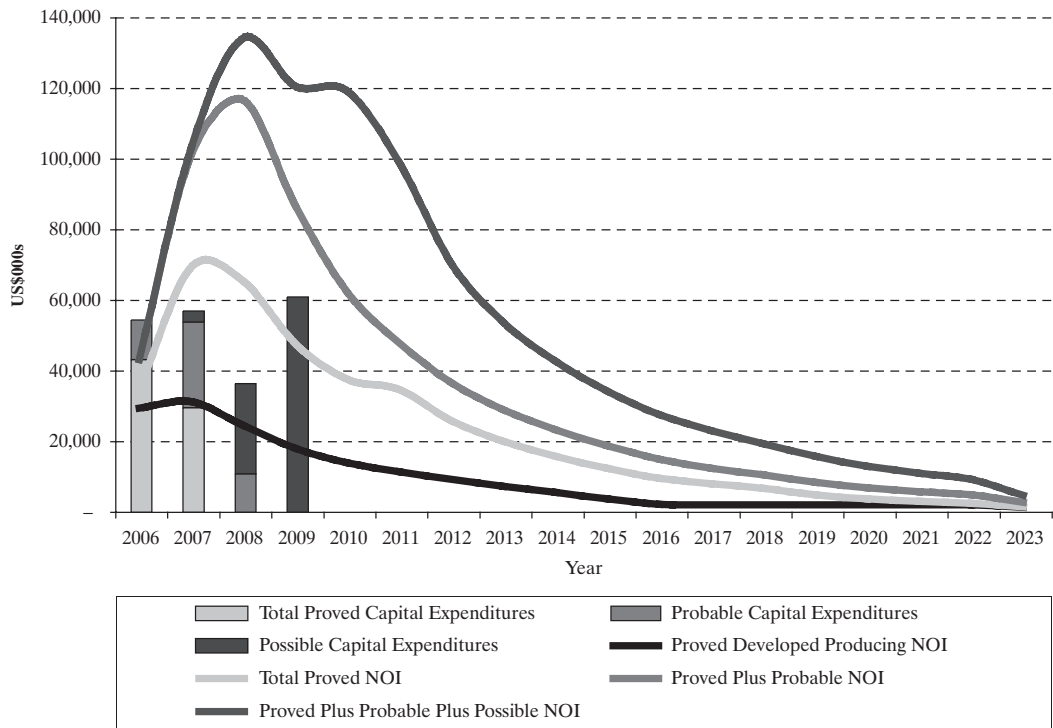
Forecast Production and Capital Expenditures

The following diagrams represent the Company's working interest production before royalties, net operating income (revenues less royalties and operating costs) and capital expenditures by reserve category as forecast in the March D&M Report along with current production. This forecast does not incorporate any production from the Company's exploration land.

**Annual Average Daily Working Interest Production (Before Royalties) By Reserve Case —
March D&M Report — Forecast Prices and Costs**



**Capital Expenditures and Net Operating Income (NOI) By Reserve Case — March D&M Report —
Forecast Prices and Costs**



Development

The following table summarizes the gross and net development wells in which the Company participated during the year ended December 31, 2005. There was one exploration well drilled at Joropo in the first quarter of 2006, which was dry and abandoned. All wells were located in Colombia.

	Development		Total	
	Gross	Net	Gross	Net
Development oil wells	3.0	2.4	3.0	2.4
Success rate	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Company's development plans are discussed under the heading "Narrative Description of the Business".

History

Production

The following table shows the Company's average working interest production volumes before deduction of royalties payable to others, and average netbacks received for each of the last four fiscal quarters by product type. See "Property Descriptions" for production volumes by major area.

	Three Months Ended				
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	March 31, 2006
Average daily production (bbl/d)	<u>1,072</u>	<u>1,024</u>	<u>1,073</u>	<u>955</u>	<u>1,356</u>

As a result of recompletions and the completion of the Orito 117 and 118 wells, production in April 2006 averaged 2,827 bbl/d working interest to the Company before deduction of an eight percent royalty. Production averaged 2,588 bbl/d in May 2006. The decrease was mainly a result of taking certain wells offline during the month to perform workovers and due to expected declines.

Light and Medium Crude Oil Netback (\$ per bbl)

The following table shows the Company's crude oil netback values for the periods indicated.

	Three Months Ended				
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	March 31, 2006
Average price received	49.13	52.34	60.24	52.50	59.03
Royalties	3.93	4.19	4.82	4.20	4.72
Operating costs ⁽¹⁾	<u>8.46</u>	<u>10.09</u>	<u>9.41</u>	<u>10.08</u>	<u>9.66</u>
Netback	<u>36.74</u>	<u>38.06</u>	<u>46.01</u>	<u>38.22</u>	<u>44.65</u>

Note:

- (1) Operating costs are expenses incurred in the operation of producing properties and include items such as Ecopetrol operating fees, field staff salaries, repairs and maintenance, overhead fees and other costs.

INDUSTRY CONDITIONS

Colombian Market

Management of the Company considers the overall investment climate in Colombia to be very positive. The Colombian economy has grown every year since 1999. Foreign direct investment in Colombia increased by 221 percent in 2005 as compared to 2004. Inflation in the country has decreased every year since 1991 and was 5.3 percent in 2005, Colombia's lowest annual rate since 1955 and 0.72 percent lower than in 2004. Estimated

gross domestic product per capita in 2005 grew approximately 16 percent over 2004. During 2005, mergers and acquisitions worth just over US\$10 billion were closed, making Colombia second only to Brazil (US\$11.5 billion) in the value of acquisition transactions completed in 2005 in South America. Furthermore, Standard & Poor's increased its rating for Colombian governmental long-term debt from BB (stable) to BB (positive) on February 22, 2006. In February 2006, Colombia and the United States negotiated a free trade agreement that the industry expects will contribute to further growth in the Colombian economy. In addition, the security environment in Colombia has improved significantly since the election of President Alvaro Uribe in 2002 along with a significant decrease in overall crime levels.

Oil is currently Colombia's leading export and source of foreign income, constituting an estimated one third of the country's export revenue. Historically, all oil production was from concessions granted to foreign operators or undertaken by state-owned Ecopetrol in contracts of association with foreign companies. Ecopetrol was formally responsible for all exploration, extraction, production, transportation, and marketing oil for export. During 1999 and 2000, the country was considered to be at risk of becoming a net oil importer unless significant additional reserves were discovered. As a result, the regulatory regime in Colombia underwent a significant change effective January 1, 2004 with the formation of the ANH. The ANH is now responsible for regulating the Colombian oil industry, including managing all exploration lands not subject to a previously existing association contract. The ANH began offering all undeveloped and unlicensed exploration areas in the country under two new contract types: Exploration Contracts, which provide companies with 100 percent of new production, subject to an initial eight percent royalty, and TEAs, which provide companies with low cost access to larger areas for preliminary evaluation prior to committing to broader exploration programs. The introduction of the Exploration Contracts and TEAs has resulted in a significant increase in Colombian exploration activity and competition according to the ANH. Since the introduction of these new contract terms, 52 new Exploration Contracts and 35 TEAs were signed by the end of 2005 and there are now 76 oil companies operating in Colombia. Management feels that these changes, along with increased commodity prices, have made Colombia one of the most attractive countries in which to carry on Petrominerales' business.

Oil was first commercially produced in Colombia beginning in 1918 at the La Cira-Infantas field, which has produced almost 723 mmbbls to date. Since 1918, oil fields in Colombia have produced a total of 6.3 billion bbls. Including the Orito field, other significant fields in the country include Caño Limon (1983) in the northeast Llanos basin near the Venezuelan border, which has produced in excess of 870 mmbbls and averaged slightly over 63 mbbbl/d during 2005, and the Cusiana-Cupiagua complex (1988) which has produced over one billion bbls and is currently producing 125 mbbbl/d. Since the completion of the initial development of the Cusiana complex, production in the country has dropped from a peak rate of approximately 816 mbbbl/d in 1999 to 526 mbbbl/d at the end of 2005. From industry estimates, remaining oil reserves are 1.45 billion bbls. Most industry analysts believe that the country will lose its self-sufficiency between 2009 and 2012 unless significant additional reserves are discovered.

Out of a total of 17 sedimentary basins in Colombia, seven are currently producing — the Upper, Middle, and Lower Magdalena Valley; Llanos; Putumayo; Catatumbo; and the Guajira basins. Oil extracted from fields in these basins is transported through Colombia's five oil pipelines, four of which connect production fields to the Caribbean port town of Coveñas. These are the central Ocesa pipeline, which transports oil from the Cusiana-Cupiagua fields, the 490-mile Caño Limon pipeline, and the Alto Magdalena and Colombia Oil pipelines. The fifth pipeline, the Transandino or Trans-Andean, transports crude oil from the Orito field in the Putumayo basin to Colombia's Pacific port of Tumaco. Infrastructure throughout Colombia is well developed. Due to the decline in Colombian production, there is excess capacity in all major pipelines. See "Property Descriptions".

The following map shows the location of the main pipeline infrastructure in Colombia.

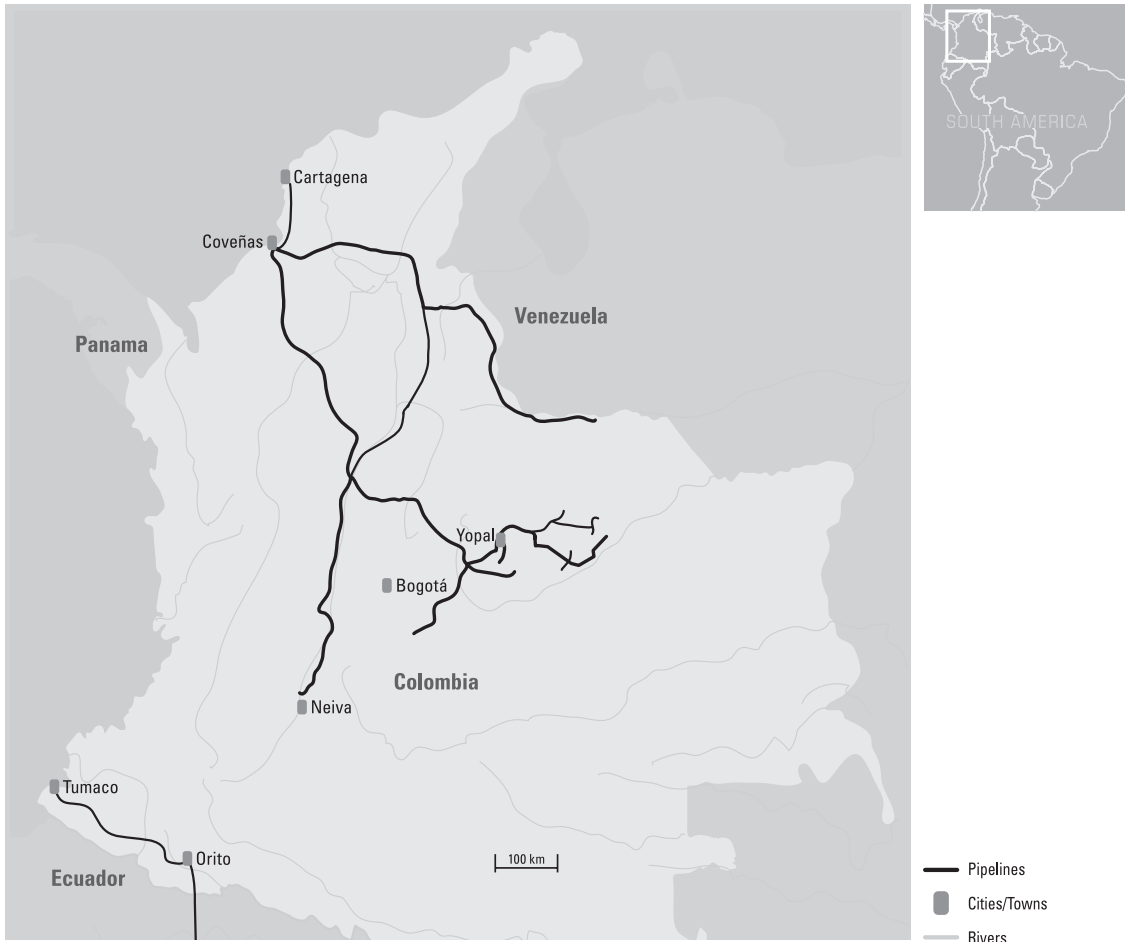


Figure: Colombian Pipeline Infrastructure
 Source: ANH, Ecopetrol and the Company.

Most of Colombia’s oil exports are to the United States. Colombia is among the ten largest suppliers of foreign crude oil to the United States. Management of the Company believes that Colombia could become a more important oil supplier to the United States in the years ahead given Colombia’s known oil reserves. In addition, Venezuela, Colombia, and parts of Ecuador share the La Luna oil-source rock, which is one of the most prolific in the world, and which charged the Faja del Orinoco belt in Venezuela, one of the world’s largest accumulations of hydrocarbons.

All data and information described in the above section was provided by the National Police and Proexport Colombia, both of which are agencies of the Colombian Government.

Trends

During the past few years, several trends have developed in the oil and gas industry in Colombia and elsewhere in the world. These trends appear to be shaping the near future of the industry.

Volatility of commodity prices. Crude oil prices are influenced by the world economy and the Organization of the Petroleum Exporting Countries’ ability to adjust supply to world demand. Recently, crude oil prices have been kept high as a result of strong and growing demand, political uncertainty and a devastating hurricane season in the United States’ Gulf Coast region. Hurricanes in 2005 reduced both refining and production capacity from the United States’ Gulf Coast and the global political environment continues to increase concern over potential supply disruptions.

Commodity price volatility has had a significant impact on the oil and gas industry. During periods of high prices, producers generate sufficient cash flows to conduct active exploration programs without the need for external capital. Increased commodity prices frequently translate into very busy periods for service providers triggering premium costs for their services. Purchase prices for properties and land similarly increase during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service providers also decline.

Increased activity levels in the Colombian oil and gas industry. Colombia is currently experiencing increased activity levels, resulting from the country's newly implemented fiscal regime and record oil prices. Since the introduction of new contract terms, the ANH official website (www.anh.gov.co) indicates that 52 new Exploration Contracts and 35 TEAs have been licensed through the end of 2005, with more than 20 additional Exploration Contracts and TEAs pending approval by the ANH. At present, as set forth in the following table, there are approximately 76 oil and gas companies operating in the oil and gas industry in Colombia, including a number of Canadian-based companies.

Oil and Gas Companies Operating in Colombia

1	Alpha Consultores Ltda.	41	Occidental Andina de Colombia Inc.
2	Andina Electrica y Gas E.U.	42	Pacific Stratus Energy
3	Agencia Nacional de Petroleo	43	Parko Services S.A.
4	Apex Energy (Canada) Inc.	44	Perenco Colombia S.A.
5	Argosy Energy Internacional	45	Petrobras Colombia Limited
6	BHP Billiton Petroleum (Colombia) Corporation	46	Petroleos Colombianos Ltd.
7	BP Exploration Colombia Ltd.	47	Petrocolombia — Gas Petroleo y Derivados de Colombia S.A.
8	Braspetro B.V.	48	Petrominerales Colombia Ltd.
9	Burlington Resources Inc.	49	Petróleos del Norte S.A.
10	C&C Energy Group S.A.	50	Petropuli Ltda.
11	Campetrol Ltda.	51	Petrosantander (Colombia) Inc.
12	Cepsa Colombia S.A.	52	Petrotesting Colombia S.A.
13	Chevron Texaco Petroleum Co.	53	R3 Exploration y Procuccion S.A.
14	Conequipo Ingenieria Ltda.	54	Rancho Hermoso S.A.
15	Consortio Petrotesting/Colregistros	55	Reliance Industries Ltd.
16	Drummond Ltd.	56	Repsol Exploración Colombia S.A.
17	Ecopetrol S.A.	57	Sipetrol S.A.
18	Emerald Energy Plc Sucursal Colombia	58	Sismografia y Petroleos de Colombia Ltda.
19	Erazo Valencia y CIA.	59	Solana Petroleum Exploration Colombia Ltd.
20	ExxonMobil Corporation	60	Stratus Oil and Gas
21	Geopetrocol Ltda.	61	Taghmen Energy Plc
22	Gran Tierra Energy Inc.	62	Talisman Colombia Oil & Gas Ltd.
23	Great North Energy Colombia Inc.	63	Tecnicontrol S.A.
24	Harken de Colombia Ltd.	64	Tepma B.V.
25	Hocol S.A.	65	Texican Oil Plc
26	Holywell Resources S.A.	66	The Texas Petroleum Company
27	Hupecol Ltd. LLC	67	Total Exploratie en Produktie MIJ B.V. (Colombia)
28	Integral de Servicios Tecnicos Ltda.	68	Union Temporal el Trinfo (R3/Sismopetrol)
29	IST Ltd	69	Union Temporal E&CC
30	Kappa Resources Colombia Ltd.	70	Union Temporal Esperanza (Ray Tool O&G/Geoproduction)
31	Lewis Energy Inc.	71	Union Temporal Moriche (Petrocol/Geoconsult/Sheridan)
32	Loon Energy Inc.	72	Union Temporal Omega (PEI/Tecnicontrol)
33	Lukoil Overseas Colombia Ltda.	73	Union Temporal Mida
34	Mercantile Colombia Oil & Gas	74	Union Temporal Petrocaribe
35	Meta Petroleum Ltd.	75	Welloging Ltda.
36	Mohave Petroleum Colombia Corporation	76	Winchester Oil & Gas S.A.
37	Montecz S.A.		
38	Nexen Petroleum Company Limited		
39	Omimex de Colombia Ltd.		
40	Operaciones Petroleras Andinas S.A.		

Sources: ANH, Ecopetrol and ACIPET.

Improvements in Political and Economic Stability. The recent improvement in political and economic stability in Colombia has resulted in a 221 percent increase in foreign direct investment in the country from 2004 to 2005. The two most affected industries were mining and petroleum which accounted for almost half of the increase over that period.

Increasing Costs. The oil industry in Colombia is currently experiencing increasing costs including third party costs for all drilling, completion, tie-in and service activities. These cost increases reflect the record activity levels in the industry as a result of higher commodity prices and Colombia's new fiscal terms and have the effect of lengthening the payout on most capital investments.

Improved Security. Over the last four years, there has been an overall decline in criminal and terrorist activities in Colombia. The government, under President Alvaro Uribe, has adopted policies that have resulted in a significant decrease in crime levels. Crime statistics from the Colombian National Police indicate that in 2005, compared to 2002, homicides decreased by 37 percent, kidnapping decreased by 73 percent and auto theft decreased approximately 37 percent. In the case of the energy industry, pipeline attacks decreased only slightly, but their impact on the industry has been significantly minimized. During the same period, terrorist actions, including terrorism against electricity infrastructure and oil pipelines, decreased by approximately 63 percent.

Exploration Contracts and TEAs

The regulatory regime in Colombia underwent a significant change effective January 1, 2004 with the formation of the ANH, which is now responsible for regulating the Colombian oil industry and is tasked with significantly increasing the amount of new exploration and production in the country. Ecopetrol, will maintain its exploration and production activities across the country, but will face more direct competition in the private sector in future projects.

In conjunction with its formation, the ANH began offering all undeveloped and unlicensed exploration areas in the country under two new contract types: Exploration Contracts, which provide companies with 100 percent of new production, subject to an initial eight percent royalty, and TEAs, which provide companies with low cost access to larger areas for preliminary evaluation prior to committing to broader exploration programs.

The Exploration Contracts have significantly changed the way the industry views Colombia. In place of the earlier association contracts in which Ecopetrol had an immediate back-in to production, the new agreements will provide full risk/reward benefits for the operator. Under the terms of these contracts the operator will retain the rights to all reserves, production and income from any new exploration block, subject to existing royalty and income tax regulations with a windfall profits tax provision for larger fields.

There are two processes for applying for new Exploration Contracts. Exploration proposals over all acreage that was not leased at the time the ANH was formed are dealt with on a first come first served basis. All acreage that is returned to the ANH is re-licensed pursuant to a bidding process whereby the ANH publishes a note that the acreage is available for bid. All eligible companies have the opportunity to make an offer for the acreage in question over a 30-day period after which, the ANH negotiates a final contract with the company offering the best work program. If the 30-day period expires and there are no offers, the acreage returns to the ANH and is dealt with on a first come first serve basis. After an offer is initially accepted and once the ANH is satisfied that the oil company has the proper technical and financial resources to fulfill its obligations under the proposed contract, a definitive work program is negotiated. This work program typically includes technical studies, reprocessing or completing a new seismic program, and/or drilling wells.

The terms of the Exploration Contracts are broken into three phases: the initial exploration phase lasts six years and can be extended for up to four additional years; the evaluation phase lasts one to two years with a possible extension of up to two years, during which the contractor must declare commerciality or relinquish the block; and the production phase has a basic 24 year term and is extendable under certain circumstances for up to an additional 10 years.

The duration of the exploration period under an Exploration Contract is six years; however, the contractor may request an extension for up to four additional years provided that it presents an additional exploration

program and relinquishes 50 percent of the area. Depending on the period requested, this period is also divided into phases as the contractor proposes. All discoveries must be reported to the ANH, while the Ministry of Mines and Energy defines the extent of the discovery.

If a discovery is made, the contractor has the option to request an appraisal period, for up to two years, depending on the size and scope of the proposed evaluation plan. If, in the opinion of the ANH there is sufficient reason, this period may also be extended. If the evaluation plan relates to a gas or heavy oil field, two additional years may be granted because of the complex planning and marketing required. At the end of this phase, the contractor must declare commerciality or relinquish the block.

Once the evaluation phase is complete and the operator declares commerciality, the exploitation phase begins. The duration of the exploitation period of each field is 24 years. The contractor may obtain an extension of the exploitation period beyond the 24 years if the contractor complies with three basic requirements: continuous production; an active enhanced oil recovery plan or in-fill project; and a payment of 5 to 10 percent of the value of the remaining reserves, depending on if they are oil or gas.

Relinquishment of part or all of the area subject to the Exploration Contract depends on the phase of the license. Terms and conditions vary, but in early phases of exploration, operators may elect to relinquish 50 percent of its block and shoot a seismic program instead of drilling an exploration well. Under normal circumstances the contractor must relinquish 50 percent of the area at the end of the six-year exploration period if the contractor continues to explore, and there is an ongoing evaluation program or a discovery. If not, the operator must relinquish 100 percent. Another 25 percent must be relinquished after the two-year evaluation phase expires. The operator and the ANH may also agree on the relinquishment of certain parts of a license area during the initial six-year exploration period as part of the Exploration Contract and on a block by block basis, depending on the scope of the exploration work program and the size of the area. The contractor also has the option to relinquish all or part of the area after each exploration phase.

Royalties and Windfall Tax

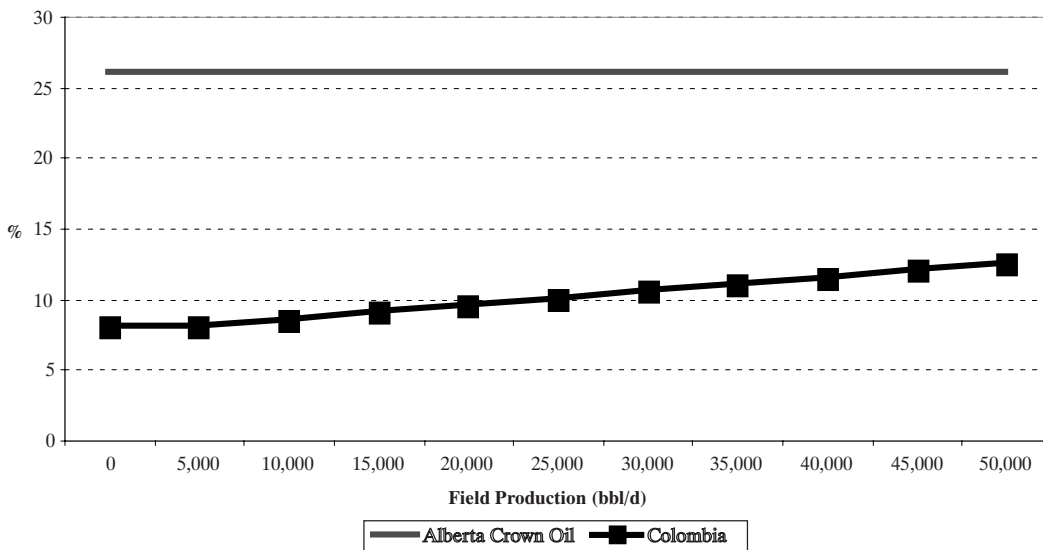
Royalties are calculated on a field-by-field basis using a sliding scale that ranges from eight percent (for incremental production up to 5,000 bbl/d) up to a maximum of 25 percent (for incremental production above 600,000 bbl/d) as illustrated below:

<u>Production (bbl/d)</u>	<u>Royalty Rate</u>
up to 5,000	8% flat rate
5,000 to 125,000	8% to 20% sliding scale
125,000 to 400,000	20% flat rate
400,000 to 600,000	20% to 25% sliding scale
greater than 600,000	25% flat rate

For new discoveries of heavy oil, classified as those with an API equal to or less than 15°, the royalties will be 75% of the royalty rates for light and medium oils presented above. The royalty regime applying to the production applicable to the Company’s properties (i.e. under 10 mbbbl/d) compares favourably to the royalty

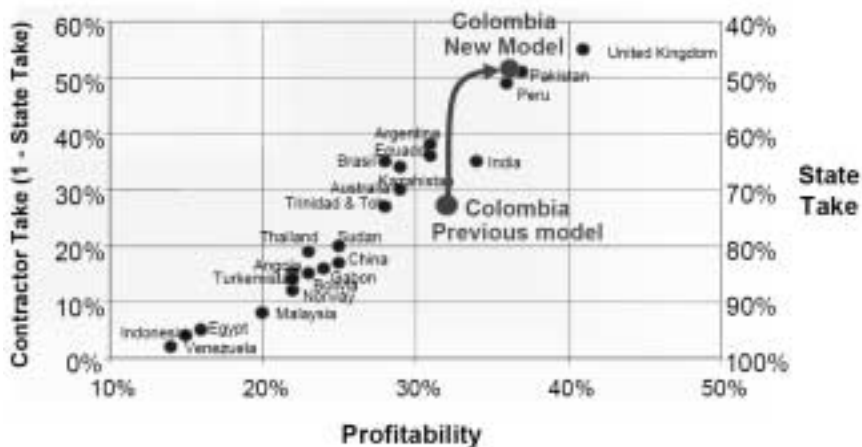
regimes in some other oil-producing jurisdictions. For instance, the royalty rate for Colombia between zero and 50 mbb/d compared to the royalty rate for the province of Alberta is illustrated in the following graph.

Royalty Rates Compared



Source: Based on oil and gas regulations in Alberta and Colombia.

The following diagram shows the percentage working interest to companies and Ecopetrol, respectively, under Colombia’s new fiscal regime, as compared to that available to companies under the prior fiscal regime and in certain other comparator countries.



Source: ANH.

Once a field has cumulatively produced more than 5 mmbbls a windfall profits tax is paid at 30 percent of the price received at the delivery point in excess of certain threshold prices, based on the oil quality produced, as follows:

<u>Quality</u>	<u>Threshold Price (US\$/bbl)</u>
≤ 10° API	no tax payable
> 10° ≤ 15° API	40.00
> 15° ≤ 22° API	28.00
> 22° ≤ 29° API	27.00
> 29° API	26.00

TEAs are typically larger in size and have lower initial commitments, which include re-evaluating existing data with a view to defining prospects and ultimately committing to an Exploration Contract. If a third party proposes an exploration block within an existing TEA, the holder has the right to match the proposed work program and retain the block.

Since the introduction of these new contract terms, 52 Exploration Contracts and 35 TEAs, covering a total of approximately 52 million acres, have been licensed through the end of 2005, with in excess of 20 more pending approval by the ANH.

Incremental Production Contracts (IPCs)

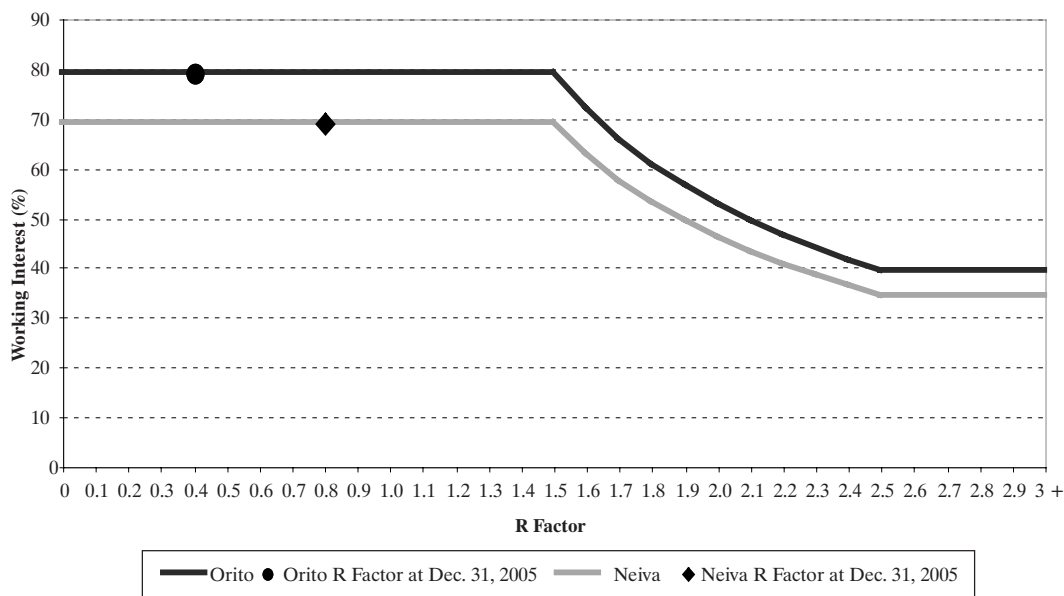
The Company's current production is derived from two IPCs, at Orito in southern Colombia's Putumayo basin, and at Neiva in the Upper Magdalena Valley basin, each in partnership with Ecopetrol. Each IPC prescribes certain expenditures in the early years of the contract in order to advance to subsequent development phases. The Company's early activities focused on initial work commitments in these IPCs, which give the Company the right to carry out development activities on the blocks and share in incremental production, above baseline production, generated by its development activities. The Company's current participation levels at Orito and Neiva are 79 percent and 69 percent, respectively. Working interest production is subject to an eight percent royalty paid to the Colombian Government and normal income taxes. These participation levels decline on a contract by contract basis once the ratio of cumulative total revenues to total costs (including all capital and operating expenses) ("R Factor") exceeds 1.5 times. At R Factors above 2.5 times the participation levels at Orito and Neiva are fixed at 39.5 percent and 34.5 percent, respectively, as indicated in the following tables:

<u>R Factor</u>	<u>Orito</u>	<u>Neiva</u>
1.5 to 2.5	79.0%/(R-0.5)	69.0%/(R-0.5)
2.5 or more	39.5%	34.5%

The cumulative revenues, costs and R Factors as at December 31, 2005 for each of the Company's IPCs were as follows:

	<u>Orito</u>	<u>Neiva</u>
	(US\$ millions)	(US\$ millions)
Cumulative revenue	30.1	12.7
Cumulative costs	86.8	17.0
R Factor	0.35	0.75

R Factor Impact on Working Interest



Source: Ecopetrol and the Company.

As at December 31, 2010, the March D&M Report forecasts the following R Factor for each of Orito and Neiva (using forecast pricing):

	<u>Orito R Factor</u>	<u>Neiva R Factor</u>
Total proved	1.49	1.62
Proved plus probable	1.83	1.57
Proved plus probable plus possible	1.65	1.50

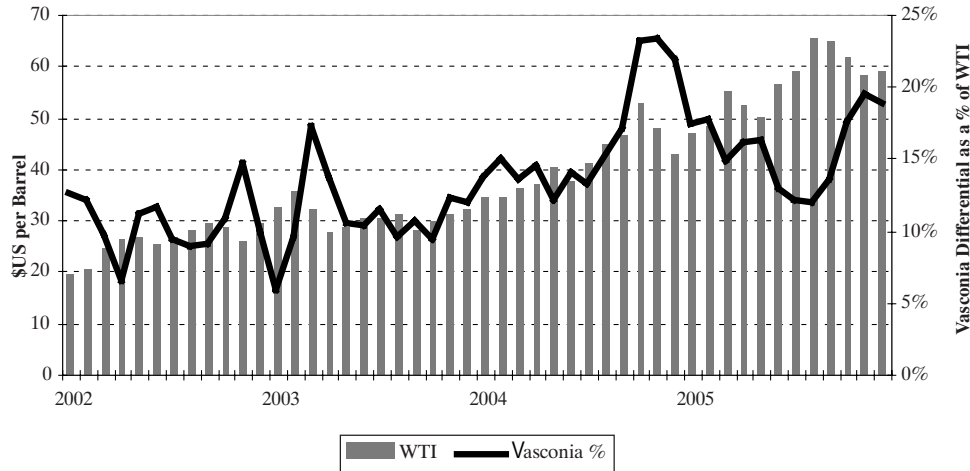
The Company's production from Orito is currently being sold at the Orito battery pursuant to a sales contract with Ecopetrol which is up for renewal on November 30, 2006. Under the terms of this contract, the price received, adjusted for quality differences, for each barrel of oil sold is determined based on the monthly average of the WTI price less a variable differential. The Company's net price is calculated as follows:

<u>Average WTI (US\$/bbl)</u>	<u>Net Price (US\$/bbl)</u>
Less than or equal to \$35.00	WTI * 0.80 + \$0.10
Greater than \$35.00	WTI * 0.85 - \$ 1.20

Either party may cancel this sales contract on one month's notice after which, the Company may elect to export its oil production directly.

The Company's production from Neiva is sold through a sales contract with a third party whereby the price received is based on an average differential in the Vasconia Blend at Covenas published by Platts Latin American Wire, on the first through the fifteenth day of the month preceding the bill of lading date, adjusted for quality differences, plus a US\$0.80/bbl premium, less approximately US\$2.82/bbl for transportation and

marketing fees to the Neiva transfer point. Either party may cancel this sales contract on three months' notice. WTI prices and Vasconia differentials to WTI since January 1, 2002 are shown below:



Source: Hocol S.A.

Environmental Regulation

Annual development plans are submitted to Ecopetrol for approval for all exploration and development activities conducted on the Company's Colombian IPCs. In addition, the Company files an environmental management plan covering the contemplated activities with the Ministry of Environment. Environmental management plans are submitted to demonstrate compliance with applicable Colombian law, but advance approval is not required to commence activities within existing development areas at the Orito and Neiva fields.

In the case of the Company's Exploration Contracts, the Company submits an environmental management plan for each activity (drilling, facilities and pipelines) planned over the license area which must be approved before activity commences.

Taxes

The Company's pre-tax income from Colombian sources, as defined under Colombian law, is subject to Colombian income taxes at a statutory rate of 35 percent plus an additional surcharge of 10 percent (resulting in an effective tax rate of 38.5 percent). The surcharge will be eliminated at the end of 2006 reducing the effective rate to 35 percent. A "presumptive" minimum income tax based on net assets, may apply in years of little or no net income which may be carried forward as a credit for five years and recovered against future cash taxes otherwise payable. Tax losses may be carried forward for eight years, and up to 25 percent of a loss may be used in any one year to reduce future cash taxes otherwise payable. The Company's income after Colombian income taxes is subject to a Colombian remittance tax that accrues at a rate of seven percent, which may be eliminated under certain circumstances if the Company reinvests such income in Colombia. See also "Statement of Reserves Data and Other Related Information — Tax Horizon".

SELECTED FINANCIAL INFORMATION AND OPERATING RESULTS OF PCL

The following table sets out selected financial information for PCL as at and for the three months ended March 31, 2006, as at December 31, 2005 and 2004 and for each of the years in the three-year period ended December 31, 2005. Following completion of the Reorganization Transactions on June 9, 2006, but prior to the completion of the Offerings, the Company legally and beneficially owns 100 percent of the outstanding shares of PCL. PCL constitutes substantially all of the Company's business. This information has been derived from the audited and unaudited financial statements of PCL appearing elsewhere in this prospectus. These results should also be read in conjunction with the disclosure under the heading "Management's Discussion and Analysis". Also refer to the "Pro Forma Financial Statements of Petrominerales Ltd." beginning on page F-3.

Selected Financial Information

	<u>Three months ended March 31, 2006</u>	<u>Year ended December 31,</u>		
		<u>2005</u>	<u>2004</u>	<u>2003</u>
		(\$000s)		
Crude oil revenue	7,204	20,177	21,734	12,560
Funds flow from operations ⁽¹⁾	3,883	9,701	12,048	5,984
Net income (loss)	1,625	2,727	1,851	(16,593)
Capital expenditures	21,871	38,424	13,906	71,342
<i>Balance Sheet Data:</i>				
Total assets	126,100	102,970	70,683	
Cash and working capital (deficiency)	(10,443)	(17,751)	(2,549)	

Note:

(1) Funds flow from operations before changes in other non-cash working capital.

Selected Operating Results

The following table sets out certain selected operating results of PCL for the three months ended March 31, 2006 and for each of the years in the three-year period ended December 31, 2005. The operating results for this period should not be relied upon as any indication of results for any future period.

	<u>Three months ended March 31, 2006</u>	<u>Year ended December 31,</u>		
		<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating netback (\$/bbl)				
Crude oil revenue	59.03	53.62	43.70	32.22
Royalties	4.72	4.29	3.51	2.56
Production expenses	9.66	9.49	7.67	10.48
Operating netback	44.65	39.84	32.52	19.18
Average Daily Crude Oil Production (bbls) ⁽¹⁾	1,356	1,031	1,359	1,068

Note:

(1) Average production increased to 2,588 bbl/d in May 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following information should be read in conjunction with the remainder of this prospectus, including PCL's and the Company's consolidated financial statements and related notes, and the pro forma financial statements of the Company and the notes thereto, appearing elsewhere in this prospectus and the selected financial information of the Company appearing under the heading "Selected Financial Information and Operating Results of PCL". The following information also contains financial terms that are not considered measures under Canadian generally accepted accounting principles, such as funds flow from operations and operating netbacks. These measures are commonly utilized in the oil industry. The Company considers these measures to be informative to prospective purchasers of Offered Shares. The financial statements presented and discussed herein are those of PCL. Following completion of the Reorganization Transactions on June 9, 2006, but before completion of the Offerings, the Company legally and beneficially owned 100 percent of the outstanding common shares of PCL. PCL constitutes substantially all of the Company's business. See "General Development of the Business — Reorganization Transactions".

Certain information contained in management's discussion and analysis of the Company and PCL's financial condition and results of the Company and PCL's operations constitute forward looking statements. These statements relate to future events or to Company and PCL's future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the Company's or PCL's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. See "Special Note Regarding Forward-Looking Statements" and "Risk Factors".

Results of Operations

Three month period ended March 31, 2006 compared to three month period ended March 31, 2005

	Three months ended March 31,		% Change
	2006	2005	
Financial (\$000s)			
Crude oil revenue	7,204	4,740	52
Funds flow from operations ⁽¹⁾	3,883	2,190	77
Net income	1,625	524	210
Capital expenditures	21,871	4,901	346
Total assets	126,100		
Cash and working capital (deficiency)	(10,443)		
Operating Netback (\$/bbl)			
Crude oil revenue	59.03	49.13	20
Royalties	4.72	3.93	20
Production expenses	9.66	8.46	14
Operating netback	44.65	36.74	22
Average Daily Crude Oil Production (bbls)			
Orito	1,018	698	46
Neiva	338	374	(10)
Total	1,356	1,072	26

Note:

(1) Funds flow from operations before changes in other non-cash working capital.

Q1 2006 and Q1 2005 Highlights

- PCL recorded net income of \$1.6 million in the first quarter of 2006, a 210 percent increase over \$0.5 million in the first quarter of 2005.

- Funds flow from operations (before changes in other non-cash working capital) totaled \$3.9 million in the first quarter of 2006, a 77 percent increase over \$2.2 million in the first quarter of 2005.
- Average crude oil production increased 26 percent to 1,356 bbl/d in the first quarter of 2006, compared to 1,072 bbl/d in the first quarter of 2005. Production increased further to average 2,588 bbl/d in May 2006.
- Capital expenditures totaled \$21.9 million in the first quarter of 2006.

Revenue

In the first quarter of 2006, crude oil revenue before royalties increased by 52 percent to \$7.2 million from \$4.7 million in the first quarter of 2005. Related production in the first quarter of 2006 increased by 26 percent from the first quarter of 2005 levels to 1,356 bbl/d, while the average sales price increased by 20 percent over the first quarter of 2005 to \$59.03 per barrel.

Average Daily Crude Oil Production

Crude oil production increased by 26 percent to 1,356 bbl/d in the first quarter of 2006 from 1,072 bbl/d in the first quarter of 2005. Production increased as a result of well recompletions and fracture stimulations that were performed on several wells at Orito. Production increased further to average 2,588 bbl/d in May 2006 due to the completion of the Orito 117 and 118 wells.

Average Benchmark Prices

	Three months ended March 31,		% Change
	2006	2005	
WTI crude oil (US\$/bbl)	63.48	49.84	27
WTI crude oil (Cdn\$/bbl)	73.30	61.15	20
US\$/Cdn\$ exchange rate	0.87	0.82	6

Increases in U.S. dollar-denominated benchmark crude oil prices in the first three months of 2006 from the same period of 2005 were partially offset by the appreciation of the Canadian dollar.

Realized Prices

Oil sales prices in Colombia averaged US\$51.12 per barrel in the first quarter of 2006, representing a US\$12.35 per barrel (19% of WTI) discount to WTI compared to a discount of US\$9.80 per barrel (20% of WTI) in the first quarter of 2005. The discount to WTI decreased as a result of an increased percentage of production coming from higher quality Orito oil.

Royalties

Royalties are fixed at a rate of eight percent until the Company's net production per field exceeds 5,000 bbl/d. Due to the fixed royalty rate, royalty expense increased in direct proportion with revenue to \$0.6 million in the first quarter of 2006 from \$0.4 million in the first quarter of the prior year.

Production Expenses

Production expenses increased by 44 percent to \$1.2 million in the first quarter of 2006 from \$0.8 million in the first quarter of 2005. On a unit-of-production basis, production expenses averaged \$9.66 per barrel during the quarter, a 14 percent increase from the first quarter 2005 average of \$8.46 per barrel. Ecopetrol, the state oil company and the Company's partner, is responsible for primary production operations at Orito and Neiva at a cost (subject to annual inflation and currency adjustments) of US\$3.91 per barrel and US\$2.13 per barrel, respectively. The Company anticipates production expenses in Colombia to decrease through 2006 to less than \$8.00 per barrel with the addition of new production at Orito as remaining production expenses are primarily fixed.

General and Administrative Expenses

General and administrative expenses increased 13 percent in the first quarter to \$1.0 million from \$0.9 million in the first quarter of 2005, primarily caused by a general increase in local staffing costs and an increase in activity related to new exploration blocks.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion expense increased by 36 percent to \$2.3 million in the first quarter of 2006 from \$1.7 million in the first quarter of 2005. On a unit-of-production basis, the rate increased to \$18.50 per barrel in the quarter from \$17.25 per barrel in the same period a year earlier.

Taxes

The Company recorded a \$0.5 million income tax expense in the first quarter of 2006 compared to \$0.3 million in the first quarter of 2005, due to presumptive income taxes in Colombia that are based on equity capitalization levels. Presumptive income taxes paid in excess of ordinary income taxes owing can be recovered against income taxes payable in future periods and can be carried forward for five years. The reserve evaluation performed by D&M anticipates an ordinary cash income tax liability commencing in 2007. Petrominerales estimates the tax liability may be delayed until at least 2008 due to additional exploration expenditures which are deductible for tax purposes and are not reflected in the March D&M Report. As at March 31, 2006, the Company had \$165.8 million of tax pools available.

Net Income

Net income of \$1.6 million was recorded in the first quarter of 2006, a 210 percent increase from \$0.5 million in the first quarter of 2005. Profitability increased in the current quarter due primarily to higher crude oil sales prices and production volumes offset somewhat by higher operating costs and depletion, depreciation and accretion expense.

Funds Flow From Operations

Funds flow from operations (before changes in other non-cash working capital) increased by 77 percent to \$3.9 million in the first quarter of 2006 from \$2.2 million in the first quarter of 2005. The increase in the current quarter is primarily a result of higher crude oil sales prices and production volumes offset somewhat by higher operating costs.

Capital Expenditures

Capital expenditures totaled \$21.9 million in the first quarter of 2006 compared to \$4.9 million in the first quarter a year earlier. The expenditures related to drilling, completions and workovers at Orito, drilling one well on the Joropo exploration block which was dry and abandoned, and acquiring and evaluating seismic data on the Company's exploration blocks.

Year ended December 31, 2005 compared to year ended December 31, 2004

	Year ended December 31,		% Change
	2005	2004	
Financial (\$000s)			
Crude oil revenue	20,177	21,734	(7)
Funds flow from operations ⁽¹⁾	9,701	12,048	(19)
Net income	2,727	1,851	47
Capital expenditures	38,424	13,906	176
Total assets	102,970	70,683	46
Cash and working capital (deficiency)	(17,751)	(2,549)	596
Operating Netback (\$/bbl)			
Crude oil revenue	53.62	43.70	23
Royalties	4.29	3.51	22
Production expenses	9.49	7.67	24
Operating netback	39.84	32.52	23
Average Daily Crude Oil Production (bbls)			
Orito	685	996	(31)
Neiva	346	363	(5)
Total	1,031	1,359	(24)

Note:

(1) Funds flow from operations before changes in other non-cash working capital.

2005 and 2004 Highlights

- In 2004, the government of Colombia, through the ANH, began offering all undeveloped and unlicensed exploration areas in the country under new fiscal terms. During 2005 and into 2006, the Company negotiated Exploration Contracts on five exploration blocks and five TEAs covering a total of 2,483,295 acres in the Llanos basin and 33,671 acres in the Putumayo basin. In total these blocks cover 2,516,966 acres (3,933 square miles).
- PCL recorded net income of \$2.7 million in 2005, a 47 percent increase from \$1.9 million in 2004.
- Funds flow from operations (before changes in other non-cash working capital) totaled \$9.7 million in 2005.
- Crude oil production averaged 1,031 bbl/d in 2005.
- Capital expenditures totaled \$38.4 million in 2005.

Revenue

In 2005, crude oil revenue before royalties decreased by seven percent to \$20.2 million from \$21.7 million in 2004. Related production in 2005 decreased by 24 percent from 2004 levels to 1,031 bbl/d, while the average sales price increased by 23 percent over the previous year to \$53.62 per barrel.

Average Daily Crude Oil Production

Crude oil production decreased by 24 percent to 1,031 bbl/d in 2005 from 1,359 bbl/d in 2004. Production declined primarily due to natural declines and wells being off line in order to complete well interventions at Orito. In addition, production from wells drilled at Orito in 2005 was delayed into 2006. Production increased to 1,356 bbl/d in the first quarter of 2006 and to approximately 2,588 bbl/d in May 2006.

Average Benchmark Prices

	Year ended December 31,		% Change
	2005	2004	
WTI crude oil (US\$/bbl)	56.70	41.40	37
WTI crude oil (Cdn\$/bbl)	68.56	53.91	27
US\$/Cdn\$ exchange rate	0.83	0.77	8

Realized Prices

Oil sales prices in Colombia averaged US\$44.27 per barrel in 2005, 32 percent higher than the 2004 average of US\$33.58 per barrel. In 2005, the average discount to WTI was US\$12.43 per barrel, or 22 percent of WTI, compared to the discount of US\$7.82 per barrel, or 19 percent of WTI, in 2004. The average discount to WTI increased year-over-year due to the Orito marketing agreement that was amended in December 2004 to account for WTI prices above US\$35.00 per barrel. Prior to this time, the differential was fixed at WTI prices above US\$30.00.

Royalties

Royalties are fixed at a rate of eight percent until the Company's net production per field exceeds 5,000 bbl/d. Due to the fixed royalty rate, royalty expense decreased in direct proportion with revenue to \$1.6 million in 2005 from \$1.7 million in 2004.

Production Expenses

Production expenses decreased by six percent to \$3.6 million in 2005 from \$3.8 million in 2004. On a unit-of-production basis, production expenses averaged \$9.49 per barrel during 2005, a 24 percent increase from the 2004 average of \$7.67 per barrel. Ecopetrol, Petrominerales' partner, is responsible for primary production operations at Orito and Neiva at a contracted operating fee of US\$3.91 per barrel and US\$2.13 per barrel respectively. The increase in Colombia per unit operating costs is primarily a result of the fixed nature of internal costs combined with lower production volumes. The Company anticipates production expenses in Colombia to decrease in 2006 to less than \$8.00 per barrel with the addition of new production at Orito.

General and Administrative Expenses

General and administrative expenses increased 34 percent in 2005 to \$3.5 million from \$2.6 million in 2004, primarily caused by a general increase in local staffing costs and an increase in activity related to new exploration blocks.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion expense decreased by 32 percent to \$7.0 million in 2005 from \$10.2 million in 2004. On a unit-of-production basis, the rate decreased to \$18.53 per barrel from \$20.50 per barrel in prior year due to reserve additions primarily at Orito.

Taxes

The Company recorded a \$1.6 million income tax expense in 2005 compared to \$1.0 million in 2004, due to presumptive income taxes in Colombia that are based on equity capitalization levels. Presumptive income taxes paid in excess of ordinary income taxes owing can be recovered against income taxes payable in future periods and can be carried forward for five years. The reserve evaluation performed by D&M anticipates an ordinary cash income tax liability commencing in 2007. Petrominerales estimates the tax liability may be delayed until at least 2008 due to additional exploration expenditures which are deductible for tax purposes and are not reflected in the December D&M Report. As at December 31, 2005, the Company had \$145.3 million of tax pools available.

Net Income

Net income of \$2.7 million was recorded in 2005, a 47 percent increase from \$1.9 million in 2004. Profitability increased in 2005 due to several factors: higher crude oil sales prices which offset production declines, lower depletion expense due to lower production levels combined with an increase in reserves, and lower production expenses.

Funds Flow From Operations

Funds flow from operations (before changes in other non-cash working capital) decreased by 19 percent to \$9.7 million in 2005 from \$12.0 million in 2004. The decrease in 2005 is primarily a result of lower production volumes, higher general and administrative expenses and presumptive income taxes.

Capital Expenditures

Capital expenditures totaled \$38.4 million in 2005 compared to \$13.9 million in 2004. The expenditures related to drilling three wells at Orito and performing well interventions at Orito, along with the first phase of work commitments on the Company's new exploration blocks, which commenced in late 2005. Activity in 2006 will focus on bringing production on-line from three wells drilled at Orito in 2005, drilling up to five additional wells at Orito and up to 10 wells at Neiva, fracture stimulations at Orito and Neiva, and completing initial work commitments on the company's recently acquired exploration acreage.

Year ended December 31, 2004 compared to year ended December 31, 2003

	Year ended December 31,		<u>% Change</u>
	<u>2004</u>	<u>2003</u>	
Financial (\$000s)			
Crude oil revenue	21,734	12,560	73
Funds flow from operations ⁽¹⁾	12,048	5,984	101
Net income (loss)	1,851	(16,593)	—
Capital expenditures	13,906	71,342	(81)
Total assets	70,683		
Cash and working capital (deficiency)	(2,549)		
Operating Netback (\$/bbl)			
Crude oil revenue	43.70	32.22	36
Royalties	3.51	2.56	37
Production expenses	<u>7.67</u>	<u>10.48</u>	<u>(27)</u>
Operating netback	32.52	19.18	70
Average Daily Crude Oil Production (bbls)			
Orito	996	630	58
Neiva	<u>363</u>	<u>438</u>	<u>(17)</u>
Total	<u>1,359</u>	<u>1,068</u>	<u>27</u>

Note:

(1) Funds flow from operations before changes in other non-cash working capital.

2003 and 2004 Highlights

- The Company assumed US\$46.0 million of work commitments on the Orito and Neiva fields and three exploration blocks in Colombia. The Company substantially completed its commitments on the Orito and Neiva fields in 2003 and negotiated its release from the US\$8.5 million commitment on the three exploration blocks at a cost of US\$0.8 million.

- Commenced crude oil sales in January 2003.
- Recorded net income of \$1.9 million in 2004 after incurring a \$16.6 million loss in 2003. The loss in 2003 included a one-time \$15.0 million impairment charge related to the ceiling test calculation at year end.
- Funds flow from operations (before changes in other non-cash working capital) doubled to \$12.0 million in 2004 from \$6.0 million in 2003.
- Average crude oil production grew to 1,359 bbl/d in 2004 compared to 1,068 bbl/d in 2003.
- Capital expenditures decreased to \$13.9 million in 2004 from \$71.3 million in 2003 as a result of a decrease in activity while the Company incorporated geological information obtained from the initial phase of drilling at Orito into a revised reservoir model. This information was incorporated into the 2005 drilling plan targeting the southwest region of the Orito field.

Revenue

Crude oil revenue before royalties increased 73 percent to \$21.7 million in 2004 from \$12.6 million in 2003. Related production increased by 27 percent from 2003 levels to 1,359 bbl/d, while the average sales price increased by 36 percent to \$43.70 per barrel in 2004 from \$32.22 per barrel in 2003.

Average Daily Crude Oil Production

Crude oil production increased by 27 percent to 1,359 bbl/d in 2004 from 1,068 bbl/d in 2003. Production increased mainly as a result of 2003 activity at Orito where the Company drilled four wells and recompleted another seven wells.

Average Benchmark Prices

	Year ended December 31,		% Change
	2004	2003	
WTI crude oil (US\$/bbl)	41.40	31.04	33
WTI crude oil (Cdn\$/bbl)	53.91	43.47	24
US\$/Cdn\$ exchange rate	0.77	0.71	8

Realized Prices

Crude oil sales prices in Colombia averaged US\$33.58 per barrel in 2004, 46 percent higher than the 2003 average of US\$23.01 per barrel. In 2004, the average discount to WTI was US\$7.82 per barrel, or 19 percent of WTI, compared to the discount of US\$8.03 per barrel, or 26 percent of WTI, in 2003.

Royalties

Royalties are fixed at a rate of eight percent until the Company's net production per field exceeds 5,000 bbl/d. Due to the fixed royalty rate, royalty expense increased in direct proportion with revenue to \$1.7 million in 2004 from \$1.0 million in 2003.

Production Expenses

Production expenses decreased by seven percent to \$3.8 million in 2004 from \$4.1 million in 2003. On a unit-of-production basis, production expenses averaged \$7.67 per barrel during 2004, a 27 percent decrease from the 2003 average of \$10.48 per barrel.

General and Administrative Expenses

General and administrative expenses increased 37 percent in 2004 to \$2.6 million from \$1.9 million in 2003 due to an organizational restructuring.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion expense increased by 35 percent to \$10.2 million in 2004 from \$7.6 million in 2003. On a unit-of-production basis, the rate increased to \$20.50 per barrel from \$19.44 per barrel in the prior year. The results of the 2003 drilling program negatively impacted the 2004 rate.

Impairment Expense

A \$15.0 million impairment expense, related to the ceiling test calculation at year end, was recorded in 2003 in accordance with the Canadian Institute of Chartered Accountants Full Cost Accounting guideline in existence at the time. Application of the new accounting guideline adopted in 2004 would not have resulted in an incremental write-down.

Taxes

The Company recorded a \$1.0 million income tax expense in 2004 and \$0.1 million in 2003, all due to presumptive income taxes in Colombia that are based on equity capitalization levels. Presumptive income taxes paid in excess of ordinary income tax owing can be recovered against income taxes payable in future periods and can be carried forward for five years.

Net Income (Loss)

Net income of \$1.9 million was recorded in 2004, a significant improvement from the loss of \$16.6 million in 2003. The Company recorded net income in 2004 due to increased production levels, higher revenues and lower production expenses, offset partially by higher depletion, general and administrative expenses, foreign exchange losses and income taxes. The loss recorded in 2003 was expected to decrease as a result of the \$15.0 million impairment charge recorded in 2003.

Funds Flow From Operations

Funds flow from operations (before changes in other non-cash working capital) increased by 101 percent to \$12.0 million in 2004 from \$6.0 million in 2003. The increase in 2004 was due to higher average production and crude oil prices for the year and lower production expenses, offset by higher general and administrative expenses and presumptive income taxes.

Capital Expenditures

Capital expenditures totaled \$13.9 million in 2004 compared to \$71.3 million in 2003. The expenditures in 2004 related to drilling two wells at Neiva and performing completions, recompletions and well optimizations at Orito, as well as acquisition of well site equipment to facilitate the transfer of operatorship of wells drilled by Petrominerales to Ecopetrol. The Company's 2004 capital expenditures were lower than the preceding year as the Company was in the process of re-evaluating its activities, results and reinterpreting the geological, geophysical and reservoir engineering aspects of the two fields.

Summary of Quarterly Results

	2006	2005			
	Q1	Q4	Q3	Q2	Q1
Financial (\$000s)					
Crude oil revenue	7,204	4,613	5,947	4,877	4,740
Funds flow from operations ⁽¹⁾	3,883	2,157	3,204	2,150	2,190
Net income	1,625	302	1,420	481	524
Capital expenditures	21,871	23,001	5,063	5,459	4,901
Benchmark Pricing (US\$/bbl)					
WTI	63.48	60.05	63.19	53.17	49.84
Differential from WTI	(12.35)	(15.31)	(13.04)	(11.11)	(9.80)
Crude oil sales price	51.12	44.74	50.15	42.06	40.04
US\$/Cdn\$ exchange rate	0.87	0.85	0.83	0.80	0.82
Operating Netback (\$/bbl)					
Crude oil sales price	59.03	52.50	60.24	52.34	49.13
Royalties	4.72	4.20	4.82	4.19	3.93
Production expenses	9.66	10.08	9.41	10.09	8.46
Operating netback	44.65	38.22	46.01	38.06	36.74
Average Daily Crude Oil Production (bbls)⁽²⁾	1,356	955	1,073	1,024	1,072

Notes:

* Table may not add due to rounding.

(1) Funds flow from operations before changes in other non-cash working capital.

(2) Average production increased to 2,588 bbl/d in May 2006.

	2004			
	Q4	Q3	Q2	Q1
Financial (\$000s)				
Crude oil revenue	4,934	5,506	5,621	5,673
Funds flow from operations ⁽¹⁾	2,783	2,918	3,116	3,231
Net income (loss)	1,005	445	445	(44)
Capital expenditures	4,039	1,632	2,418	5,817
Benchmark Pricing (US\$/bbl)				
WTI	48.28	43.88	38.32	35.15
Differential from WTI	(10.23)	(6.61)	(4.76)	(7.36)
Crude oil sales price	38.05	37.27	33.56	27.79
US\$/Cdn\$ exchange rate	0.82	0.77	0.74	0.76
Operating Netback (\$/bbl)				
Crude oil sales price	46.45	48.69	45.62	36.63
Royalties	3.71	3.96	3.62	2.93
Production expenses	7.08	7.10	8.53	7.89
Operating netback	35.66	37.63	33.47	25.81
Average Daily Crude Oil Production (bbls)	1,155	1,229	1,354	1,702

Notes:

* Table may not add due to rounding.

(1) Funds flow from operations before changes in other non-cash working capital.

	2003			
	Q4	Q3	Q2	Q1
Financial (\$000s)				
Crude oil revenue	4,000	3,365	2,782	2,413
Funds flow from operations ⁽¹⁾	1,186	1,559	1,583	1,656
Net income (loss)	(16,781)	(585)	(26)	799
Capital expenditures	14,995	14,808	15,961	25,578
Benchmark Pricing (US\$/bbl)				
WTI	31.18	30.20	28.91	33.86
Differential from WTI	(7.12)	(7.47)	(7.64)	(8.32)
Crude oil sales price	24.06	22.73	21.27	25.54
US\$/Cdn\$ exchange rate	0.76	0.72	0.72	0.66
Operations (\$/bbl)				
Crude oil sales price	31.66	31.37	29.74	38.58
Royalties	2.53	2.44	2.40	3.09
Production expenses	15.62	9.24	7.93	6.09
Operating netback	13.51	19.69	19.41	29.40
Average Daily Crude Oil Production (bbls)	1,374	1,166	1,028	695

Notes:

* Table may not add due to rounding.

(1) Funds flow from operations before changes in other non-cash working capital.

Significant factors impacting quarterly results:

- Commenced crude oil sales in January 2003.
- Recorded an impairment charge of \$15.0 million in the fourth quarter of 2003 related to the ceiling test calculation at year end.
- Average WTI crude oil sales price exceeded US\$40/bbl in the third quarter of 2004 and climbed over US\$60/bbl in the third quarter of 2005, resulting in corresponding increases in revenues and cash flow.
- In the fourth quarter of 2005 the Company drilled the Orito 116, 117 and 118 wells and commenced initial work commitments on new exploration acreage incurring \$23.0 million of capital expenditures.
- In the first quarter of 2006, the Company completed the Orito 117 and 118 wells, resulting in increased production levels of 1,336 bbl/d. Average production increased to 2,588 bbl/d in May 2006.

Liquidity and Capital Resources

At March 31, 2006 the Company had no debt and a working capital deficiency, including cash, of \$10.4 million. All funding has been provided indirectly by Petrobank. During the first quarter of 2006, Petrobank contributed \$25.3 million of equity into PCL. Under the existing operating line of credit described in Note 7 to PCL's Financial Statements for the year-ended December 31, 2005, the Company has four billion Colombian Pesos (approximately US\$1.8 million) of available borrowing capacity. Petrobank has committed to continue to fund PCL's capital requirements following April 1, 2006 up to the Closing Date pursuant to a loan agreement entered into between Petrobank and PCL. Loans under the loan agreement are to bear interest at a rate of nine percent per annum. The Company anticipates the outstanding amount of the loan at the Closing Date will be approximately US\$7 million, which amount, and any interest payable thereon, is expected to be repaid with a portion of the proceeds from the Treasury Offering.

The Company has five exploration contracts and five TEAs spanning over 2.5 million acres of land in Colombia with estimated work commitments of US\$5.2 million remaining to be spent by the end of 2006. These commitments include drilling one exploration well on the Joropo block in the Llanos basin, reprocessing

2-D seismic and performing regional studies including the feasibility of the THAI™ heavy oil recovery process. The Company has made an exploration contract proposal over a portion of its Chicago TEA involving a commitment to drill two exploration wells and acquire 3-D seismic data during a 23-month period at an estimated cost of approximately US\$10 million.

The Company has secured two drilling rigs in Colombia for minimum 16 and 18-month terms, respectively. Securing these rigs provides the Company with guaranteed access to the equipment required to implement the planned exploration program during the winter dry season (December to March) in the Llanos Basin. These rigs facilitated an acceleration of the Company's Orito development drilling program which commenced in June 2006. Total payments expected over the contracted terms are estimated at US\$26.5 million, a portion of which will satisfy existing exploration contract commitments.

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments as at March 31, 2006, and includes contracts committed to subsequent to March 31, 2006:

<u>Type of Obligation (US\$000s)</u>	<u>Total</u>	<u>< 1 Year</u>	<u>1-3 Years</u>	<u>4-5 Years</u>	<u>> 5 Years</u>
Exploration contracts ⁽¹⁾	4,000	4,000	—	—	—
TEAs	1,200	1,200	—	—	—
Drilling rigs ⁽²⁾	26,500	14,000	12,500	—	—
Total	31,700	19,200	12,500	—	—

Notes:

- (1) If the proposed Chicago exploration contract is awarded, the Company would commit to drilling two exploration wells and acquire 3-D seismic data during a 23-month period at an estimated total cost of US\$10 million.
- (2) A portion of the drilling rig obligations will satisfy exploration contract work commitments.

To address the shortage of rig availability in Colombia, the Company, in April 2006, contracted to secure a rig for a minimum 16-month term expected to commence in the third quarter of 2006. Depending upon the timing of the receipt of the contracted drilling rig, the Company could drill up to four wells at Orito in 2006 and, based upon additional rig availability, up to 10 wells at Neiva in 2006. In May 2006, the Company contracted a second drilling rig, for a minimum 18-month term, which commenced drilling at Orito in June 2006.

The proposed Treasury Offering is expected to generate net proceeds to Petrominerales of approximately \$55.8 million.

Historically, the Selling Shareholder has funded the Company in the form of common shares and contributed surplus. Possible sources of funds available to Petrominerales following the Offerings include the following:

- Cash flow from operations is expected to increase significantly with recent increases in production.
- The Company has borrowing capacity of four billion Colombian Pesos, or approximately US\$1.8 million under its operating line of credit. The Company can borrow at the fixed term deposit rate set by the Central Bank of Colombia plus six percent.
- Management has obtained a commitment from an international bank for a US\$50 million revolving credit facility with an initial \$25 million borrowing base. The facility bears interest at a rate equal to the London Interbank Offered Rate (LIBOR) plus three percent per annum and is subject to various standard closing conditions.
- Following the planned Offerings, the Company could raise funds through the issuance of additional Common Shares in either the European or Canadian markets.
- Petrominerales may sell producing or non-producing assets to raise funds in the short term. Incremental cash resources generated as a result would be reduced by any resulting decreases in future cash flows and any required debt payments.

- An alternative financing vehicle is pre-export financing or a pre-sale of a portion of future crude oil production in Colombia. Petrominerales' contracts with Ecopetrol on the Orito and Neiva fields specifically permit the export of crude oil and there is no requirement for such proceeds to be remitted to Colombia.
- The Company does not have significant ongoing working capital requirements, and typically settles its vendor liabilities following collection of crude oil revenues.

Petrominerales does not anticipate cash flows to exceed capital expenditures over the next 12 to 24 months. Currently, there are no legal restrictions on repatriating funds to the Bahamas or to shareholders once excess net cash flows are achieved. See "Risk Factors".

Management's plan for the remainder of 2006 is to execute on the Company's inventory of development and exploration opportunities. Given the level of activity planned in 2006, achieved success will likely give rise to significantly higher cash flows and a more substantial capital program in 2007.

Risks and Uncertainties

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

Sensitivities

The Company's earnings and cash flow are sensitive to changes in the price of crude oil and exchange rates.

The following factors demonstrate the expected impact on cash flow:

	<u>(\$ millions)</u>
Change of:	
Crude oil US\$1.00/bbl WTI reference price (assuming 3,000 bbl/d)	\$1.2
100 bbl/d of production @ US\$55/bbl WTI	\$1.5
Currency \$0.01 in Cdn\$/US\$ exchange rate	\$0.6

Transactions with Related Parties

Petrominerales maintains a technical services agreement (the "Technical Services Agreement") with its indirect parent company, Petrobank, for items such as geological, geophysical, and engineering services provided. All charges are based on cost plus a marginal administrative fee, no more than five percent. In 2005, these costs totaled \$1.3 million (2004 — \$0.9 million, 2003 — \$1.7 million). Petrominerales has negotiated the Technology License Agreement and Option Agreement regarding evaluating the use of Archon's THAI™ heavy oil technology. The Technology License Agreement is subject to a licensing fee equal to 10 percent of gross production and, under the Option Agreement, ATI will have the right to acquire a working interest of 10 percent to 50 percent in any Petrominerales heavy oil project using the THAI™ technology. ATI may also elect to act as operator of such heavy oil project, which would then be governed by the Joint Operating Agreement and ATI would share the actual costs on a *pro rata* basis. In connection with Archon's acquisition of the THAI™ technology, John D. Wright, the Company's President and Chief Executive Officer retained a 7.5% net profits interest in any third party licensing royalties generated from the technology. Under certain circumstances, including but not limited to a change of control of Petrominerales, ATI may elect to terminate the Technology License Agreement. A voluntary disposition by Petrobank of all or part of its interest in Petrominerales shall not constitute a change of control.

Petrobank and the Company entered into a Management Services Agreement dated June 9, 2006, and effective May 1, 2006, providing for, among other things, the services of John D. Wright and Corey C. Ruttan as President and Chief Executive Officer and Vice President Finance and Chief Financial Officer, respectively of the Company. Under the Management Services Agreement, Petrobank will also provide corporate, administrative, financial, treasury, accounting, information technology and human resources support

to Petrominerales. The Management Services Agreement requires that the Company pay Petrobank a monthly fee of \$75,000 for such services.

PCL entered into a loan agreement with Petrobank evidencing Petrobank's agreement to continue to fund PCL's capital requirements from April 1, 2006 up to the Closing Date. Any amounts outstanding under the loan agreement, and any interest payable thereon, as at the Closing Date are expected to be repaid by the Company using a portion of the proceeds from the Treasury Offering. The Company anticipates the outstanding amount of the loan at the Closing Date will be approximately US\$7 million.

Critical Accounting Policies and Estimates

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

Capital Assets — Full Cost Accounting

The Company follows the full cost method of accounting as described in Note 2 to the financial statements of PCL. Alternatively, the Company could follow the successful efforts method of accounting whereby all costs related to non-productive wells are expensed in the period in which they are incurred.

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

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

Reserve Estimates

Reserve estimates can have a significant impact on net income and the carrying value of capital assets. The process of estimating reserves requires significant 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.

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

Asset Retirement Obligations

The Company recognizes the estimated fair value of future retirement obligations associated with capital assets as a liability. The Company estimates the liability based on the estimated costs to abandon and reclaim its net ownership in tangible long-lived assets such as wells and the estimated timing of the costs to be incurred in future periods. Actual payments to settle the obligations may differ from estimated amounts.

CAPITALIZATION

The following table sets forth the Company's capitalization as at April 20, 2006 and as at June 9, 2006, prior to and after giving effect to the Reorganization Transactions and the Offerings. The table must be read with the financial statements and accompanying notes, which appear in this prospectus.

<u>Description of the Security</u>	<u>Securities Authorized</u>	<u>As at April 20, 2006</u>	<u>As at June 9, 2006 after giving effect to the Reorganization Transactions⁽¹⁾</u>	<u>As at June 9, 2006 after giving effect to the Reorganization Transactions and the Treasury Offering⁽¹⁾⁽²⁾</u>
Common Shares ⁽³⁾	200,000,000 shares	\$114 (100 shares)	\$119,118,931 (79,000,000 shares)	\$174,918,931 (95,000,000 shares)
Debt ⁽⁴⁾⁽⁵⁾		Nil	US\$7,682,000	US\$7,682,000

Notes:

- (1) In addition, the Company anticipates that it will grant stock options under its stock option plan entitling the holders to acquire up to 3,002,000 Common Shares prior to the Closing Date. See "Options to Purchase Securities".
- (2) The net proceeds to the Company from the Treasury Offering are estimated to be \$55.8 million based on gross proceeds of \$60 million less the Underwriter's Fee of \$3.6 million and the Company's share of the estimated expenses of the Treasury Offering, estimated to be \$600,000 (total expenses for the Offerings are estimated to be \$750,000).
- (3) Includes \$119,100,931 of contributed surplus at June 9, 2006.
- (4) Pursuant to a loan agreement entered into between Petrobank and the PCL, Petrobank agreed to continue to fund the PCL's capital requirements from April 1, 2006 to the Closing Date. Any amounts outstanding under the loan agreement, and any interest payable thereon, as at the Closing Date are expected to be repaid by the Company using a portion of the proceeds from the Treasury Offering. The Company anticipates that prior to the Closing Date the outstanding amount of the loan will be reduced to approximately US\$7 million.
- (5) On April 21, 2006, PCL entered into a commitment letter dated April 17, 2006 (the "Commitment Letter") with an international bank (the "Bank") for a secured revolving credit facility of up to US\$50 million. The facility has an initial borrowing base of US\$25 million which amount will be reviewed every six months. The credit facility is subject to interest at LIBOR plus three percent per annum and to a commitment fee of one percent per annum on the difference between the average daily amount drawn and the accepted balance of the borrowing base. Upon an event of default, as defined in the Commitment Letter, the Bank is permitted to increase the interest rate by two percentage points and if such event of default continues, the Bank may terminate any outstanding commitments and require PCL to immediately repay the facility. The Company has agreed to certain covenants in connection with the facility including: limitations on additional indebtedness, subject to a carve out for short-term local operating accounts; no material adverse changes in the Company; no change of control or sale of property compromising the lender's security; maintenance of acceptable insurance over its producing assets and certain levels of financial performance; providing semi-annual reserve reports on its proved oil assets and certain other covenants typical for such financing arrangements. The Company has also agreed to indemnify the lender and its directors, officers, employees and agents for claims against the lender in connection with this facility. The Company expects to complete the required documentation and close the facility in June 2006.

USE OF PROCEEDS

The Company expects to receive approximately \$55.8 million of net proceeds from the Treasury Offering after deducting the Underwriter's Fee in respect of the Treasury Offering and the Company's share of the estimated expenses of the Offerings of \$600,000 (total expenses for the Offerings are estimated to be \$750,000). The Company's intention is to use these proceeds over the next 12 months for development drilling and recompletions at Orito; repayment of debt owing to Petrobank; work commitments on the Company's exploration blocks; general and administrative expenses, including working capital; and possible acquisitions of additional exploration and development properties, as more particularly described in the following table:

	US\$millions
Orito — 5 wells (US\$5.5 million per well)	27.5
Orito recompletions	4.0
Exploration blocks (2 wells)	10.0
Repayment of Petrobank loan ⁽¹⁾	7.0
Other	2.3
	US\$50.8
	Cdn\$55.8

Note:

(1) Pursuant to a loan agreement entered into between Petrobank and PCL, Petrobank agreed to continue to fund PCL's capital requirements from April 1, 2006 to the Closing Date. Any amounts outstanding under the loan agreement, and any interest payable thereon, as at the Closing Date are expected to be repaid by the Company using a portion of the proceeds from the Treasury Offering. The Company anticipates the outstanding amount of the loan at the Closing Date will be approximately US\$7 million.

Actual expenditures by the Company in 2006 and 2007 are expected to exceed the net proceeds from the Treasury Offering. Such expenditures, including those relating to additional development wells at Orito and Neiva, will be funded through cash flow from operations and drawdowns on the Company's secured credit facility.

Due to the nature of the oil and gas industry, budgets are regularly reviewed with respect to the success of the expenditures and other opportunities which become available to the Company. The amounts and timing of the expenditures will vary depending upon a number of factors, including drilling success, availability of drilling equipment, assessment of newly acquired seismic data over the Company's exploration blocks, and unexpected expenses. Accordingly, while it is currently intended by management of the Company that the net proceeds of the Treasury Offering will be expended as set forth above, actual expenditures may in fact differ from these amounts and allocations. See "Risk Factors". Pending utilization of the net proceeds of the Treasury Offering, the Company will invest the funds in government-backed securities and short term interest bearing instruments.

Based on the Company's current operations and financial plans, the Company anticipates that using its cash on hand together with the net proceeds of the Treasury Offering, cash flow from operations and, subject to finalization, the Company's anticipated credit facility should put the Company in a position to sustain operations through December 31, 2007.

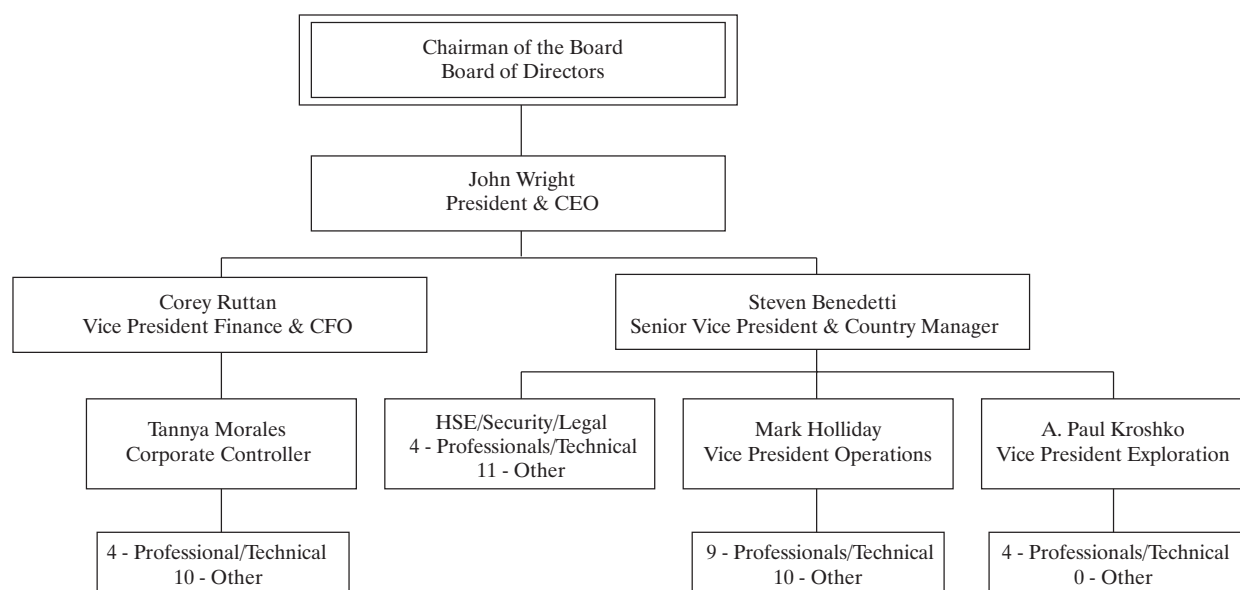
The estimated net proceeds to Petrobank from the Secondary Offering, after deducting the Underwriter's Fee in respect of the Secondary Offering and the Selling Shareholder's share of the estimated expenses of the Secondary Offering, will be \$13,950,000, assuming all of the Offered Shares under the Secondary Offering are subscribed for. The Company will not receive any proceeds from the sale of Offered Shares under the Secondary Offering.

DESCRIPTION OF SHARE CAPITAL

Upon completion of the Reorganization Transactions, the authorized capital of the Company consists of 200,000,000 Common Shares having a par value of US\$1.00 per share. Holders of Common Shares are entitled to one vote for each Common Share held on all votes taken at meetings of holders of Common Shares. The holders of Common Shares are entitled to receive such dividends as the Company's directors may from time to time declare. In the event of the winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganization or otherwise or upon any distribution of capital, the holders of Common Shares are entitled to the surplus assets of the Company and generally will be entitled to enjoy all of the rights attaching to shares of the Company.

PERSONNEL

As at the date hereof, Petrominerales and PCL have, collectively, 58 employees in Colombia and four in Canada. As at December 31, 2005, 2004 and 2003, respectively, the Company had 52, 34 and 36 employees. See "Executive Officers, Key Employees and Directors — Employment and Management Agreements" for a description of the Management Services Agreement insofar as it relates to the President and Chief Executive and the Vice President Finance and Chief Financial Officer.



From time to time, the Company utilizes consultants to act in various capacities over the short or longer terms. At present, the Company has five exploration consultants.

See "Compensation of Directors and Officers — Employment and Management Agreements".

EXECUTIVE OFFICERS, KEY EMPLOYEES AND DIRECTORS

Executive Officers and Key Employees

The following table provides the names and municipalities of residence of the Company's executive officers and key employees as well as their positions with the Company and principal occupations for the previous five years. All officers and employees are required to sign confidentiality agreements with the Company. See "Compensation of Directors and Officers — Employment and Management Agreements".

<u>Name and Municipality of Residence</u>	<u>Position Held</u>	<u>Principal Occupation in the Past Five Years</u>
JOHN D. WRIGHT Calgary, Alberta, Canada	President, Chief Executive Officer and Director	President, Chief Executive Officer and Director of the Company since May 2006; President and Director of PCL and predecessor companies since May 22, 2002; President, Chief Executive Officer and Director of Petrobank since March 2000.
COREY C. RUTTAN Calgary, Alberta, Canada	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer of the Company since May 2006; Vice President Finance of Petrobank since May 2006; Director of Corporate Finance and Investor Relations of Petrobank from July 2003 to May 2006; Director of Corporate Finance of Petrobank from October 2001 to July 2003; Manager of Corporate Finance of Petrobank from March 2000 to October 2001.
STEVEN J. BENEDETTI Bogotá, Colombia	Senior Vice President and Colombian Country Manager	Senior Vice President and Colombian Country Manager of the Company since May 2006; Vice President and Director of PCL predecessor and companies since November 22, 2004; Vice President for Latin America of Petrobank since January 1, 2004; prior thereto President of Southern Cone Energy Consultants in Houston and Santiago, Chile from June 2002 to December 2003; prior thereto Vice President of Latin America for Samson Investment Company from April 2000 to June 2002; prior thereto geologist, geological manager and country manager for Unocal (Union Oil Co. of California) in several locations in the United States, The Netherlands, Venezuela and Argentina.

<u>Name and Municipality of Residence</u>	<u>Position Held</u>	<u>Principal Occupation in the Past Five Years</u>
MARK R. HOLLIDAY Bogotá, Colombia	Vice President, Operations	Vice President, Operations of the Company since May 2006; Operations Manager of PCL since September 2003; Consulting Engineer for Seacrest Engineering Inc. from January 2002 to September 2003; Drilling Planning and Design Manager for Pluspetrol E&P from August 2000 to January 2002; Drilling Manager for Alberta Energy Company, Ecuador / Argentina from June 1998 to August 2000.
A. PAUL KROSHKO Calgary, Alberta, Canada	Vice President, Exploration	Vice President Exploration of the Company since May 2006; Latin American Exploration Manager of Petrobank since March 2005; President of TechEx Corp. from June 2004 to March 2005; Senior Staff Geophysicist of Nexen Colombia from December 2001 to June 2004; President TechEx Corp. from January 1995 to December 2001.
ALASTAIR MACDONALD Pembroke, Bermuda	Corporate Secretary and Director	Corporate Secretary and Director of the Company since April 2006; Corporate Secretary of PCL and predecessor companies since September 1996; Chief Executive Officer of Triathlon Ltd., a financial advisory company from November 1996 to present.
TANNYA E. MORALES Bogotá, Colombia	Corporate Controller	Corporate Controller of the Company since May 2006; Colombian Finance Director of Petrobank since March 2004; various positions with EnCana Corporation including Finance Manager Ecuador, International Accounting Manager, and Corporate Financial Advisor from July 1998 to December 2003.

Biographies

John D. Wright is the Company's President and Chief Executive Officer. Mr. Wright has been President, Chief Executive Officer and a Director of Petrobank since March 2000 and of the Company since May 2006. Previously, Mr. Wright was the General Manager of Alberta Energy Company's Ecuadorian operations from May to December 1999; President and Chief Executive Officer of Pacalta Resources Ltd. from May 1996 to June 1999; Executive Vice President and Chief Operating Officer of Morgan Hydrocarbons Inc. from December 1993 to April 1996; and Vice President Production of Morgan Hydrocarbons Inc. from 1989 to 1993. Mr. Wright graduated from the University of Alberta in 1981 with a Bachelor of Science degree in Petroleum Engineering and obtained his Certified Financial Analyst designation in 1986.

Steven J. Benedetti is the Company's Senior Vice President and Colombian Country Manager. Mr. Benedetti was appointed Senior Vice President and Colombian Country Manager in May 2006 and has been Vice President Latin America and Colombian Country Manager of Petrobank since January 1, 2004. Mr. Benedetti previously served as President of Southern Cone Energy Consultants in Houston, Texas and Santiago, Chile from June 2002 to December 2003; and Vice President of Latin America for Samson Investment Company from April 2000 to June 2002. Prior to that Mr. Benedetti worked 24 years with Unocal (Union Oil Co. of California)

as geologist, exploration manager and country manager in several locations in the United States, The Netherlands, Venezuela and Argentina. Mr. Benedetti received a Bachelor of Science degree in Geology from Idaho State University in 1974 and a Master of Science degree in Geology from Texas Christian University in 1976.

Corey C. Ruttan is the Company's Vice President, Finance and Chief Financial Officer. Mr. Ruttan was appointed Vice President Finance and Chief Financial Officer of the Company in May 2006 and has held various positions with Petrobank since March 2000 including Vice President Finance, Director of Corporate Finance and Investor Relations, Director of Corporate Finance and Manager of Corporate Finance. Mr. Ruttan previously served as Vice President of Caribou Capital Corp. from June 1999 to March 2000; Manager Financial Reporting of Pacalta Resources Ltd. from May 1997 to June 1999; and articulated with KPMG from September 1994 to May 1997. Mr. Ruttan obtained his Bachelor of Commerce degree majoring in Accounting from the University of Calgary in 1994 and obtained his Chartered Accountant designation in 1997.

Mark R. Holliday is the Company's Vice President, Operations. Mr. Holliday was appointed VP operations in May 2006 and has been Latin America Operations Manager for Petrobank since September 2003. Prior thereto, Mr. Holliday served as Consulting Engineer for Seacrest Engineering Inc. from 2002 to 2003, as Drilling Planning and Design Manager for Pluspetrol E&P from 2000 to 2002, as Drilling Manager for Alberta Energy Company, Ecuador / Argentina from 1998 to 2000, as Senior Drilling Engineer with Amoco Venezuela from 1996 to 1998, as Drilling Engineer/Well Site Supervisor for Amoco Orient Company from 1993 to 1996, and as a Drilling Engineer for Amoco Production Company from 1992 to 1996. Mr. Holliday obtained a Bachelor of Science degree in Petroleum Engineering from Louisiana State University in 1992 and an Associate degree in Science in Petroleum Technology from McNeese State University in 1986. Mr. Holliday is a member of the Society of Petroleum Engineers and of the Louisiana State Board of Registration for Professional Engineers and Land Surveyors.

A. Paul Kroshko is the Company's Vice President, Exploration. Mr. Kroshko was appointed VP Exploration in May 2006 and has been Latin America Exploration Manager for Petrobank since March 2005. From December 2001 to June 2004, Mr. Kroshko held a technical position with Nexen Colombia, initially as a consultant and then as Senior Staff Geophysicist. Prior thereto, Mr. Kroshko served as President of TechEx Corp., an independent Oil and Gas Exploration / Consulting company, from April 1993. During this time, Mr. Kroshko also served on the board of directors of Petromin Resources Ltd. from May 1995 to March 2001 and on the board of directors of Mobius Resource Corporation from February 1996 to January 1997. From September 1987 to March 1993 Mr. Kroshko held two positions as foreign advisor on Canadian aid programs to the national oil companies of Morocco (September 1987 to October 1990) and Colombia (May 1992 to February 1993). Mr. Kroshko has held a number of other positions internationally and in North America, including Chief Geophysicist for Sceptre Resources Indonesia. Mr. Kroshko obtained a Bachelor of Science degree in Geophysics from the University of Western Ontario in 1974 and is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta.

Alastair MacDonald is the Company's Corporate Secretary. Mr. MacDonald has been a director and the Corporate Secretary of the Company since April 2006. Mr. MacDonald has been a director of PCL and predecessor companies since its incorporation in September 1996. A former banker with the Bank of Bermuda Ltd., Mr. MacDonald has been Chief Executive Officer of a financial advisory company in Bermuda since 1996. In this capacity he has been a director and officer of numerous companies in the oil and gas exploration fields as well as in the high tech and computer fields. Prior to this, Mr. MacDonald was a banker at the Bank of Bermuda Ltd., where he served as Manager of the Private Banking Department from October 1991 to October 1996. Mr. MacDonald has a Bachelors degree from McGill University and a Masters degree from the University of British Columbia.

Tannya E. Morales is the Company's Corporate Controller. Ms. Morales was appointed Corporate Controller in May 2006 and has been Colombian Finance Director of Petrobank since March 2004. She held positions with EnCana Corporation and its predecessors Alberta Energy Company and Pacalta Energy Ltd. including Finance Manager (Ecuador), and International Accounting Manager and Corporate Financial Advisor (Canada) from July 1998 to December 2003. She was Finance and Administrative Director of Rhone Poulenc Rorer in Ecuador from July 1997 to July 1998 and served as Assistant Controller at Occidental Petroleum from

January 1988 to July 1997. She was a public accountant with Arthur Andersen & Co. between 1986 and 1988. Ms. Morales obtained her C.P.A. designation in 1989 and a Masters degree in Business Administration from the University San Francisco in 1996.

Directors

The following table provides the names and municipalities of residence of the Company's directors as well as their offices held with the Company, the date they were first appointed to the Company's board of directors and their principal occupation for the previous five years.

<u>Name and Municipality of Residence</u>	<u>Current Positions and Offices Held</u>	<u>Principal Occupation in the Past Five Years</u>	<u>Director Since</u>
JOHN D. WRIGHT ⁽³⁾ Calgary, Alberta, Canada (Age: 45)	President, Chief Executive Officer and Director	President, Chief Executive Officer and Director of Petrobank since March 2000.	May 2006
JERALD L. OAKS ⁽²⁾ Greenwood Village, Colorado, USA (Age: 70)	Chairman	Director of Petrobank since September 1993; Professional Engineer, President of Oaks Resources Management Inc. since June 1986.	May 2006
KENNETH R. MCKINNON ⁽¹⁾⁽²⁾ Calgary, Alberta, Canada (Age: 47)	Director	Director of Petrobank since March 2000, Corporate Secretary of Petrobank from January 1998 to December 2004; Vice-President Legal Affairs and General Counsel of Critical Mass Inc. since September 2000.	May 2006
ENRIQUE UMAÑA-VALENZUELA ⁽¹⁾ Bogotá, Colombia (Age: 66)	Director	Trade and investment consultant since May 2005; Foreign investment activities consultant since January 2006; part-time legal representative of Coinvertir — Corporacion Invertir En Colombia from May 2005 to December 2005 and President from July 1997 to April 2005.	May 2006
ERNESTO SARPI ⁽³⁾ Naples, Italy (Age: 56)	Director	Self-employed Consultant from June 2004 to May 2006; Manager of New Ventures of ENI SpA. Agip Div. from November 1999 to May 2004.	May 2006

<u>Name and Municipality of Residence</u>	<u>Current Positions and Offices Held</u>	<u>Principal Occupation in the Past Five Years</u>	<u>Director Since</u>
GEIR YTRELAND ⁽²⁾⁽³⁾ Droebak, Norway (Age: 55)	Director	Self-employed Consultant since April 2000; General Manager Norsk Hydro from March 1993 to March 2000; Project Manager for development of the East Timor petroleum industry since January 2004 (completion expected in May 2006).	May 2006
ALASTAIR MACDONALD ⁽¹⁾ Pembroke, Bermuda (Age: 56)	Director	Corporate Secretary and Director of the Company since April 2006; Director of PCL and predecessor companies since September 1996; Chief Executive Officer of Triathlon Ltd., a financial advisory company since November 1996.	April 2006

Notes:

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

All of the Company's directors' terms of office will expire at the earliest of their resignation, the close of the next annual shareholder meeting called for the election of directors, or on such other date as they may be removed according to the corporate statute governing the Company. Each director will devote the amount of time as is required to fulfill their obligations to the Company.

Biographies

For a biography of each of Mr. Wright and Mr. MacDonald see "Executive Officers, Key Employees and Directors — Executive Officers and Key Employees".

Kenneth R. McKinnon. Mr. McKinnon was Vice President, Finance and Chief Financial Officer of Petrobank from January 1998 to March 2000 and Corporate Secretary from January 1998 to December 2004. Mr. McKinnon has been Vice President Legal Affairs and General Counsel of Critical Mass Inc. since September 2000 and is also a director and member of the Audit Committee of both Petrobank and Savaria Corporation. Over this time he gained experience in analyzing financial statements and he has an understanding of internal controls and procedures for financial reporting and has experience supervising persons engaged in the preparation, analysis and evaluation of financial statements. He has gained an understanding of Audit Committee functions through his involvement with Petrobank and other public corporations. Mr. McKinnon obtained his Bachelor of Commerce degree from the University of Calgary in 1980 and obtained his Bachelor of Laws degree from Queens University in 1983.

Jerald L. Oaks. Mr. Oaks was one of the original founders of Petrobank and has been a Director of Petrobank since September 1993. He is currently President and founder of Oaks Resources Management Inc., which provides oil and gas property management and technical services for institutional and private oil and gas interest owners. Mr. Oaks received a Bachelor of Science degree in Petroleum Engineering from the University of Texas at Austin in 1958. Mr. Oaks has 48 years of oil and gas experience including various engineering roles at Phillips Petroleum Company working in Texas, Venezuela, Algeria, Libya and Colombia. In 1973, Mr. Oaks was a founder of Taiga Energy, Inc. which specialized in tight gas development, primarily in the Uintah and Piceance Basins of Colorado and Utah. In 1980, Mr. Oaks was a founder and President of Petrobank Operating Company, a gas producing and development company specializing in new technology development for gas production, which drilled and operated 200 gas wells with extensive lease holdings in Pennsylvania. Mr. Oaks is a registered

Professional Engineer (Texas) and a member of the Society of Petroleum Engineers and American Institute of Mining and Metallurgical Engineers.

Enrique Umaña-Valenzuela. Mr. Umaña has been in private practice as a trade and investment consultant since May 2005. Mr. Umaña-Valenzuela acted as President of the investment promotion agency of Colombia, Coinvertir, from 1997 to April 2005 and as a part-time legal representative from May 2005 to December 2005. Prior thereto, Mr. Umaña-Valenzuela was in private practice as a trade and investment consultant from 1995 to 1997. Mr. Umaña-Valenzuela acted as International Adviser to the Minister of Defense in Colombia and later as Vice Minister of Defense in 1995. Prior thereto, Mr. Umaña-Valenzuela acted as Deputy Chief of Mission of the Colombian Embassy and later as Chargé d’Affaires in Washington, D.C. in late 1994; as Minister Counselor of the Colombian Embassy of Colombia from 1991 to 1994; as Director of the Colombian Government Trade Bureau from 1983 to 1991; and as Financial Vice President of the Bogotá Telephone Company from 1982 to 1983. Mr. Umaña-Valenzuela is a Director of Sociedades Bolívar S. A. and of Compañía Promotora de Olefinas y Aromáticos del Caribe Ltda., a member of the Fiduciary Committee of the Colombian Hydrocarbons Investment Fund and an adviser to Proexport, the Colombian governmental agency responsible for promoting Colombian exports. Mr. Umaña-Valenzuela is also a member of the board of the Colombian American Chamber of Commerce and a member of the International Advisory Council of the Council of the Americas and of Columbia University in New York City. Mr. Umaña-Valenzuela obtained a Bachelor of Arts degree in Economics and International Relations from Columbia University in 1962.

Ernesto Sarpi. Mr. Sarpi is currently a self-employed consultant. From 1999 to 2004, Mr. Sarpi was Business Manager Americas & Far East, Agip Division, of ENI Group. Prior thereto, Mr. Sarpi was Portfolio and Joint Venture Manager, Agip UK Ltd. from 1995 to 1999; General Manager, Agip Africa Algerian Branch from 1993 to 1994; Manager Negotiations International Exploration, Agip SpA from 1991 to 1993 and General Manager, Agip Energy and Natural Resources (Nigeria) from 1988 to 1991. Mr. Sarpi obtained a Doctor in Geological Sciences degree from the University of Naples in 1961 and a Ph.D. in Geology from Columbia University in 1967.

Geir Ytreland. Mr. Ytreland is a geologist, with more than 26 years experience in the international petroleum industry. Since January 2004 he has been project manager for the undertaking: “Assistance in developing the management of the petroleum sector in East Timor”, a project financed by the government of Norway and intended to develop the East Timor government’s management and administration of the petroleum sector in that nation. Mr. Ytreland will complete this assignment in May 2006 and will continue working as an independent energy and geology consultant in Oslo, Norway. Mr. Ytreland has also worked as a geoscientist and explorationist for Unocal (13 years) and Norsk Hydro (7 years) in Southeast Asia, Africa, Europe, United States, the Middle East and Latin America. He was General Manager for Norsk Hydro in Venezuela from 1995 to 2000. Since 2000 he has been an independent consultant and prior to taking up the position in East Timor he was a consultant for Saudi Aramco in Dhahran, Saudi Arabia. Mr. Ytreland holds a Master of Science degree in geology from the University of Bergen in Norway.

Committees of the Board of Directors

The Company has an Audit Committee, a Compensation Committee and a Reserves Committee.

Audit Committee

The Audit Committee is comprised of Messrs. Kenneth R. McKinnon (Chairman), Alastair MacDonald and Enrique Umaña-Valenzuela. Messrs. McKinnon and Umaña-Valenzuela are independent within the meaning of Multilateral Instrument 52-110 — *Audit Committees* (“MI 52-110”), however, Mr. MacDonald is not independent within the meaning of MI 52-110 since he has been employed by and received compensation from PCL. All members of the Audit Committee are financially literate (as defined in MI 52-110). The Audit Committee has a defined mandate and is responsible for reviewing and overseeing the external audit function, recommending the external auditor and the terms of such appointment or discharge, reviewing external auditor reports and significant findings and reviewing and recommending for approval to the Board of Directors all public financial disclosure information such as financial statements, management’s discussion and analysis, annual information forms and prospectuses. The Audit Committee also pre-approves all non-audit services to be

conducted by the external auditors and ensures that management has effective internal control systems, investigates any recommendations for improvement of internal controls and meets at least annually with the Company's external auditors without management present and at least quarterly with management present. The Company does not have internal auditors and given the size of the Company, the Company considers this to be practical and appropriate. The Audit Committee convenes no less than four times each year and as circumstances otherwise warrant.

Compensation Committee

The Compensation Committee is comprised of Messrs. Kenneth R. McKinnon (Chairman), Jerald L. Oaks and Geir Ytreland. The Company's compensation committee reviews and makes recommendations to the Company's Board of Directors concerning the compensation of the Company's executive officers and key employees which includes the review of the Company's executive compensation and other human resource philosophies and policies, the review and administration of the Company's bonuses, stock options and share purchase plan, the review of and recommendations regarding the performance of the Chief Executive Officer of the Company and preparing and submitting a report for inclusion in annual continuous disclosure documents as required. The Company's compensation committee is comprised of non-management members of the Company's board of directors and is required to convene at least annually.

Reserves Committee

The Reserves Committee is comprised of Messrs. Geir Ytreland (Chairman), Ernesto Sarpi and John D. Wright. The Reserves Committee has the responsibility of meeting with the independent engineering firm commissioned to conduct the reserves evaluation on the Company's oil assets and to discuss the results of such evaluation with such independent evaluators and management. Specifically, the Reserves Committee's responsibilities include, but are not limited to, reviewing management's recommendations for the appointment or proposed changes of independent evaluators, reviewing the Company's procedures for providing information to the independent evaluators, meeting with management and the independent evaluator to review the reserves data and report, including any restrictions imposed by management or significant issues on which there was a disagreement with management and reviewing reserve additions and revisions which occur from one report to the next, recommending to the Board of Directors whether to approve the content of the independent evaluators' report, reviewing the Company's procedures for reporting on other information associated with oil producing activities and generally reviewing all public disclosure of estimates of the Company's reserves. The Reserves Committee meets at least once annually or otherwise as circumstances warrant.

Share Ownership by Directors and Officers

The Company's officers and directors beneficially own, as a group, or exercise control or direction over, directly or indirectly, no Common Shares prior to giving effect to the Offerings. The Company's officers and directors collectively, directly or indirectly, beneficially hold 4,351,559 shares of Petrobank, representing approximately 6.5 percent (basic) of Petrobank's outstanding common shares.

Corporate Cease Trade Orders or Bankruptcies

Except as disclosed herein, none of the Company's directors, officers or other members of the Company's management have, within ten years prior to the date of this prospectus, been directors, officers or promoters of any other companies that, while such person was acting in that capacity:

- (a) were the subject of a cease trade order or similar order or an order that denied their access to any statutory exemptions for a period of more than 30 consecutive days; or
- (b) were declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or were subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold their assets.

Penalties or Sanctions

Except as disclosed herein, none of the Company's directors, officers or principal shareholders have, within ten years prior to the date of this prospectus, been subject to any penalties or sanctions imposed by a court or securities regulatory authority relating to trading in securities, promotion, formation or management of a publicly traded company, or involving theft or fraud.

Corey C. Ruttan entered into a settlement agreement with the Alberta Securities Commission on May 3, 2002 in respect of an insider trading violation relating to a May 17, 2000 trade. Mr. Ruttan cooperated completely in resolving the matter with the regulators. The settlement resulted in Mr. Ruttan paying an administrative penalty of \$10,000, representing a return of profits, and the costs of the proceeding in the amount of \$3,925. For a period of one year, Mr. Ruttan agreed to cease trading in securities and to not act as a director or officer of a public company. These restrictions expired on May 3, 2003. Mr. Ruttan is a Chartered Accountant in good standing.

Personal Bankruptcies

None of the Company's directors, officers or principal shareholders, or a personal holding company of any such persons, have, within ten years prior to the date of this prospectus, become bankrupt, made a proposal under any bankruptcy or insolvency legislation, been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold their assets.

Conflicts of Interest

Certain officers and directors of Petrominerales are also officers and/or directors of other companies engaged in the oil and gas business generally, including Petrobank. As a result, situations arise where the interest of such directors and officers conflict with their interests as directors and officers of other companies. The resolution of such conflicts is governed by applicable corporate laws of The Bahamas, which require that directors act honestly, in good faith and with a view to the best interests of Petrominerales. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in the *International Business Companies Act, 2000* (Bahamas). The *International Business Companies Act, 2000* (Bahamas) provides that in the event that a director has an interest in a proposed transaction or agreement, the director shall disclose in good faith the material facts of his or her interest in such proposed transaction and his or her interest in or relationship to any other party to the transaction or agreement. Where required under the *International Business Companies Act, 2000* (Bahamas), the interested director shall refrain from voting on any matter in respect of such proposed transaction or agreement.

COMPENSATION OF DIRECTORS AND OFFICERS

Summary of Executive Compensation

Petrobank and the Company entered into a Management Services Agreement dated June 9, 2006 and effective May 1, 2006 providing for, among other services, the services of John D. Wright and Corey C. Ruttan as President and Chief Executive Officer and Chief Financial Officer, respectively of the Company. Messrs. Wright and Ruttan are each also officers of Petrobank. The Management Services Agreement requires that the Company pay Petrobank a monthly fee of \$75,000 for these and other services, including corporate, administrative, financial, treasury, accounting, information technology and human resources support. No further cash compensation is provided to Messrs. Wright and Ruttan by the Company. The Company pays a monthly fee of \$12,000 to Triathlon Ltd. for corporate services performed by Mr. MacDonald, an employee of Triathlon Ltd. The remaining officers of the Company, namely Messrs. Benedetti, Holliday and Kroshko and Ms. Morales, are compensated directly by the Company or through the Technical Services Agreement, for acting as officers of the Company.

The following table sets forth all annual and long-term compensation paid in respect of Messrs. Benedetti and Holliday, each of whom, as at the three most recently completed financial years ended December 31, 2005, 2004 and 2003, meet the requirements to be classified as "Named Executive Officers" of the Company as such

term is defined in Form 51-102F6 — *Statement of Executive Compensation* to National Instrument 51-102 — *Continuous Disclosure Obligations*.

Name and Principal Positions	Year	Annual Compensation			Long-Term Compensation	All Other Compensation ⁽³⁾
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Securities Under Options/DCS ⁽¹⁾⁽²⁾ Granted (#)	
Steven J. Benedetti,	2005	138,122	36,348	120,237 ⁽⁵⁾	Nil	11,418
Senior Vice President and Colombian Country Manager ⁽⁴⁾⁽⁵⁾⁽⁶⁾	2004	148,320	20,817	82,322	Nil	9,713
	2003	Nil	Nil	Nil	187,500/Nil	Nil
Mark R. Holliday,	2005	145,392	27,261	145,987	Nil	9,550
Vice President Operations ⁽⁴⁾⁽⁷⁾	2004	156,180	15,618	121,429	18,750/Nil	10,183
	2003	56,060	Nil	58,152	131,250/Nil	2,329

Notes:

- (1) Deferred Common Shares (“DCS”).
- (2) DCS awarded for service in 2005 were granted in March 2006.
- (3) All Other Compensation comprises premiums paid by Petrobank or subsidiaries of Petrobank for term life insurance and, if applicable, Petrobank’s contribution to the Employee’s Share Ownership Plan for each Named Executive Officer.
- (4) Messrs. Benedetti and Holliday’s annual salary, bonus and other compensation have been converted from US dollars to Canadian dollars.
- (5) Mr. Benedetti’s apartment rental is paid by Petrobank and totaled \$58,437 in 2005, or 48.6 percent of his perquisites in 2005; and \$57,396, or 69.7 percent of his perquisites in 2004.
- (6) Mr. Benedetti’s stock options were granted in 2003 upon acceptance of employment and he commenced employment in January of 2004.
- (7) Mr. Holliday’s apartment rental is paid by Petrobank and totaled \$66,536 in 2005, or 45.6 percent of his perquisites in 2005; \$70,381, or 58.0 percent of his perquisites in 2004; and \$23,143, or 39.8 percent of his perquisites in 2003.

Employment and Management Agreements

Petrobank is a party to employment agreements with the Company’s Senior Vice President and Colombian Country Manager, Steven Benedetti, its Vice President, Operations, Mark Holliday and its Corporate Controller, Tannya Morales. The Company has agreed in the Management Services Agreement to pay to Petrobank any amounts that become payable by Petrobank to each of the above officers under the terms of such employment agreements.

Senior Vice President and Colombian Country Manager

The terms of Mr. Benedetti’s employment agreement with Petrobank (the “Senior VP Agreement”) include that Petrobank will be required to pay Mr. Benedetti a cash amount equal to one month of base compensation per completed year of service with a minimum of three months of base compensation if Petrobank terminates the Senior VP Agreement at anytime other than for cause. In the event of a “change of control”, if Petrobank does not provide Mr. Benedetti any offer in writing within six weeks of a change of control, or if Mr. Benedetti is offered an equivalent position but elects to decline such position, Mr. Benedetti shall have the right to terminate his employment with Petrobank, in which case he shall be entitled to the same severance payment as would be payable by Petrobank in the event that Petrobank terminated Mr. Benedetti’s employment without cause. If Mr. Benedetti is offered a position with Petrobank or one of its affiliates that is an equivalent position (except with regard to location), he may elect to terminate the Senior VP Agreement, in which case Petrobank must provide payment of half of a month of base compensation per completed year of service, with a minimum of one and a half months of base compensation. The Senior VP Agreement generally defines a “change of control” to include: the sale of all or substantially all of Petrobank’s assets, except in the case of a swap of assets; the acquisition hereafter, directly or indirectly, by any person or group of persons acting jointly or in concert, of that number of Petrobank’s voting shares which is equal to or greater than 50 percent of Petrobank’s issued and

outstanding voting shares immediately after such acquisition, but excluding any issue or sale of voting shares in connection with a distribution to the public either by way of prospectus or private placement, or any issue or sale of voting shares to a person or group of persons for purposes of effecting an acquisition of assets, directly or indirectly, by Petrobank; or the election at a Meeting of Petrobank's shareholders of that number of persons which would represent a majority of the Board, as Petrobank's directors who are not included in the slate for election as directors proposed to Petrobank's shareholders by management of Petrobank.

Vice President, Operations

The terms of Mr. Holliday's employment agreement (the "VP Operations Agreement") include that if Petrobank terminates the VP Operations Agreement at anytime otherwise then for cause, Petrobank will become obligated to pay Mr. Holliday a cash amount equal to one month base compensation per completed year of service with a minimum of three months of base compensation. In the event of a "change of control", if Petrobank does not provide Mr. Holliday any offer in writing within six weeks of a change of control event, or if Mr. Holliday is offered an equivalent position but elects to decline such position, he shall have the right to terminate his employment with Petrobank, in which case he shall be entitled to the same severance payment as would be payable by Petrobank in the event that it terminated Mr. Holliday's employment without cause. If Mr. Holliday is offered a position with Petrobank or one of its affiliates that is an equivalent position (except with regard to location), he may elect to terminate the VP Operations Agreement, in which case Petrobank must provide payment of one half of a month of base compensation per completed year of service, with a minimum of one and a half of a month of base compensation. The VP Operations Agreement generally defines a "change of control" to include: the sale of all or substantially all of Petrobank's assets except in the case of a swap of assets; the acquisition hereafter, directly or indirectly, by any person or group of persons acting jointly or in concert, of that number of voting shares of Petrobank which is equal to or greater than 50 percent of the total issued and outstanding voting shares of Petrobank immediately after such acquisition, but excluding any issue or sale of voting shares of Petrobank in connection with a distribution to the public either by way of prospectus or private placement, or any issue or sale of voting shares to a person or group of persons for purposes of effecting an acquisition of assets, directly or indirectly, by Petrobank; or the election at a meeting of Petrobank's shareholders of that number of persons which would represent a majority of the Board of Directors, as directors of Petrobank who are not included in the slate for election as directors proposed to Petrobank's shareholders by management of Petrobank.

Corporate Controller

The terms of Ms. Morales' employment agreement (the "Corporate Controller Agreement") include that if Petrobank terminates the Corporate Controller Agreement at anytime otherwise then for cause, Petrobank will become obligated to pay Ms. Morales a cash amount equal to one month of base compensation per completed year of service with a minimum three months of base compensation. In the event of a "change of control", if Petrobank does not provide Ms. Morales any offer in writing within six weeks of a change of control event, or if Ms. Morales is offered a position which is not an equivalent position and elects to decline such position, she shall have the right to terminate her employment with Petrobank, in which case she shall be entitled to the same severance payment as would be payable by Petrobank in the event that it terminated Ms. Morales's employment without cause. If Ms. Morales is offered an equivalent position but elects to decline such position, she may elect to terminate the Corporate Controller Agreement, in which case Petrobank must provide payment of one half of a months base compensation per completed year of service, with a minimum of one and a half of a month of base compensation. The Corporate Controller Agreement generally defines a "change of control" to include: the sale of all or substantially all of Petrobank's assets except in the case of a swap of assets; the acquisition hereafter, directly or indirectly, by any person or group of persons acting jointly or in concert, of that number of voting shares of Petrobank which is equal to or greater than 50 percent of the total issued and outstanding voting shares of Petrobank immediately after such acquisition, but excluding any issue or sale of voting shares of Petrobank in connection with a distribution to the public either by way of prospectus or private placement, or any issue or sale of voting shares to a person or group of persons for purposes of effecting an acquisition of assets, directly or indirectly, by Petrobank; or the election at a meeting of Petrobank's shareholders of that number of persons which would represent a majority of the Board of Directors, as directors of Petrobank who

are not included in the slate for election as directors proposed to Petrobank's shareholders by management of Petrobank.

Management Services Agreement

Petrobank and the Company entered into the Management Services Agreement dated June 9, 2006, and effective May 1, 2006 which provides that Petrobank will provide Petrominerales with the services of John D. Wright and Corey C. Ruttan, as President and Chief Executive Officer and Chief Financial Officer, respectively, and that Petrobank shall manage and administer the business of the Company on an as needed basis from time to time. It is the intention of the parties that Messrs. Wright and Ruttan allocate their time equally between providing services in their respective roles with Petrobank and the Company. The Management Services Agreement expires on April 30, 2007 but is automatically renewed annually unless one months' notice is given by either party prior to the commencement of the next term. Petrominerales will pay Petrobank a monthly fee of \$75,000 for the services provided under the Management Services Agreement. The Management Services Agreement may be terminated by either party upon 30 days' notice and payment by the Company of all fees and expenses owing under the Management Services Agreement.

Summary of Directors' Compensation

The Company's directors do not have service contracts. All directors are reimbursed for reasonable expenses incurred by them in their capacity as directors, including travel and other out of pocket expenses incurred in connection with meetings of the board of directors or any committee of the board of directors. In addition, the Company has a director's compensation program that includes a combination of stock options and cash compensation that is reflective of required time commitments to the Board of Directors and its various committees. Each of the non-management directors will receive 80,000 stock options in addition to their annual retainer, that vest evenly over a four-year period upon re-election at each annual meeting of the shareholders starting in 2007. If a director is not re-elected, all unvested options will be cancelled. The following table sets out the cash compensation that is in effect and will be paid at the end of the service period following each year's annual meeting of the shareholders.

<u>Position</u>	<u>Annual Retainer</u>
Chairman	\$16,000
Non-management Director	\$12,000
Committee Chair	\$ 2,000
Audit Committee Member	\$ 5,000
Reserve Committee Member	\$ 2,000
Compensation Committee Member	\$ 2,000

Directors' and Officers' Liability Insurance

The Company does not directly carry directors' and officers' liability insurance for any of the Company's directors or officers, as each of those individuals is covered by Petrobank's directors' and officers' liability insurance, including for acts carried out while acting for the Company. The Company plans to investigate the cost and appropriateness of obtaining this insurance directly at a later date, as required.

Key Man Insurance

The Company does not carry key man insurance on any of the Company's executives to date. The Company may investigate the cost and appropriateness of obtaining this insurance at a later date.

Stock Option Plan

The Company has adopted a stock option plan (the "Plan") pursuant to which the Company may grant stock options to employees or insiders of the Company or to any other person or company engaged to provide ongoing management or consulting services for the Company or for any entity controlled by the Company (collectively, "Service Providers"). The purpose of the Plan is to secure for the Company and its shareholders

the benefits of incentives inherent in share ownership by Service Providers who, in the judgment of the Board of Directors, will be largely responsible for its future growth and success.

The Plan contains provisions that limit issuances to insiders so that the maximum number of Common Shares that may be reserved for issuance to insiders pursuant to options granted under the Plan and any other share compensation arrangement is 10 percent of the aggregate number of Common Shares issued and outstanding. The maximum number of Common Shares that may be issued to insiders under the Plan and any other share compensation arrangement within a one year period is 10 percent of the aggregate Common Shares issued and outstanding; provided that, the maximum number of Common Shares that may be issued to any one insider or such insider's associates under the Plan within a one year period is 5 percent of the aggregate number of Common Shares issued and outstanding. In addition, not greater than 5 percent of the issued and outstanding Common Shares may be available for issuance to any one person under the Plan.

For the purposes of the Plan, a "share compensation arrangement" means any stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism (other than the Company's Deferred Share Compensation Plan) involving the issuance or potential issuance of Common Shares, including a share purchase from treasury which is financially assisted by the Company by way of a loan, guarantee or otherwise.

The exercise price of options granted under the Plan will be fixed by the Board of Directors at the time of grant; provided that, such exercise price may not be less than the market price of the Common Shares on the date of the grant. For the purposes of the Plan, the market price means the volume weighted average trading price of the Common Shares on the Toronto Stock Exchange for the five trading days prior to the date of the grant (or such other stock exchange in Canada if not then listed and posted for trading on the Toronto Stock Exchange) and if the Common Shares are not listed and posted for trading on any stock exchange in Canada, the Board of Directors will determine the market price. No Common Shares will be issued upon the exercise of options until the full purchase price is received. Options granted under the Plan will vest as determined by the Board of Directors and will be exercisable for a period generally not exceeding five years, as determined by the Board of Directors, but in any event the option period shall not exceed ten years from the date of grant.

The Plan provides that subject to the rules and regulations of the Toronto Stock Exchange and any other applicable laws, the Board of Directors may at any time authorize the Company to loan money to a Service Provider on such terms and conditions as the Board of Directors in its sole discretion may determine, to assist such Service Provider to exercise an option held.

The Plan also includes provision for a cashless option exercise right (the "Put Right"). Under the Put Right, optionholders can request that the Company purchase for cash all or any part of their options at a price being the difference between the current market price of the Common Shares, or a lower price as the Board of Directors may determine, and the exercise price of each option. Upon acceptance of the Put Right by the Company, the Company will deliver a cheque to the exercising optionholder within three business days of receipt of notice exercising this Put Right.

All benefits, rights and options accruing to any participant in accordance with the terms and conditions of the Plan shall not be transferable or assignable unless specifically provided in the Plan. During the lifetime of a Service Provider, all benefits, rights and options may only be exercised by the Service Provider.

Following the Closing, it is anticipated that options equivalent to two-to-five percent of the aggregate number of Common Shares then outstanding will be granted to directors, officers and employees of the Company at an exercise price per Common Share equal to the Offering Price. The options will typically vest as to one quarter on each of the first, second, third and fourth anniversaries of the date of grant.

Deferred Share Compensation Plan

The Company has a Deferred Share Compensation Plan ("DSU Plan") in order to provide effective incentives for the directors, officers and employees of the Company to promote the success and business of the Company and to reward such directors, officers and employees in relation to the long-term performance and growth of the Company by encouraging ownership of Common Shares of the Company.

There are two components to the DSU Plan: (i) a deferred grant to directors of the Company of such number of Common Shares per calendar year which is approved by the Board of Directors from time to time; and (ii) a deferred grant to officers and employees of the Company who are approved by the Board of Directors of such number of Common Shares per calendar year as is approved by the Board of Directors. Compensation is payable pursuant to the DSU Plan in the form of a deferred grant of Common Shares.

A director, officer or employee of the Company will not be entitled to elect to be issued any of the Common Shares which he or she has been granted until a period of three years has passed since the date of grant of such Common Shares or until the director, officer or employee ceases to be a director, officer or employee of the Company, whichever is earlier. Common Shares which a director, officer or employee is entitled to receive pursuant to the DSU Plan will not be issued until the director, officer or employee has delivered to the Company an election in writing that the Common Shares be issued together with payment to the Company in the amount of \$0.05 for each Common Share issued. A director, officer or employee shall have no right to receive Common Shares granted to him or her which have not been issued on the date that is ten years following the date of grant.

The DSU Plan provides that the number of Common Shares that are issuable to a director, officer or employee pursuant to the DSU Plan shall be increased on each date on which a cash dividend is paid to shareholders by an amount equal to the product of the number of the Common Shares which remain issuable and the fraction which has as its numerator the cash dividend paid, expressed as an amount per Common Share and which has as its denominator the weighted average trading price of Common Shares on the Toronto Stock Exchange for the ten trading days preceding the record date for such dividend.

The total number of Common Shares issuable pursuant to the DSU Plan, subject to adjustment in accordance with the DSU Plan, including adjustments for cash dividends paid on the Common Shares, shall not exceed 500,000 Common Shares. Currently, no grants have been made under the DSU Plan.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

No director or executive officer of the Company, nor any of their associates or affiliates, nor any employee of the Company is or has been indebted to the Company since the beginning of the most recently completed financial year of the Company, nor is, or at any time since the beginning of the most recently completed financial year of the Company has, any indebtedness of any such person been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries.

PRINCIPAL SHAREHOLDERS AND SELLING SHAREHOLDER

As at the date hereof, all of the 79,000,000 issued and outstanding Common Shares are held by the Selling Shareholder, a wholly-owned subsidiary of Petrobank. See "Prior Sales" for a description of the issuances of Common Shares to the Selling Shareholder. Upon completion of the Offerings, it is expected that Petrobank will hold, through the Selling Shareholder, approximately 78.9 percent of the issued and outstanding Common Shares, assuming that the full amount of the Offered Shares under the Secondary Offering is subscribed for (83.2 percent if no shares are sold under the Secondary Offering). See "Plan of Distribution".

Petrobank currently intends to further reduce its indirect ownership interest in the Company during the two year period following the completion of the Offerings through further secondary offerings or otherwise through a distribution of Petrobank's indirectly held Common Shares to its shareholders.

The Selling Shareholder was incorporated under the *International Business Companies Act*, 2000 (Bahamas) on December 23, 1996 and is a direct wholly-owned subsidiary of Petrobank. The Selling Shareholder's registered office is located at Mareva House, 4 George Street, Nassau, Bahamas.

Petrobank was incorporated under the *Business Corporations Act* (Alberta) on December 1, 1983. Petrobank's principal office and head office is located at Suite 2600, 240 - 4th Avenue S.W., Calgary, Alberta T2P 4H4 and its registered office is located at Suite 3300, 421 - 7th Avenue S.W., Calgary, Alberta T2P 4K9. Petrobank is an oil and natural gas exploration and production company with operations in western Canada and Colombia. See "Promoter".

PLAN OF DISTRIBUTION

This prospectus qualifies the distribution of 16,000,000 Offered Shares pursuant to the Treasury Offering and up to 4,000,000 Offered Shares pursuant to the Secondary Offering, in each case at the Offering Price of \$3.75 per Offered Share for gross proceeds to the Company of \$60,000,000 and to Petrobank of up to \$15,000,000, respectively. In this regard, the Company, Petrobank, the Selling Shareholder and the Underwriter entered into an underwriting agreement dated June 13, 2006 (the "Underwriting Agreement") wherein the Underwriter agreed to act as Underwriter for the Company and offer the Offered Shares under the Treasury Offering on an underwritten basis and offer the Offered Shares under the Secondary Offering on a "best efforts" basis, each at the Offering Price, subject to the conditions described in the Underwriting Agreement. The Underwriter has no obligation to purchase any of the Offered Shares under the Secondary Offering.

The Company and the Selling Shareholder will pay the Underwriter a cash commission equal to six percent of the aggregate gross proceeds of the Treasury Offering and Secondary Offering, respectively (\$0.225 per Offered Share), for an aggregate cash commission of \$3,600,000 in respect of the Treasury Offering and up to \$900,000 in respect of the Secondary Offering, provided that the Underwriter will not receive a fee with respect to any sales of Offered Shares to officers and directors of the Company, Petrobank or the Selling Shareholder.

The Offering Price was determined based upon arm's length negotiations among the Company, Petrobank and the Underwriter and is in Canadian dollars.

The Company, the Selling Shareholder and Petrobank have agreed, subject to certain limited exceptions, not to directly or indirectly issue, sell, offer, grant an option or right in respect of, or otherwise dispose of, or agree to or announce any intention to, issue, sell, offer, grant an option or right in respect of, or otherwise dispose of, any additional Common Shares or any securities convertible or exchangeable into Common Shares, other than pursuant to: (i) the grant or exercise of stock options and other similar issuances pursuant to any stock option plan or similar share compensation arrangements in place at or prior to the Closing Date; and (ii) the issue of Common Shares upon exercise of convertible securities, warrants or options outstanding prior to the Closing Date, for a period of 180 days from the Closing Date (the "Lock-Up Period"), without the prior written consent of the Underwriter, such consent not to be unreasonably withheld.

In addition, each of the proposed directors and officers of the Company will agree, on or prior to the Closing Date, in consideration of the benefit that the Offerings will confer on such persons, that during the Lock-Up Period, each will not, directly or indirectly, offer, sell, contract to sell, grant any option to purchase, make any short sale, or otherwise dispose of, transfer, or announce any intention to do so, any Common Shares, whether now owned or acquired after the date of this prospectus or on the Closing Date, owned directly or indirectly, or under their control or direction, or with respect to which each has beneficial ownership, or enter into any transaction or arrangement that has the effect of transferring, in whole or in part, any of the economic consequences of ownership of Common Shares, other securities, cash or otherwise, other than pursuant to a take-over bid made generally to all of the holders of Common Shares.

Pursuant to policy statements of the Ontario Securities Commission, the Underwriter may not, throughout the period of distribution, bid for or purchase Common Shares. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of the Common Shares. The Company has been advised that in connection with the Offerings and pursuant to the first-mentioned exception, the Underwriter may over-allot or effect transactions which stabilize or maintain the price of the Common Shares at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced may be discontinued at any time.

The Offered Shares have not been and will not be registered under the 1933 Act, and, subject to certain exceptions, may not be offered or sold in the United States, and, subject to certain exceptions, may not be offered, sold or otherwise disposed of, directly or indirectly, within the United States or its territories or possessions except in transactions exempt from registration under the 1933 Act and under the securities laws of any applicable state.

In addition, until 40 days after the commencement of the Offerings, an offer or sale of Common Shares within the United States by a dealer (whether or not participating in the offering) may violate the registration

requirements of the 1933 Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements of the 1933 Act.

The Company, the Selling Shareholder and Petrobank have agreed to indemnify the Underwriter and its affiliates, directors, officers, employees, partners, agents and shareholders (the “Indemnified Parties”) against certain claims with which the Indemnified Parties may become involved in any capacity in so far as the claims relate to performance of the professional services of the Underwriter pursuant to the Underwriting Agreement.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the certificates representing the Offered Shares will be available for delivery at the Closing Date.

The Offered Shares held by Canadian shareholders will be settled through the system operated by CDS & Co., the registration name for The Canadian Depository for Securities Limited.

MARKET FOR SECURITIES

There is currently no market through which the Common Shares may be sold and purchasers may not be able to resell Offered Shares purchased under this prospectus. The TSX has conditionally approved the listing of the Common Shares. Listing will be subject to the Company fulfilling all of the listing requirements of the TSX on or before September 5, 2006.

PRIOR SALES

The Company has not issued any Common Shares in the 12-month period prior to the date of this prospectus, except 100 Common Shares issued to the Selling Shareholder on April 20, 2006 for cash consideration of US\$100 in connection with the incorporation and organization of the Company and 78,999,900 Common Shares issued to the Selling Shareholder in connection with the completion of the Reorganization Transactions on June 9, 2006. Pursuant to the Reorganization Transactions, the Selling Shareholder exchanged 12,000 common shares of PCL, being all of the issued and outstanding shares of PCL, held by the Selling Shareholder, for 78,999,900 newly issued Common Shares of Petrominerales. The Reorganization Transactions did not involve the payment of any cash consideration by any of the Selling Shareholder, Petrominerales or PCL. See “General Development of the Business — Reorganization Transactions”.

PCL has not issued any Common Shares in the 12-month period prior to the date of this prospectus. All subsequent contributed capital to PCL has been in the form of contributed surplus.

OPTIONS TO PURCHASE SECURITIES

The Company expects to initially issue stock options exercisable into Common Shares to directors, officers and employees of the Company, at an exercise price equal to the Offering Price, as follows:

Estimated Options as a Percentage of the Common Shares Outstanding Following Completion of the Offerings

Directors and Officers	1.58% (up to 1,501,000 options)
Employees	1.58% (up to <u>1,501,000</u> options)
Total	3.16% (up to <u>3,002,000</u> options)

ELIGIBILITY FOR INVESTMENT

In the opinion of McCarthy Tétrault LLP, counsel for the Company, and Blake, Cassels & Graydon LLP, counsel for the Underwriter, the Common Shares, if issued on the date hereof, would be qualified investments under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans provided that the Common Shares were listed on a prescribed stock exchange which includes the TSX.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of McCarthy Tétrault LLP, counsel to the Company, and Blake, Cassels & Graydon LLP, counsel to the Underwriter, the following is, as of the date hereof, a general summary of the principal Canadian federal income tax considerations applicable to a purchaser of Offered Shares pursuant to this Offering. This summary is applicable only to a purchaser who, at all relevant times, is resident in Canada, deals at arm's length and is not affiliated with the Company, and who will acquire and hold such Offered Shares as capital property (a "Holder") and in respect of whom the Company is not a foreign affiliate, all within the meaning of the Tax Act. Any Offered Shares will generally be considered to be capital property to a Holder unless the Holder holds such securities in the course of carrying on a business or has acquired them in a transaction or transactions considered to be an adventure in the nature of trade.

This summary does not apply to a Holder that is a "financial institution" for purposes of the mark-to-market provisions of the Tax Act.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder, all specific proposals to amend the Tax Act (the "Tax Proposals") which have been announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "CRA"). This summary assumes that the Tax Proposals will be enacted in the form proposed and does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or governmental decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations discussed herein. No assurances can be given that such Tax Proposals will be enacted as proposed or at all, or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Offered Shares. The following description of income tax matters is of a general nature only and is not intended to be, nor should it be construed to be, legal or income tax advice to any particular Holder. It does not address the tax considerations relevant to a Holder that borrows in order to acquire Offered Shares. Holders are urged to consult their own income tax advisors with respect to the tax consequences applicable to them based on their own particular circumstances.

Foreign Investment Entity Status

On July 18, 2005, the Minister of Finance (Canada) released revised draft legislation relating to the income tax treatment of investments by Canadian residents in non-resident entities that constitute "foreign investment entities" ("FIEs") applicable for taxation years commencing after 2002 (the "FIE Tax Proposals"). In general terms, the FIE Tax Proposals, as currently drafted, would apply to require a Holder that holds a "participating interest" (that is not an "exempt interest") in a non-resident entity that is a FIE at the entity's taxation year-end to take into account in computing the Holder's income for the Holder's taxation year that includes such taxation year-end: (i) an amount based on a prescribed rate of return on the "designated cost" of such participating interest held by the Holder at the end of each month ending in the Holder's taxation year at which time the participating interest is held by the Holder; (ii) in certain limited circumstances, any gains or losses accrued on such participating interest for the year; or (iii) in certain limited circumstances, the Holder's proportionate share of the FIE's income (or loss) for the year calculated using Canadian tax rules. For the purposes of the FIE Tax Proposals, the Offered Shares will constitute participating interests in the Company.

The Company will not be a FIE at the end of a taxation year provided that, at that time, the "carrying value" of all of the Company's "investment property" is not greater than one-half of the "carrying value" of all of its property or, throughout the taxation year, its principal undertaking was the carrying on of a business other than an investment business as determined for purposes of the FIE Tax Proposals. The Company is of the view, and has advised counsel, that if the Company had a taxation year-end on the Closing Date, the Company would not be a FIE on that date on the basis that on the Closing Date the carrying value of its investment property would not be greater than one-half of the carrying value of all of its property. However, the determination of whether or not the Company is a FIE must be made on an annual basis at the end of each taxation year-end of the Company and no assurances can be given that the Company will not be a FIE at the end of any of its taxation years.

Foreign Property Information Reporting

A Holder that is a “specified Canadian entity” for a taxation year or a fiscal period and whose total cost amount of “specified foreign property”, including the Offered Shares, at any time in the year or fiscal period exceeds \$100,000 (as such terms are defined in the Tax Act) will be required to file Form T-1135 for the year or period disclosing prescribed information. Subject to certain exceptions, a Holder will generally be a specified Canadian entity. Holders should consult their own tax advisors regarding these rules.

Disposition of Offered Shares

A Holder who disposes of or is deemed to have disposed of an Offered Share will realize a capital gain (or incur a capital loss) equal to the amount by which the proceeds of disposition in respect of the Offered Share exceed (or are exceeded by) the aggregate of the adjusted cost base of such Offered Share and any reasonable expenses associated with the disposition.

Generally, one-half of any capital gain (a “taxable capital gain”) realized must be included in the Holder’s income and one-half of any capital loss (an “allowable capital loss”) offsets taxable capital gains realized by the Holder in the same taxation year, and any excess is generally deductible against net taxable capital gains in any of the three prior years or in any subsequent year in the circumstances and to the extent provided in the Tax Act.

Capital gains realized by an individual and certain trusts may result in the individual or trust paying alternative minimum tax under the Tax Act.

A Holder that is a Canadian-controlled private corporation (as defined in the Tax Act) throughout the relevant taxation year may be subject to the 6 $\frac{2}{3}$ percent refundable tax in respect of its aggregate investment income, which includes an amount in respect of taxable capital gains.

Taxation of Dividends Received by Holders of Offered Shares

Dividends received or deemed to be received on the Offered Shares by a Holder who is an individual will be included in computing the Holder’s income, but will not be eligible for the gross-up and dividend tax credit treatment normally applicable under the Tax Act to taxable dividends received from taxable Canadian corporations.

Dividends received or deemed to be received on the Offered Shares by a Holder that is a corporation generally will be included in computing the Holder’s income, but will not be entitled to the inter-corporate dividend deduction in computing taxable income which generally applies to dividends received from taxable Canadian corporations.

A Holder that is a Canadian-controlled private corporation (as defined in the Tax Act) throughout the relevant taxation year may be subject to the 6 $\frac{2}{3}$ percent refundable tax in respect of its aggregate investment income, which includes an amount in respect of dividends on the Offered Shares.

RISK FACTORS

An investment in Common Shares is speculative and involves a high degree of risk that should be considered by potential investors. An investor should carefully consider the following risk factors in addition to the other information contained in this prospectus before purchasing Common Shares. The risks and uncertainties below are not the only ones the Company is facing. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this prospectus. In addition, there are additional risks and uncertainties that we do not presently know or that we currently consider immaterial which may also impair the Company’s business operations and cause the price of the Company’s Common Shares to decline. If any of the following risks actually occur, the Company’s business may be harmed and the Company’s financial condition and results of operations may suffer significantly. In that event, the trading price of the Company’s Common Shares could decline, and an investor may lose all or part of his or her investment.

Risks Related to the Company and its Business

Competition

The oil industry is intensely competitive. Competition is particularly intense in the acquisition of prospective oil properties and oil and gas reserves. Petrominerales’ competitive position depends on its

geological, geophysical and engineering expertise, its financial resources, its ability to develop its properties and its ability to select, acquire and develop proved reserves. Petrominerales competes with a substantial number of other companies having larger technical staffs and greater financial and operational resources. Many such companies not only engage in the acquisition, exploration, development and production of oil reserves, but also carry on refining operations and market refined products. Petrominerales also competes with major and independent oil companies and other industries supplying energy and fuel in the marketing and sale of oil to transporters, distributors and end users, including industrial, commercial and individual consumers. Petrominerales also competes with other oil companies in attempting to secure drilling rigs and other equipment necessary for drilling and completion of wells. Such equipment may be in short supply from time to time, and has been in particularly short supply recently due to the increase in the market price of oil. In addition, equipment and other materials necessary to construct production and transmission facilities may be in short supply from time to time. Finally, companies not previously investing in oil may choose to acquire reserves to establish a firm supply or simply as an investment. Such companies will also provide competition for Petrominerales.

Marketability of Production

The marketability and ultimate commerciality of oil acquired or discovered is affected by numerous factors beyond the control of Petrominerales. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil pipelines and processing equipment and government regulation. Oil operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. See “Industry Conditions”. Restrictions on the ability to market the Company’s production could have a material adverse effect on the Company’s revenues and financial position.

Commodity Price Fluctuations

Crude oil prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of Petrominerales’ net production revenue and overall value and could result in ceiling test write-downs. It may become uneconomic to produce from some wells as a result of lower prices, which could result in a reduction in the volumes and value of Petrominerales’ reserves. Petrominerales might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Petrominerales’ net production revenue causing a reduction in its acquisition and development activities. A substantial material decline in prices from historical average prices could reduce the Company’s ability to borrow funds.

Nature of the Oil Business

An investment in Petrominerales should be considered speculative due to the nature of the Company’s involvement in the exploration for, and the acquisition, development and production of, crude oil in Colombia. The volume of production from oil and natural gas properties generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. The Company’s proved reserves will decline as reserves are produced from its properties unless it is able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent cash flow from operations is reduced and external sources of capital become limited or unavailable, the Company’s ability to make the necessary capital investment to maintain or expand the Company’s asset base of oil reserves will be impaired. In addition, there can be no assurance that even if the Company is able to raise capital to develop or acquire additional properties to replenish the Company’s reserves, the Company’s future exploration, development and acquisition activities will result in additional proved reserves or that the Company will be able to drill productive wells at acceptable costs.

The cost of drilling, completing and operating wells is often uncertain, and drilling operations may be curtailed, delayed or cancelled as a result of a variety of factors, including unexpected drilling conditions, pressure or irregularities in formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. With the exception of the Company’s interest in the Orito and Neiva fields, the properties in which the Company has an interest are prospects in which the presence of oil reserves in commercial quantities has not been established. There is no certain way to know in advance whether any of the Company’s prospects will yield oil in commercial quantities.

Hedging Activities

From time to time the Company may enter into agreements to receive fixed prices on its oil production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases.

Financial Resources

The Company's cash flow from operations may not be sufficient to fund its ongoing activities and implement its business plans. From time to time the Company may enter into transactions to acquire assets or the shares of other companies. These transactions along with the Company's ongoing operations may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Depending on future exploration and development plans, the Company may require additional financing, which may not be available or, if available, may not be available on favourable terms. Failure to obtain such financing on a timely basis could cause the Company to forfeit or forego various opportunities that would otherwise be beneficial to the Company and its shareholders.

International Operations

International operations are subject to political, economic and other uncertainties, including but not limited to, risk of terrorist activities, revolution, border disputes, expropriation, renegotiations or modification of existing contracts, import, export and transportation regulations and tariffs, taxation policies, including royalty and tax increases and retroactive tax claims, exchange controls, limits on allowable levels of production, currency fluctuations, labour disputes and other uncertainties arising out of foreign government sovereignty over the Company's international operations. The Company's operations may also be adversely affected by applicable laws and policies of Colombia, the effect of which could have a negative impact on the Company.

Foreign Currency and Fiscal Matters

The Company's operations and expenditures are to some extent paid in foreign currencies. As a result, the Company is exposed to market risks resulting from fluctuations in foreign currency exchange rates. A material drop in the value of any such foreign currency could result in a material adverse effect on the Company's cash flow and revenues. Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Colombia to foreign entities. There can be no assurance, however, that restrictions on repatriation of capital or distributions of earnings from Colombia will not be imposed in the future. Amendments to current taxation laws and regulations which alter tax rates and/or capital allowances could have a material adverse impact on Petrominerales. Petrominerales also has a subsidiary that is incorporated in a different tax jurisdiction.

To the extent revenues and expenditures denominated in or strongly linked to the U.S. dollar are not equivalent, the Company is exposed to exchange rate risk. The Company is exposed to the extent U.S. dollar revenues do not equal U.S. dollar expenditures. In addition, a portion of expenditures in Colombia are denominated in Pesos, which are difficult to hedge. The Company is not currently using exchange rate derivatives to manage exchange rate risks. In addition, the Company's results will be reported in Canadian dollars and foreign currency denominated monetary balances could result in gains and losses that may increase the variability of earnings.

Political and Regulatory

The oil and gas industry in general is subject to extensive government policies and regulations, which result in additional cost and risk for industry participants. Environmental concerns relating to the oil and gas industry's operating practices are expected to increasingly influence government regulation and consumption patterns which favour cleaner burning fuels such as natural gas. The Company is uncertain as to the amount of operating and capital expenses that will be required to comply with enhanced environmental regulation in the future. The Company is also subject to changing and extensive tax laws, the effects of which cannot be predicted. Among other things, the Company and PCL are subject to regulatory filings with respect to the repatriation of funds to its shareholders which must be complied with to avoid sanctions. Legal requirements are frequently changed and

subject to interpretation, and the Company is unable to predict the ultimate cost of compliance with these requirements or their effect on its operations. Existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations may change in the future and materially adversely affect the Company's results of operations and financial condition.

Petrominerales is conducting exploration and development activities in Colombia, and is dependent on receipt of government approvals or permits to develop its properties. Based on past performance, Petrominerales believes that the government of Colombia supports the exploration and development of its oil properties by foreign companies. Nevertheless, there is no assurance that future political conditions in Colombia will not result in the government adopting different policies respecting foreign development and ownership of oil, environmental protection and labour relations. This may affect the Company's ability to undertake exploration and development activities in respect of present and future properties, as well as its ability to raise funds to further such activities. Any delays in receiving government approvals or permits or no objection certificates may delay the Company's operations or may affect the status of the Company's contractual arrangements or its ability to meet its contractual obligations.

Legal Systems

The Company is incorporated in the Bahamas. PCL, which represents substantially all of the Company's assets, is incorporated in Bermuda and carries on all of its material operations in Colombia. Accordingly, the Company is subject to the legal systems and regulatory requirements of a number of jurisdictions with a variety of requirements and implications for shareholders of the Company. Exploration and development activities outside Canada may require protracted negotiations with host governments, national oil companies and third parties. Foreign government regulations may favour or require the awarding of drilling contracts to local contracts or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. If a dispute arises with foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons, especially foreign oil ministries and national oil companies, to the jurisdiction of the Canada.

Colombia may have a less developed legal system than jurisdictions with more established economies, which may result in risks such as: (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation or in an ownership dispute, being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters. In certain jurisdictions the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licenses and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured.

Security

Colombia has a publicized history of security problems associated with kidnapping and activities of certain political and narcotics terrorist groups. The Company and its personnel are subject to these risks. It is difficult to obtain insurance coverage to protect against incidents involving such groups and, as a result, the Company's insurance program excludes this coverage. Consequently, incidents involving such groups in the future, whether directed at the Company or at the industry in Colombia generally, could negatively affect investors' confidence in the Company and its prospects, resulting in a reduction in the Company's trading price and ability to raise new financing. In addition to the potential effect of direct terrorist activities against the Company's facilities, increased kidnapping and terrorist activity in Colombia generally may disrupt supply chains and discourage qualified individuals from being involved with the Company's operations.

The Company's Oil Production Could Vary Significantly From Reported Reserves

The Company's reserve evaluations have been prepared in accordance with NI 51-101. There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Company. The reserves information set forth in this prospectus represent estimates only. The reserves from the Company's properties have been independently evaluated by D&M in the D&M Reports. The D&M Reports include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Company. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material. These evaluations are based, in part, on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

The Company is subject to risks related to its operations in Colombia, including those related to the development, production, marketing, transportation of crude oil, taxation and environmental and safety matters. The Company may be adversely affected by changes in governmental policies or social instability or other political or economic developments in Colombia that are outside the Company's control including among other things, expropriation, risks of war and terrorism, foreign exchange and repatriation restrictions, changing political conditions and monetary fluctuations and changing governmental policies including taxation policies.

Canadian GAAP requires that management apply certain accounting policies and make certain estimates and assumptions, which affect reported amounts in the consolidated financial statements of the Company. The accounting policies may result in non-cash charges to net income and write-downs of net assets in the financial statements. Such non-cash charges and write-downs may be viewed unfavourably by the market and result in an inability to borrow funds and/or may result in a decline in the trading price of the Common Shares.

Under Canadian GAAP, the net amounts at which petroleum costs on a property or project basis are carried are subject to a ceiling-test, which is based upon estimated future net cash flow from reserves. The carrying value is assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market of unproved properties and the cost of significant development projects exceeds the carrying value. When the carrying value is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value of assets exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves, the lower of cost and market of unproved properties and the cost of significant development projects. A decline in the net value of oil properties could cause capitalized costs to exceed the cost ceiling, resulting in a charge against earnings.

"Resource" vs. "Reserves"

Throughout this document, Petrominerales has attempted to provide an appreciation of the potential that Petrominerales' asset base offers. In doing so, Petrominerales often uses terms such as "original oil-in-place" or "oil resource(s)". These terms refer to the estimated original resource size of a particular prospect and it should be distinguished from reserves. Reserves are the amount of hydrocarbons that are estimated to be economically recoverable from a particular resource base from a given date forward. Ultimate recoverable reserves can range widely depending on resource characteristics, available technologies and economic and contractual parameters.

Availability of Equipment and Access Restrictions

Oil exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities. There can be no assurance that sufficient drilling and completion equipment, services and supplies will be available when needed. Shortages could delay the Company's proposed exploration, development, and sales activities and could have a material adverse effect on the Company's financial condition.

If the demand for, and wage rates of, qualified rig crews rise in the drilling industry then the oil and gas industry may experience shortages of qualified personnel to operate drilling rigs. This could delay the Company's drilling operations and adversely affect the Company's financial condition and results of operations. To the extent Petrominerales is not the operator of its oil and gas properties, Petrominerales will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Operating Hazards

Oil exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts and oil spills, each of which could result in substantial damage to oil wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although Petrominerales maintains liability insurance in an amount that it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event Petrominerales could incur significant costs that could have a material adverse effect upon its financial condition. Oil production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Environmental

All phases of the oil business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur significant costs to remedy such discharge. No assurance can be given that changes in environmental laws or their application to the Company's operations will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Reliance on Third Party Operators and Key Personnel

To the extent that the Company is not the operator of its properties, as is the case in Colombia where Ecopetrol operates Petrominerales' production at Orito and Neiva, the Company will be dependent upon other guarantors or third parties' operations for the timing of activities and will be largely unable to control the activities of such operators. In addition, the Company's success depends, to a significant extent, upon management and key employees. The loss of key employees could have a negative effect on the Company. Attracting and retaining additional key personnel will assist in the expansion of the Company's business. The Company faces significant competition for skilled personnel. There is no assurance that the Company will successfully attract and retain personnel required to continue to expand its business and to successfully execute its business strategy.

Cost of New Technologies

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Company does. There can be no assurance that the Company will be able to respond to such competitive pressures and implement such technologies on a

timely basis or at an acceptable cost. One or more of the technologies currently utilized by the Company or implemented in the future may become obsolete. In such case, the Company's business, financial condition and results of operations could be materially adversely affected. If the Company is unable to utilize the most advanced commercially available technology, the Company's business, financial condition and results of operations could be materially adversely affected.

Conflicts of Interest

Upon completion of the Offerings, Petrobank will hold, through its ownership of the Selling Shareholder, 78.9 percent of the outstanding Common Shares. Accordingly, Petrobank will have the ability to control the composition of a majority of the Board of Directors and approve significant corporate events requiring shareholder approval, subject to requirements of applicable corporate law and stock exchange rules requiring approval of minority shareholders. Three of the seven directors of the Company are also directors of Petrobank, and Petrobank and the Company have a common chief executive officer and chief financial officer. The interests of Petrobank may not always be aligned with the interest of public shareholders of the Company.

In addition, certain of the directors of the Company may have associations with other oil and gas companies or with other industry participants with whom the Company does business. The directors of the Company are required by applicable corporate law to act honestly and in good faith with a view to the Company's best interests and to disclose any interest which they may have in any project or opportunity to the Company. However, their interests in the other companies may affect their judgment and cause such directors to act in a manner that is not necessarily in the best interests of the Company.

Relationship with Petrobank and the Selling Shareholder

Through the Management Services Agreement, the Technical Services Agreement, the Joint Operating Agreement, the Option Agreement and the Technology License Agreement, the Company will continue to have a close relationship with Petrobank and its affiliates, particularly with respect to senior management and heavy oil technology issues. To the extent that the applicable counterparties to these agreements are not able to fulfill their obligations under these agreements, this could have an adverse effect on the Company's operations and results.

The Share Exchange Agreement pursuant to which the Company acquired the shares of PCL (and indirectly, all of the Company's business) provides, in effect, that the shares of PCL are being acquired from the Selling Shareholder on an "as is" basis, with very limited representations and warranties. The Share Exchange Agreement does not require the Selling Shareholder to indemnify the Company with respect to matters relating to the Reorganization Transactions, including any liabilities that may arise with respect to environmental, tax or other matters. Although the Company is not aware of any material liabilities relating to PCL or its assets, there may be liabilities and contingencies that the Company does not discover until some time in the future, and for which Petrobank and the Selling Shareholder will not indemnify the Company. The discovery of any material liabilities or contingencies could have a material adverse effect on the Company's business, financial condition and results of operations.

Risks related to the Offerings

Absence of a Liquid, Public Market

Prior to the completion of the Offerings, there has been no public market for the Company's Common Shares and there can be no assurance that a liquid, public market will develop for the Company's Common Shares. The price at which the Offered Shares are being offered hereunder is determined through negotiations between the Company, Petrobank and the Underwriter. Among the factors to be considered in determining the price are the Company's future prospects and the prospects of the industry in general, sales, the Company's financial and operating information in recent periods, and the market prices of securities and certain financial and other operating information of companies engaged in activities similar to ours. The Offering Price may not be indicative of the market price for the Company's Common Shares after the Offerings, which price may decline below the Offering Price. See "Plan of Distribution".

Share Price Volatility

A number of factors could influence the volatility in the trading price of the Common Shares, including changes in the economy or in the financial markets, industry related developments, and the impact of changes in the Company's daily operations. Each of these factors could lead to increased volatility in the market price of the Common Shares. In addition, variations in earnings estimates by securities analysts and the market prices of the securities of the Company's competitors may also lead to fluctuations in the trading price of the Common Shares.

Discretion in the Use of Proceeds

The Company's management will have broad discretion concerning the use of the proceeds of the Treasury Offering as well as the timing of their expenditure. As a result, you will be relying on the judgment of management for the application of the proceeds of the Treasury Offering. The Company's management may use the net proceeds of the Treasury Offering in ways that you may not consider desirable. The results and the effectiveness of the application of the proceeds are uncertain. If the proceeds are not applied effectively, the results of the Company's operations may suffer.

Dividends

The Company has not declared or paid any cash dividends on the Common Shares to date. The payment of dividends in the future will be dependent on the Company's earnings and financial condition and on such other factors as the Company's Board of Directors considers appropriate. Unless and until we pay dividends, shareholders may not receive a return on their Common Shares.

Dilution

The Offering Price of the Company's Common Shares significantly exceeds the net tangible book value per share of the Company's Common Shares. Accordingly, purchasers of Offered Shares will experience immediate and substantial dilution of their investment. Investors may be subject to further dilution if the Company sells additional Common Shares or issues additional Common Shares in connection with future acquisitions. In addition, Common Shares issued upon the exercise of outstanding stock options will lead to further dilution for purchasers in the Offerings.

The Selling Shareholder and the directors and officers of the Company have agreed, subject to certain restrictions, not to sell their Common Shares in the market for 180 days after the Closing Date. See "Plan of Distribution". However, upon the expiry of this hold period, the Selling Shareholder will be entitled to sell all or a portion of its shares, subject to certain restrictions under applicable securities laws. If a significant number of Common Shares are sold by the Selling Shareholder in the public market, or are expected to be sold, following the Offerings, the trading price of the Common Shares could be depressed. This could also hamper the Company's ability to raise capital by issuing additional equity securities.

Enforcement of Judgments

The Company and the Selling Shareholder are incorporated outside Canada and all of the Company's operations and related assets are located outside Canada. Although the Company has appointed McCarthy Tétrault LLP as agent for service of process, it may not be possible for investors to collect from the Company or the Selling Shareholder judgments obtained in Canadian courts predicated on the civil liability provisions of securities legislation.

Repatriation of Earnings

Currently there are no restrictions on the repatriation from Colombia of earnings to foreign entities. However, there can be no assurance that restrictions on repatriation of earnings from Colombia will not be imposed in the future. Exchange control regulations require that any proceeds in foreign currency originated on exports of goods from Colombia be repatriated to Colombia. However, purchase of foreign currency is allowed

through any Colombian authorized financial entities for purposes of payments to foreign suppliers, repayment of foreign debt, payment of dividends to foreign stockholders and other foreign expenses.

DIVIDEND POLICY

The Company has not declared or paid any dividends on the Common Shares to date. The payment of dividends in the future will be dependent on the Company's earnings, financial condition and such other factors as the Company's Board of Directors considers appropriate.

LEGAL PROCEEDINGS

Neither the Company nor PCL is a party to, nor are any of the Company's or PCL's assets subject to, any material legal proceedings nor to the Company's nor PCL's knowledge are any such proceedings contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed in this prospectus, there are no material interests, direct or indirect, of directors, senior officers, any shareholders who beneficially own, directly or indirectly, more than 10 percent of the Company's outstanding Common Shares, or any known associates or affiliates of such persons, in any transaction within the last three years or in any proposed transaction which has materially affected or would materially affect the Company.

PROMOTER

Petrobank may be considered to be the promoter of the Company in that it took the initiative in founding and organizing the Company. Petrobank currently holds indirectly all of the outstanding Common Shares, and the following table represents Petrobank's expected shareholdings in the Company after giving effect to the Offerings:

Promoter	Common Shares Held After Completion of the Secondary Offering	Percentage of Outstanding Common Shares after giving effect to the Offerings
Petrobank ⁽¹⁾	75,000,000 ⁽²⁾	78.9% ⁽²⁾

Note:

- (1) These shares are held through the Selling Shareholder, a wholly-owned subsidiary of Petrobank.
- (2) Assumes the Secondary Offering is subscribed for in full. If no shares are sold in the Secondary Offering, Petrobank will indirectly hold 79,000,000 Common Shares representing 83.2% of the outstanding Common Shares.

See "Management's Discussion and Analysis — Liquidity and Capital Resources" and "— Transactions with Related Parties", "Use of Proceeds", "Capitalization", "Principal Shareholders and Selling Shareholder" and "Risk Factors".

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contract the Company has entered into prior to the date of this prospectus which can reasonably be regarded as presently material is the Underwriting Agreement dated June 13, 2006 among the Company, Petrobank, the Selling Shareholder and the Underwriter referred to under "Plan of Distribution".

The Underwriting Agreement will be available for inspection at the Company's offices in the Bahamas and Bogotá and at Petrobank's offices at 2600, 240 - 4th Avenue SW, Calgary, Alberta T2P 4H4 while the securities qualified by this prospectus are in distribution and for a period of 30 days thereafter at any time during normal business hours. The Underwriting Agreement will also be available for review under the Company's profile on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. In Ontario, a copy of the foregoing may be viewed at the offices of McCarthy Tétrault LLP in Toronto at Suite 4700, Toronto Dominion Bank Tower, Toronto, Ontario, M5K 1E6.

EXPERTS

Certain legal matters in connection with the Offerings are being reviewed, on behalf of the Company and Petrobank, by McCarthy Tétrault LLP, and on behalf of the Underwriter, by Blake, Cassels & Graydon LLP. As at the date hereof, the partners and associates of McCarthy Tétrault LLP, as a group and the partners and associates of Blake, Cassels & Graydon LLP, as a group, beneficially own, directly or indirectly, none of the outstanding Common Shares prior to the completion of the Offerings. Such persons hold less than one percent of the outstanding common shares of Petrobank.

Information relating to reserves in this prospectus was calculated by D&M as independent qualified reserves evaluator. The principals of D&M, individually or as a group, neither own nor expect to receive any of the securities of Petrominerales, the Selling Shareholder or Petrobank, directly or indirectly.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The Company's auditors are Deloitte & Touche LLP, Chartered Accountants, at its offices located in Calgary, Alberta, Canada. Deloitte and Touche LLP is independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta.

The Company's transfer agent and registrar for the Common Shares is Computershare Trust Company of Canada, located at 600, 530 - 8th Avenue SW, Calgary, Alberta T2P 3S8.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the applicable province. The purchaser should refer to any applicable provisions of the securities legislation of the province in which the purchaser resides for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the prospectus of Petrominerales Ltd. (the "Corporation") dated June 13, 2006, qualifying the distribution of 16,000,000 common shares of the Corporation and the distribution of up to 4,000,000 common shares of the Corporation held by Petro International Ltd. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the directors of Petrominerales Colombia Ltd. on the balance sheet of Petrominerales Colombia Ltd. as at December 31, 2005 and 2004 and the statements of operations and deficit and cash flows for each of the years in the three-year period ended December 31, 2005. Our report is dated March 10, 2006, except for Notes 7 and 12, which are as of June 13, 2006.

We also consent to the use in the above-mentioned prospectus of our report to the directors of the Corporation on the balance sheet of the Corporation as at April 20, 2006. Our report is dated May 4, 2006 except for Note 2, which is as of June 13, 2006.

Calgary, Alberta
June 13, 2006

(Signed) DELOITTE & TOUCHE LLP
Chartered Accountants

APPENDIX A — OIL RESERVE INFORMATION EFFECTIVE MARCH 31, 2006

Petrobank engaged D&M to evaluate PCL's oil reserves as at December 31, 2005, and in connection therewith D&M prepared the December D&M Report evaluating the Company's oil reserves as at December 31, 2005. The Company engaged D&M to provide an updated evaluation of the Company's oil reserves as at March 31, 2006, taking into account pricing and production information between January 1, 2006 and March 31, 2006. D&M has prepared the March D&M Report evaluating the Company's oil reserves as at March 31, 2006.

The reserves data set forth in this Appendix A are based upon evaluations by D&M with an effective date of March 31, 2006 contained in the applicable March D&M Report. The reserves data summarizes the crude oil reserves of the Company and the net present values of future net revenue for these reserves using constant prices and costs and forecast prices and costs. The reserves data set forth complies with the requirements of NI 51-101. Additional information not required by NI 51-101 has been presented to provide continuity and additional information which we believe is important to the readers of this information. D&M was engaged by the Company's parent company, Petrobank, to provide evaluations of proved, probable, and possible reserves.

All of the Company's reserves are located in Colombia.

In preparing the March D&M Report, basic information was obtained from Petrominerales, which included land data, well information, geological information, reservoir studies, estimates of on-stream dates, contract information, current hydrocarbon product prices, operating cost data, capital budget forecasts, financial data and future operating plans. Other engineering, geological or economic data required to conduct the evaluations and upon which the March D&M Report are based was obtained from public records, other operators and from D&M non-confidential files. The extent and character of ownership and the accuracy of all factual data supplied for the independent evaluation, from all sources, was accepted by D&M as represented.

Estimated future net revenue based on the March D&M Report is presented in U.S. dollars. All evaluations and reviews of future net cash flow are stated prior to any provision for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimated future net cash flow shown below is representative of the fair market value of the Company's properties. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of crude oil reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil reserves may be greater than or less than the estimates provided herein.

See "Statement of Reserves Data and Other Related Information — Disclosure of Reserves Data" in this prospectus for a description of the March D&M Report.

**SUMMARY OF OIL AND GAS RESERVES
AS OF MARCH 31, 2006
CONSTANT PRICES AND COSTS**

<u>RESERVES CATEGORY</u>	<u>RESERVES</u>	
	<u>LIGHT AND MEDIUM OIL</u>	
	<u>Company Working Interest</u>	<u>Company Net</u>
	(mmbbls)	(mmbbls)
PROVED		
Developed Producing	4,029	3,706
Undeveloped	<u>5,768</u>	<u>5,283</u>
TOTAL PROVED	9,797	8,989
PROBABLE	<u>5,735</u>	<u>5,222</u>
TOTAL PROVED PLUS PROBABLE	15,532	14,211
POSSIBLE	<u>7,971</u>	<u>7,233</u>
PROVED PLUS PROBABLE PLUS POSSIBLE	<u>23,503</u>	<u>21,444</u>

Note:

* Table may not add due to rounding.

**CONSTANT PRICES AND COSTS
NET PRESENT VALUES OF FUTURE NET REVENUE
AS OF MARCH 31, 2006**

<u>RESERVES CATEGORY</u>	<u>BEFORE INCOME TAXES DISCOUNTED</u>				<u>AFTER INCOME TAXES DISCOUNTED</u>			
	<u>AT (%/year)</u>				<u>AT (%/year)</u>			
	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>
	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)
PROVED								
Developed Producing	183,648	154,229	132,450	115,743	166,550	142,616	124,342	109,953
Undeveloped	<u>192,493</u>	<u>143,401</u>	<u>108,066</u>	<u>81,963</u>	<u>126,013</u>	<u>91,872</u>	<u>67,130</u>	<u>48,744</u>
TOTAL PROVED	376,141	297,630	240,516	197,706	292,563	234,488	191,472	158,697
PROBABLE	<u>213,755</u>	<u>166,364</u>	<u>133,056</u>	<u>108,645</u>	<u>138,811</u>	<u>107,276</u>	<u>85,082</u>	<u>68,820</u>
TOTAL PROVED PLUS								
PROBABLE	589,896	463,994	373,571	306,352	431,374	341,764	276,554	227,517
POSSIBLE	<u>277,443</u>	<u>191,878</u>	<u>135,763</u>	<u>97,819</u>	<u>180,156</u>	<u>122,915</u>	<u>85,451</u>	<u>60,242</u>
PROVED PLUS PROBABLE PLUS								
POSSIBLE	<u>867,339</u>	<u>655,872</u>	<u>509,334</u>	<u>404,171</u>	<u>611,530</u>	<u>464,679</u>	<u>362,005</u>	<u>287,759</u>

Note:

* Table may not add due to rounding.

**TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
AS OF MARCH 31, 2006
CONSTANT PRICES AND COSTS**

<u>RESERVES CATEGORY</u>	<u>REVENUE</u> (US M\$)	<u>ROYALTIES</u> (US M\$)	<u>OPERATING COSTS</u> (US M\$)	<u>DEVELOPMENT COSTS</u> (US M\$)	<u>FUTURE NET REVENUE BEFORE INCOME TAXES</u> (US M\$)	<u>TAXES</u> (US M\$)	<u>FUTURE NET REVENUE AFTER INCOME TAXES</u> (US M\$)
TOTAL PROVED	529,950	43,969	37,540	72,300	376,141	83,578	292,563
TOTAL PROVED PLUS PROBABLE . .	838,896	72,160	59,040	117,800	589,896	158,522	431,374
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE . . .	<u>1,272,803</u>	<u>112,177</u>	<u>90,487</u>	<u>202,800</u>	<u>867,339</u>	<u>255,809</u>	<u>611,530</u>

Note:

* Table may not add due to rounding.

**FUTURE NET REVENUE
BY PRODUCTION GROUP
AS OF MARCH 31, 2006
CONSTANT PRICES AND COSTS**

<u>RESERVES CATEGORY</u>	<u>PRODUCTION GROUP</u>	<u>FUTURE NET REVENUE BEFORE INCOME TAXES</u> (discounted at 10%/year) (US M\$)
TOTAL PROVED	Light and Medium Crude Oil	240,518
TOTAL PROVED PLUS PROBABLE . . .	Light and Medium Crude Oil	373,571
PROVED PLUS PROBABLE PLUS POSSIBLE	Light and Medium Crude Oil	509,334

**SUMMARY OF OIL AND GAS RESERVES
AS OF MARCH 31, 2006
FORECAST PRICES AND COSTS**

<u>RESERVES CATEGORY</u>	<u>RESERVES</u>	
	<u>LIGHT AND MEDIUM OIL</u>	
	<u>Company Working Interest</u> (mmbbls)	<u>Company Net</u> (mmbbls)
PROVED		
Developed Producing	4,117	3,788
Undeveloped	6,368	5,832
TOTAL PROVED	10,485	9,620
PROBABLE	6,269	5,709
TOTAL PROVED PLUS PROBABLE	16,754	15,329
POSSIBLE	8,971	8,142
PROVED PLUS PROBABLE PLUS POSSIBLE	25,725	23,471

Note:

* Table may not add due to rounding.

**FORECAST PRICES AND COSTS
NET PRESENT VALUE OF FUTURE NET REVENUE
AS OF MARCH 31, 2006**

<u>RESERVES CATEGORY</u>	<u>BEFORE INCOME TAXES DISCOUNTED</u>				<u>AFTER INCOME TAXES DISCOUNTED</u>			
	<u>AT (%/year)</u>				<u>AT (%/year)</u>			
	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>
	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)
PROVED								
Developed Producing	156,561	132,168	114,223	100,509	149,660	128,083	111,738	98,955
Undeveloped	160,319	115,907	84,542	61,766	103,969	73,798	52,211	36,344
TOTAL PROVED	316,880	248,075	198,765	162,275	253,629	201,881	163,949	135,299
PROBABLE	182,246	140,598	111,501	90,313	118,773	90,867	71,335	57,100
TOTAL PROVED PLUS								
PROBABLE	499,126	388,673	310,266	252,588	372,402	292,748	235,284	192,399
POSSIBLE	222,197	148,728	101,366	70,007	144,265	94,791	62,964	42,000
PROVED PLUS PROBABLE PLUS								
POSSIBLE	721,323	537,401	411,632	322,595	516,667	387,539	298,248	234,399

Note:

* Table may not add due to rounding.

**TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
AS OF MARCH 31, 2006
FORECAST PRICES AND COSTS**

<u>RESERVES CATEGORY</u>	<u>REVENUE</u> (US M\$)	<u>ROYALTIES</u> (US M\$)	<u>OPERATING COSTS</u> (US M\$)	<u>DEVELOPMENT COSTS</u> (US M\$)	<u>FUTURE NET REVENUE BEFORE INCOME TAXES</u> (US M\$)	<u>INCOME TAXES</u> (US M\$)	<u>FUTURE NET REVENUE AFTER INCOME TAXES</u> (US M\$)
TOTAL PROVED . . .	472,559	39,159	43,638	72,882	316,880	63,251	253,629
TOTAL PROVED PLUS PROBABLE	<u>752,372</u>	<u>64,581</u>	<u>69,383</u>	<u>119,282</u>	<u>499,126</u>	<u>126,724</u>	<u>372,402</u>
PROVED PLUS PROBABLE PLUS POSSIBLE	<u>1,139,035</u>	<u>100,188</u>	<u>108,673</u>	<u>208,851</u>	<u>721,323</u>	<u>204,656</u>	<u>516,667</u>

Note:

* Table may not add due to rounding.

**FUTURE NET REVENUE
BY PRODUCTION GROUP
AS OF MARCH 31, 2006
FORECAST PRICES AND COSTS**

<u>RESERVES CATEGORY</u>	<u>PRODUCTION GROUP</u>	<u>FUTURE NET REVENUE BEFORE INCOME TAXES</u> (discounted at 10%/year) (US M\$)
TOTAL PROVED	Light and Medium Crude Oil	198,765
TOTAL PROVED PLUS PROBABLE	Light and Medium Crude Oil	310,266
PROVED PLUS PROBABLE PLUS POSSIBLE	Light and Medium Crude Oil	411,632

Pricing Assumptions

The following sets forth the benchmark reference prices, reflected in the reserves data and utilized in the March D&M Report.

Summary of Pricing Assumptions Constant Prices and Costs

The March D&M Report assumed a WTI at Cushing constant price of US\$66.33/bbl. The average selling price was US\$55.18/bbl at Orito and US\$48.42/bbl at Neiva.

**SUMMARY OF PRICING ASSUMPTIONS
FORECAST PRICES AND COSTS**

<u>Year</u>	<u>WTI Crude Oil at Cushing</u> (US\$/bbl)	<u>Average Selling Price at Orito</u> (US\$/bbl)	<u>Average Selling Price at Neiva</u> (US\$/bbl)
2006 (Remainder)	65.00	54.05	47.45
2007	61.50	51.08	44.90
2008	57.78	47.91	42.18
2009	51.69	42.74	37.73
2010	49.43	40.82	36.08
Thereafter	+2%/year	+2%/year	+2%/year

Note:

Light and medium crude oil prices averaged US\$51.12//bbl at the wellhead in the three month period ended March 31, 2006.

**RECONCILIATION OF COMPANY NET RESERVES
BY PRINCIPAL PRODUCT TYPE
FORECAST PRICES AND COSTS**

	<u>NET RESERVES</u>		
	<u>Light and Medium Oil</u>		
	<u>Total Proved</u> (mmbbls)	<u>Total Probable</u> (mmbbls)	<u>Total Proved Plus Probable</u> (mmbbls)
December 31, 2005	8,795	5,929	14,724
Extensions	—	—	—
Improved Recovery	—	—	—
Technical Revisions	1,011	—	1,011
Discoveries	—	—	—
Acquisitions	—	—	—
Dispositions	—	—	—
Economic Factors	(74)	(220)	(294)
Production	(112)	—	(112)
March 31, 2006	<u>9,620</u>	<u>5,709</u>	<u>15,329</u>

Note:

* Table may not add due to rounding.

**RECONCILIATION OF CHANGES IN
NET PRESENT VALUES OF FUTURE NET REVENUE
DISCOUNTED AT 10% PER YEAR
TOTAL PROVED RESERVES
CONSTANT PRICES AND COSTS**

	<u>(US M\$)</u>
Estimated Future Net Revenue at December 31, 2005 (without abandonment costs)	148,355
Oil and Gas Sales During the Period Net of Production Costs and Royalties ⁽¹⁾	(4,737)
Changes due to Prices, Royalties and Production Costs Related to Forecast Production ⁽²⁾	12,379
Development Costs During the Period	2,100
Changes in Estimated Future Development Costs	—
Accretion of Discount ⁽³⁾	4,640
Net Change in Income Taxes ⁽⁴⁾	(11,807)
Changes Resulting from Technical Reserves Revisions	42,351
Other ⁽⁵⁾	<u>(1,809)</u>
Estimated Future Net Revenue at March 31, 2006	<u>191,472</u>

Notes:

- (1) Company actual before income taxes, excluding general and administrative expenses.
- (2) The impact of changes in prices and other economic factors on future net revenue.
- (3) Estimated as 10 percent of the beginning of period pre-tax net present value.
- (4) The difference between forecast income taxes at beginning of period and the actual taxes for the period plus forecast income taxes at the end of period.
- (5) Includes changes due to revised production profiles, development timing, actual price received in the three month period ended March 31, 2006 versus forecast, etc.

* Table may not add due to rounding.

FUTURE DEVELOPMENT COSTS⁽¹⁾⁽²⁾

<u>YEAR</u>	<u>FORECAST PRICES AND COSTS</u>		<u>CONSTANT PRICES AND COSTS</u>
	<u>TOTAL PROVED RESERVES</u>	<u>TOTAL PROVED PLUS PROBABLE RESERVES</u>	<u>TOTAL PROVED RESERVES</u>
	(US M\$)	(US M\$)	(US M\$)
2006	43,200	54,400	43,200
2007	29,682	53,958	29,100
2008	—	10,924	—
2009	—	—	—
2010	—	—	—
Thereafter	—	—	—
Total undiscounted	<u>72,882</u>	<u>119,282</u>	<u>72,300</u>
Total discounted at 10%	<u>67,410</u>	<u>107,868</u>	<u>66,906</u>

Notes:

- (1) The above table sets forth development costs deducted in the estimation of the Company's future net revenue attributable to the reserve categories noted above.
- (2) Future development costs are expected to be funded by internally generated cash flow, and from a combination of equity financing and debt, the costs of which are not expected to have an effect on the reserves or future net revenue.

* Table may not add due to rounding.

REMAINDER OF 2006 PRODUCTION ESTIMATES

The following table sets out the volume of the Company's production estimated for the year ended December 31, 2006 which is reflected in the estimate of future net revenue disclosed in the March D&M Report.

<u>RESERVES CATEGORY</u>	<u>LIGHT AND MEDIUM OIL</u>	
	<u>Company Working Interest</u> (bbl/d)	<u>Company Net</u> (bbl/d)
PROVED DEVELOPED PRODUCING		
Orito	1,992	1,833
Neiva	324	298
Total Proved Developed Producing	2,316	2,131
TOTAL PROVED		
Orito	2,186	2,011
Neiva	585	538
Total Proved	2,771	2,549
TOTAL PROVED PLUS PROBABLE		
Orito	2,688	2,473
Neiva	771	709
Total Proved Plus Probable ⁽¹⁾	3,459	3,182

Note:

(1) No production assigned to possible reserves.

* Table may not add due to rounding.

Notes to Reserve Data Tables

In the tables set forth in this Appendix A, the following definitions and other notes are applicable:

- Crude oil reserves estimates presented in the D&M Reports are based on the definitions and guidelines contained in the COGE Handbook. A summary of those definitions is set forth below:

Reserve Categories

Reserves are estimated remaining quantities of crude oil anticipated to be recoverable from known accumulations, from a given date forward, based on:

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology; and
- specified economic conditions.

Reserves are classified according to the degree of certainty associated with the estimates.

- (a) **Proved reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (b) **Probable reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

- (c) **Possible reserves** are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

Other criteria that must also be met for the categorization of reserves are provided in the COGE Handbook.

Each of the proved and probable reserve categories may be divided into developed and undeveloped categories:

- (d) **Developed reserves** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
- (i) **Developed producing reserves** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
- (ii) **Developed non-producing reserves** are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.
- (e) **Undeveloped reserves** are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserve estimates are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves;
- (b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves; and
- (c) at least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserve estimates and the effect of aggregation is provided in the COGE Handbook.

2. Forecast prices and costs

Future prices and costs that are:

- (a) generally acceptable as being a reasonable outlook of the future; and
- (b) if and only to the extent that, there are fixed or presently determinable future prices or costs to which the Company is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

The forecast summary table contained on page A-5 of Appendix A identifies benchmark reference pricing utilized in the March D&M Report. The forecast summary table contained on page B-4 of Appendix B identifies benchmark reference pricing utilized in the December D&M Report.

3. Constant prices and costs

Prices and costs used in an estimate that are:

- (a) the Company's prices and costs as at the effective date of the estimation, held constant throughout the estimated lives of the properties to which the estimate applies; and
- (b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which the Company is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

For the purposes of paragraph (a), the Company's prices are the posted prices for oil after historical adjustments for quality transportation, gravity and other factors.

The constant crude oil benchmark reference pricing utilized in the March D&M Report were as set forth on page A-4 of Appendix A. The constant crude oil benchmark reference pricing utilized in the December D&M Report were as set forth on page B-4 of Appendix B.

- 4. Estimated future abandonment and reclamation costs related to a property have not been taken into account by D&M in determining reserves that should be attributed to a property and in determining the aggregate future net revenue therefrom.
- 5. Columns may not add due to rounding.
- 6. Both the constant and forecast price and cost assumptions assumed the continuance of current laws and regulations.
- 7. The extended character of all factual data supplied to D&M was accepted by D&M as represented. No field inspection was conducted.
- 8. Undeveloped Reserves

Subject to the success of operations, within the next two years, the Company has the following plans regarding the development of proved and probable undeveloped reserves:

The Company's undeveloped medium to light oil reserves in the D&M Reports are located in Colombia within the Orito Caballos reservoir and at Neiva. The Company's proved undeveloped reserves are planned to be developed through the drilling of nine locations at Orito and nine at Neiva during 2006 and 2007, along with workovers and fracture stimulations at Orito in 2006. The D&M Reports include an additional five probable and 15 possible locations at Orito and 15 probable locations at Neiva, which are expected to be drilled starting in 2006 and continuing through 2009.

Undeveloped reserves, like all projects, are subject to competition for capital and consequently may be delayed or accelerated from time to time.

9. Income Taxes

After Income Tax amounts are shown after Colombian income tax. The Company does not expect to pay Canadian income tax.

Significant Factors or Uncertainties Affecting Reserves Data

There are numerous uncertainties inherent in estimating quantities of proved reserves, including many factors beyond the control of the Company. The reserve data included herein represents estimates only. In general, estimates of economically recoverable crude oil reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary considerably from actual results. The actual production, revenues, taxes and development and operating expenditures of the Company with respect to these reserves will vary from such estimates, and such variances could be material, provided that there is inherent degree of certainty associated with the particular reserves category disclosed.

Estimates with respect to proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be substantial, in the estimated reserves.

Consistent with the securities disclosure legislation and policies of Canada, the Company has used forecast prices and costs in calculating reserve quantities included herein. Actual future net cash flows also will be affected by other factors such as actual production levels, supply and demand for oil, curtailments or increases in consumption by oil purchasers, changes in governmental regulation or taxation, currency exchange rates and the impact of inflation on costs.

The Company's reserves at the Orito and Neiva fields are also subject to an R Factor calculation under which the Company's interest in reserves decreases as the ratio of cumulative revenues to cumulative costs increases. Accordingly, at higher prices the Company's reserve values increase but reserve volumes decline, thereby increasing reserve uncertainty. See "Industry Conditions — Incremental Production Contracts (IPCs)".

Oil Wells

The following table summarizes the Company's interests as at December 31, 2005 and March 31, 2006 in oil wells, all of which are located onshore.

	Oil			
	Producing		Non-Producing ⁽¹⁾	
	Gross	Net	Gross	Net
Orito	53	42	65	51
Neiva	65	45	14	10
Total	118	87	79	61

Note:

(1) Wells also include wells that were drilled by the original holder of the blocks or Ecopetrol.

Undeveloped Land Holdings

The undeveloped land holdings of the Company total 2,516,966 acres (gross and net). Undeveloped acreage includes rights granted pursuant to Exploration Contracts and TEAs, which require certain work commitments. First term commitments for exploration licenses include evaluation of existing data and acquisition, processing and interpretation of additional seismic to be acquired by the Company. In the case of the Joropo Exploration Contract, the Company is in the second term, with a work commitment of drilling one exploration well. In the case of TEAs, the work commitment is interpretation of existing data. If, at the end of the exploration term, the Company elects not to proceed with additional work commitments, all or a portion of this acreage may revert back to the ANH. In addition, a portion of the Company's TEAs will revert to the ANH at the end of their term. The amount the Company retains will ultimately depend on the location and size of any acreage, if any, selected within the TEA for conversion to an Exploration Contract. See "Industry Conditions — Exploration Contracts and TEAs."

Forward Contracts and Future Commitments

See "Management's Discussion and Analysis — Liquidity and Capital Resources" in this prospectus for a description of future commitments and see Note 4, "Commitments and Contingencies", to PCL's interim financial statements as at and for the three months ended March 31, 2006 included in this prospectus and under the heading "Narrative Description of the Business" in this prospectus for a description of the forward contracts and future commitments of the Company.

The nature of the crude oil operations exposes the Company to risks associated with fluctuations in commodity prices and foreign currency exchange rates. To date, the Company has not utilized derivative instruments to manage these risks.

Abandonment and Reclamation Costs

Abandonment and reclamation costs were estimated for all legal obligations associated with the retirement of long-lived tangible assets such as wells, facilities and plants based on market prices or on the best information available where no market price was available. The estimated costs are then inflated at two percent over time until the actual retirement is expected to occur. In Colombia, Ecopetrol maintains ownership of all wells once the IPCs expire. Until the contracts expire, the Company is potentially liable for abandonment and reclamation costs for all wells drilled or intervened by the Company. As of March 31, 2006, 50 wells have either been drilled or intervened; however, the Company expects to incur costs on only 15 wells, due to the fact that most wells are expected to produce beyond the term of the IPCs. The Company estimates the total abandonment and reclamation costs net of salvage values of all the Company's operations to be \$2.4 million on an undiscounted basis and \$0.5 million discounted at 10 percent. In the next three financial years the Company does not anticipate incurring significant abandonment and reclamation costs. The calculation of future net revenue in Colombia excludes \$2.4 million on an undiscounted basis and \$0.5 million discounted at 10 percent, as these calculations do not include any costs for abandonment and reclamation activities in Colombia.

Tax Horizon

In Colombia, the Company's tax pools shelter it from paying current cash income taxes. The Company is subject to presumptive income tax and remittance tax in Colombia, see "Industry Conditions — Taxes". Based on the Company's current exploration and development plans, the Company does not expect to pay income tax within the next two years. As at December 31, 2005, the Company had \$145.3 million (March 31, 2006 — \$165.8 million) of Colombian tax pools available.

Environment

The Company continued its third year of operations in Colombia with 100 percent environmental compliance in executing its development programs and without any lost time accidents or environmental

incidents. The Company's social responsibility strategies include environmental compliance and promoting fundamental relationships with local communities and the provincial and national authorities.

The Ministry of Environment in Colombia requires environmental licenses for all new exploration activity in accordance with strict national regulations. The Company's comprehensive environmental impact assessments and management plans ensured that the environmental license for the first exploration well in the Joropo block was obtained in the shortest time possible. The Company also presented environmental management plans covering 3-D seismic projects on the Casanare Este, Corcel, Casimena and Las Aguilas exploration blocks.

The Company carries out its activities and operations in compliance with all relevant and applicable environmental regulations and best industry practice. At present, the Company believes that it meets all applicable environmental standards and regulations and has included appropriate amounts in its capital expenditure budget to continue to meet its continuing environmental obligations. The costs incurred by the Company in respect of continued environmental compliance and site abandonment and reclamation costs amounted to less than one percent of the total capital expenditures incurred by the Company in 2005. See "Industry Conditions — Environmental Regulation" and "Risk Factors — Risks Related to the Company and its Business — Environmental".

Community Relations

Petrominerales has established a community relations approach that is based on three principles:

- Local employment is promoted by identifying, providing and supporting job opportunities within Petrominerales' operating areas. This has been well received by the local communities and contributed to maintaining a positive relationship in and around our operations;
- Education and training programs are focused on strengthening the relationships between communities and the local authorities and on helping communities identify new markets for their goods and services to reduce their dependence on the oil business. Petrominerales' approach also encourages local community engagement in the government development planning process, and reinforces the link between oil revenues and municipal budgets; and
- Community engagement creates a partnership in the preparation of environmental base line studies for local environmental management, which strengthens the relationship with communities by combining Petrominerales' expertise and environmental approach with local knowledge of the environment and land management. The Company is continuing to build a relationship of trust by encouraging communities to become involved in all aspects of the Company's environmental management processes.

Petrominerales' approach has been cited by both the government and the oil industry as the best practice model to follow. As an example of this approach, Petrominerales recently conducted a highly successful community consultation process with the traditional Embera people of the La Venada indigenous reservation in connection with the west Orito/Las Aguilas 3-D seismic project. In Colombia during 2005, 99 indigenous consultation processes were undertaken by industry, with only three yielding positive agreements. The Petrominerales agreement resulted in participation of indigenous representatives in the environmental impact studies, which covered an important portion of their traditional territory. The process produced a set of agreements with the people of La Venada that, in the national context, was accomplished in a very short time frame and at a low cost. By the end of March 2006, the Company's seismic acquisition was completed with total environmental compliance and no health or safety incidents.

Fundación Vichituni

Petrominerales has created and initially funded Fundación Vichituni to assist in developing and enhancing basic social and environmental values in the regions directly influenced by the Company's operations. Vichituni, from the traditional Embera language, translates as "you are worthy". Fundación Vichituni's mission is to promote community growth and an enhanced quality of life. This Foundation involves entire communities, governments and third party partners contributing to the creation and completion of educational projects with a

focus on developmental issues. After comprehensive research and a careful strategic planning process, the Foundation has created two main lines of work in which this community development program will be focused on:

- Working with authorities and communities in the Land Use Plan of Putumayo, which will strengthen the local government’s capacity to plan their development; and
- Increasing the knowledge of the cultural and traditional diversity of the communities in Putumayo, allowing a better use of the land by harmonizing diverse development approaches.

This foundation is also seeking international funding and partnerships with the goal of self-sustainability within the first two years of its operation.

Security

Although there are certain security risks associated with operating in Colombia, as there are in many countries, the security environment in Colombia has improved significantly since the election of President Alvaro Uribe in 2002, and the Company believes these risks can be effectively managed. Working with local communities promotes an atmosphere of mutual respect, benefit and trust, and thereby decreases the risk of serious security issues. Within Bogotá and in field operating areas, Petrominerales maintains contact with appropriate local, regional and national bodies to monitor any local security situations and mitigate risk. Crime statistics from the Colombian National Police indicate that in 2005, compared to 2002, homicides decreased by 40 percent, kidnapping decreased by 62 percent, pirating decreased by 50 percent and auto theft decreased approximately 40 percent. In the case of the energy industry, pipeline attacks decreased only slightly, but their impact on the industry has been significantly minimized. During the same period, terrorism against electricity infrastructure decreased approximately 43 percent.

Capital Expenditures

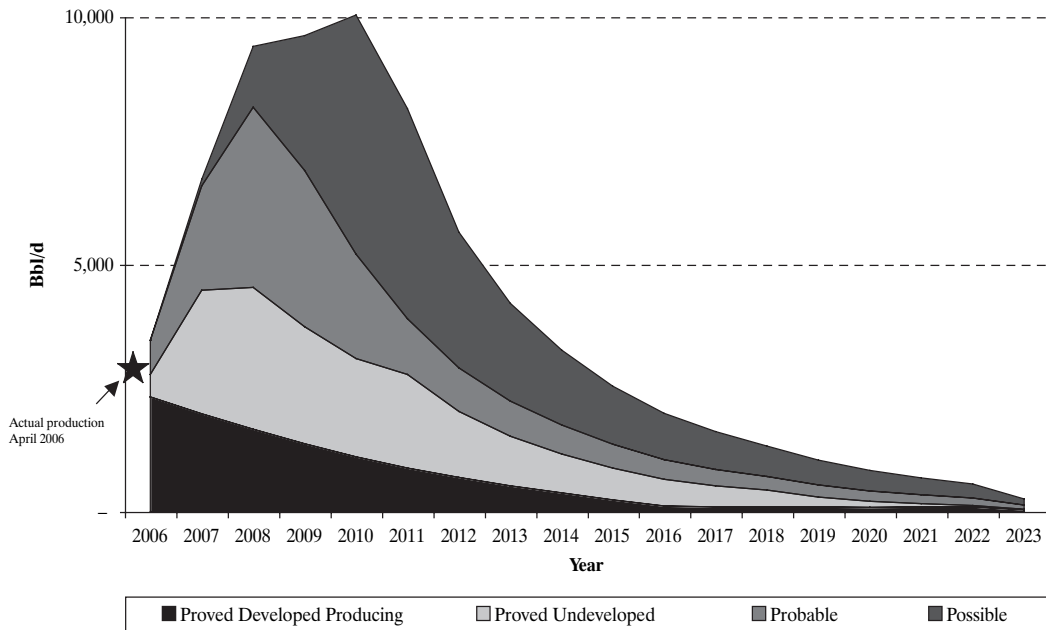
The following table summarizes capital expenditures related to the Company’s activities for the three months ended March 31, 2006:

	<u>(\$000)</u>
Exploration drilling	3,638
Development drilling and completions	5,467
Seismic	4,769
Workovers and other	7,997
Total capital expenditures	<u>21,871</u>

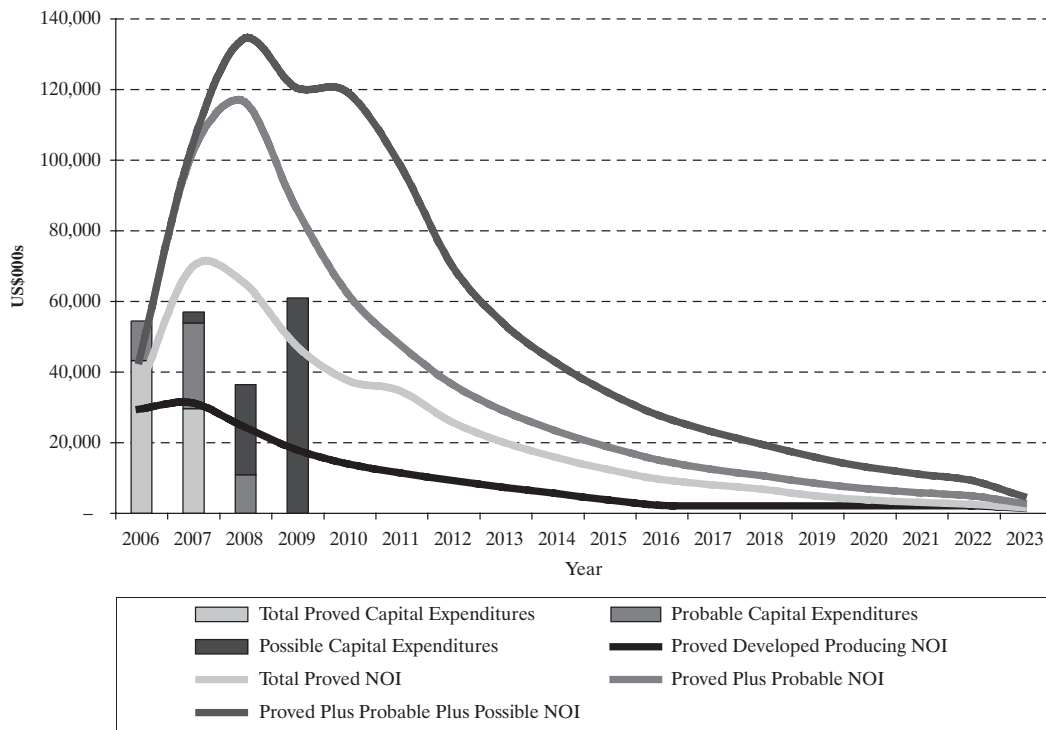
Forecast Production and Capital Expenditures

The following diagrams represent the Company’s working interest production before royalties, net operating income (revenues less royalties and operating costs) and capital expenditures by reserve category as forecast in the March D&M Report along with current production. This forecast does not incorporate any production from the Company’s exploration land.

**Annual Average Daily Working Interest Production (Before Royalties) By Reserve Case —
March D&M Report — Forecast Prices and Costs**



**Capital Expenditures and Net Operating Income (NOI) By Reserve Case — March D&M Report —
Forecast Prices and Costs**



Development

The following table summarizes the gross and net development wells in which the Company participated during the year ended December 31, 2005. There was one exploration well drilled at Joropo in the first quarter of 2006, which was dry and abandoned. All wells were located in Colombia.

	Development		Total	
	Gross	Net	Gross	Net
Development oil wells	3.0	2.4	3.0	2.4
Success rate	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Company's development plans are discussed under the heading "Narrative Description of the Business".

History

Production

The following table shows the Company's average working interest production volumes before deduction of royalties payable to others, and average netbacks received for each of the last five fiscal quarters by product type. See "Property Descriptions" for production volumes by major area.

	Three Months Ended				
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	March 31, 2006
Average daily production (bbl/d)	<u>1,072</u>	<u>1,024</u>	<u>1,073</u>	<u>955</u>	<u>1,356</u>

As a result of recompletions and the completion of the Orito 117 and 118 wells, production in May 2006 averaged 2,588 bbl/d working interest to the Company before deduction of an eight percent royalty.

Light and Medium Crude Oil Netback (\$ per bbl)

The following table shows the Company's crude oil netback values for the periods indicated.

	Three Months Ended				
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	March 31, 2006
Average price received	49.13	52.34	60.24	52.50	59.03
Royalties	3.93	4.19	4.82	4.20	4.72
Operating costs ⁽¹⁾	<u>8.46</u>	<u>10.09</u>	<u>9.41</u>	<u>10.08</u>	<u>9.66</u>
Netback	<u>36.74</u>	<u>38.06</u>	<u>46.01</u>	<u>38.22</u>	<u>44.65</u>

Note:

(1) Operating costs are expenses incurred in the operation of producing properties and include items such as Ecopetrol operating fees, field staff salaries, repairs and maintenance, overhead fees and other costs.

FORM 51-101F2
REPORT ON RESERVES DATA BY
INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR

To the board of directors of Petrobank Energy and Resources Ltd. (the “Company”):

1. Pursuant to the request of the Company, we have evaluated the Company’s reserves data as of March 31, 2006. The reserves data include the following:
 - (a) (i) proved, proved-plus-probable, and proved-plus-probable-plus-possible oil and gas reserves estimated as of March 31, 2006, using forecast (as defined in our report) prices and costs; and
 - (ii) the related estimated future net revenue for proved and proved-plus-probable reserves; and
 - (b) (i) proved, proved-plus-probable, and proved-plus-probable-plus-possible oil and gas reserves estimated as of March 31, 2006, using constant (as defined in our report) prices and costs; and
 - (ii) the related estimated future net revenue for proved and proved-plus-probable reserves.
2. The reserves data are the responsibility of the Company’s management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the “COGE Handbook”) prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to assure that reserves estimates are free of material misstatement and are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of Canadian income taxes) in thousands of United States dollars (M US\$) for proved-plus-probable reserves evaluated by us, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, evaluated as of March 31, 2006, and identifies the respective portions thereof that we have evaluated and reported to Company’s management:

Independent Qualified Reserves Evaluator	Description and Effective Date of Evaluation	Location of Reserves	Net Present Value of Future Net Revenue (before Canadian Income Tax, Discounted at 10 Percent)			
			Audited	Evaluated	Reviewed	Total
			(M US\$)	(M US\$)	(M US\$)	(M US\$)
DeGolyer and MacNaughton	Appraisal Report as of March 31, 2006 on the Orito Field and Neiva Block in Colombia for Petrobank Energy and Resources Ltd. dated April 27, 2006	Colombia	Not Applicable	235,284	Not Applicable	235,284

5. In our opinion, the reserves and revenue evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.
6. We have no responsibility to update our report referred to in paragraph 4 for events and circumstances occurring after the report preparation date.
7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

DeGolyer and MacNaughton, Dallas, Texas USA, dated April 27, 2006.

Submitted,

DeGOLYER and MacNAUGHTON

(signed) "R. M. Shuck, P.E."
R. M. Shuck, P.E.
Senior Vice President
DeGolyer and MacNaughton

FORM 51-101F3
REPORT OF MANAGEMENT AND DIRECTORS
ON OIL AND GAS DISCLOSURE

Terms to which a meaning is ascribed in National Instrument 51-101 have the same meaning herein.

Management of Petrominerales Ltd. (the "Company") are responsible for the preparation and disclosure, or arranging for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

- (a) (i) Proved and Proved plus probable oil and gas reserves estimated as at March 31, 2006 using forecast prices and costs; and
- (ii) the related estimated future net revenue; and
- (b) (i) Proved and proved plus probable oil and gas reserves estimated as at March 31, 2006 using constant prices and costs; and
- (ii) the related estimated future net revenue.

Independent qualified reserves evaluators have evaluated the Company's reserves data. The reports of the independent qualified reserves evaluators, to the extent not already filed, will be filed with securities regulatory authorities concurrently with this report.

The Board of Directors of the Company has:

- (c) reviewed the Company's procedures for providing information to the independent qualified reserves evaluators;
- (d) met with the independent qualified reserves evaluators to determine whether any restrictions affected the ability of the independent qualified reserves evaluators to report without reservation qualified reserves evaluators, to inquire whether there had been disputes between the previous independent qualified reserves evaluators; and
- (e) reviewed the reserves data with management and the independent qualified reserves evaluators.

The Board of Directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with Management. The Board of Directors has approved:

- (f) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;
- (g) the filing of the report of the independent qualified reserves evaluators; and
- (h) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

signed "John D. Wright"

John D. Wright
President & Chief Executive Officer

signed "Steven J. Benedetti"

Steven J. Benedetti
Senior Vice President and Colombian Country Manager

signed "Jerald L. Oaks"

Jerald L. Oaks
Director

signed "Ernesto Sarpi"

Ernesto Sarpi
Director

June 12, 2006

APPENDIX B — OIL RESERVE INFORMATION EFFECTIVE DECEMBER 31, 2005

Disclosure of Reserves Data

Petrobank engaged D&M to evaluate PCL's oil reserves as at December 31, 2005, and in connection therewith D&M prepared the December D&M Report evaluating the Company's oil reserves as at December 31, 2005.

The reserves data set forth in this Appendix B are based upon evaluations by D&M with an effective date of December 31, 2005 contained in the December D&M Report. The reserves data summarizes the crude oil reserves of the Company and the net present values of future net revenue for these reserves using constant prices and costs and forecast prices and costs. The reserves data set forth complies with the requirements of NI 51-101. Additional information not required by NI 51-101 has been presented to provide continuity and additional information which we believe is important to the readers of this information. D&M was engaged by the Company's parent company, Petrobank, to provide evaluations of proved, probable, and possible reserves.

All of the Company's reserves are located in Colombia.

In preparing the December D&M Report, basic information was obtained from Petrominerales, which included land data, well information, geological information, reservoir studies, estimates of on-stream dates, contract information, current hydrocarbon product prices, operating cost data, capital budget forecasts, financial data and future operating plans. Other engineering, geological or economic data required to conduct the evaluations and upon which the December D&M Report are based was obtained from public records, other operators and from D&M non-confidential files. The extent and character of ownership and the accuracy of all factual data supplied for the independent evaluation, from all sources, was accepted by D&M as represented.

Estimated future net revenue based on the December D&M Report is presented in U.S. dollars. All evaluations and reviews of future net cash flow are stated prior to any provision for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimated future net cash flow shown below is representative of the fair market value of the Company's properties. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of crude oil reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil reserves may be greater than or less than the estimates provided herein.

See "Statement of Reserves Data and Other Related Information — Disclosure of Reserves Data" in this prospectus for a description of the December D&M Report.

**SUMMARY OF OIL AND GAS RESERVES
AS OF DECEMBER 31, 2005
CONSTANT PRICES AND COSTS**

<u>RESERVES CATEGORY</u>	<u>RESERVES</u>	
	<u>LIGHT AND MEDIUM OIL</u>	
	<u>Company Working Interest</u>	<u>Company Net</u>
	(mmbbls)	(mmbbls)
PROVED		
Developed Producing	2,141	1,971
Undeveloped	<u>7,033</u>	<u>6,449</u>
TOTAL PROVED	9,174	8,420
PROBABLE	<u>5,939</u>	<u>5,414</u>
TOTAL PROVED PLUS PROBABLE	<u>15,113</u>	<u>13,834</u>
POSSIBLE	<u>6,159</u>	<u>5,587</u>
PROVED PLUS PROBABLE PLUS POSSIBLE	<u><u>21,272</u></u>	<u><u>19,421</u></u>

Note:

* Table may not add due to rounding.

**CONSTANT PRICES AND COSTS
NET PRESENT VALUES OF FUTURE NET REVENUE
AS OF DECEMBER 31, 2005**

<u>RESERVES CATEGORY</u>	<u>BEFORE INCOME TAXES DISCOUNTED</u>				<u>AFTER INCOME TAXES DISCOUNTED</u>			
	<u>AT (%/year)</u>				<u>AT (%/year)</u>			
	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>
	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)
PROVED								
Developed Producing	88,196	71,360	59,535	50,874	83,547	68,735	58,009	49,961
Undeveloped	<u>221,192</u>	<u>165,783</u>	<u>126,059</u>	<u>96,841</u>	<u>157,606</u>	<u>118,700</u>	<u>90,346</u>	<u>69,165</u>
TOTAL PROVED	309,388	237,143	185,594	147,715	241,153	187,435	148,355	119,126
PROBABLE	<u>199,978</u>	<u>153,559</u>	<u>120,913</u>	<u>97,047</u>	<u>130,039</u>	<u>99,081</u>	<u>77,291</u>	<u>61,370</u>
TOTAL PROVED PLUS PROBABLE	<u>509,366</u>	<u>390,702</u>	<u>306,507</u>	<u>244,762</u>	<u>371,192</u>	<u>286,516</u>	<u>225,646</u>	<u>180,496</u>
POSSIBLE	<u>249,732</u>	<u>176,436</u>	<u>128,631</u>	<u>96,246</u>	<u>162,152</u>	<u>114,454</u>	<u>83,346</u>	<u>62,277</u>
PROVED PLUS PROBABLE PLUS POSSIBLE	<u><u>759,098</u></u>	<u><u>567,138</u></u>	<u><u>435,138</u></u>	<u><u>341,008</u></u>	<u><u>533,344</u></u>	<u><u>400,970</u></u>	<u><u>308,992</u></u>	<u><u>242,773</u></u>

Note:

* Table may not add due to rounding.

**TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
AS OF DECEMBER 31, 2005
CONSTANT PRICES AND COSTS**

<u>RESERVES CATEGORY</u>	<u>REVENUE</u> (US M\$)	<u>ROYALTIES</u> (US M\$)	<u>OPERATING COSTS</u> (US M\$)	<u>DEVELOPMENT COSTS</u> (US M\$)	<u>FUTURE NET REVENUE BEFORE INCOME TAXES</u>	<u>TAXES</u>	<u>FUTURE NET REVENUE AFTER INCOME TAXES</u>
					(US M\$)	(US M\$)	(US M\$)
TOTAL PROVED	455,467	36,437	35,242	74,400	309,388	68,235	241,153
TOTAL PROVED PLUS PROBABLE	746,515	59,721	57,528	119,900	509,366	138,174	371,192
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	1,049,358	83,949	81,411	124,900	759,098	225,754	533,344

Note:

* Table may not add due to rounding.

**FUTURE NET REVENUE
BY PRODUCTION GROUP
AS OF DECEMBER 31, 2005
CONSTANT PRICES AND COSTS**

<u>RESERVES CATEGORY</u>	<u>PRODUCTION GROUP</u>	<u>FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year)</u>
		(US M\$)
TOTAL PROVED	Light and Medium Crude Oil	185,594
TOTAL PROVED PLUS PROBABLE	Light and Medium Crude Oil	306,507
PROVED PLUS PROBABLE PLUS POSSIBLE	Light and Medium Crude Oil	435,138

**SUMMARY OF OIL AND GAS RESERVES
AS OF DECEMBER 31, 2005
FORECAST PRICES AND COSTS**

<u>RESERVES CATEGORY</u>	<u>RESERVES</u>	
	<u>LIGHT AND MEDIUM OIL</u>	
	<u>Company Working Interest</u> (mbbls)	<u>Company Net</u> (mbbls)
PROVED		
Developed Producing	2,171	1,999
Undeveloped	7,411	6,796
TOTAL PROVED	9,582	8,795
PROBABLE	6,503	5,929
TOTAL PROVED PLUS PROBABLE	16,085	14,724
POSSIBLE	6,178	5,602
PROVED PLUS PROBABLE PLUS POSSIBLE	22,263	20,326

Note:

* Table may not add due to rounding.

FORECAST PRICES AND COSTS
NET PRESENT VALUE OF FUTURE NET REVENUE
AS OF DECEMBER 31, 2005

<u>RESERVES CATEGORY</u>	<u>BEFORE INCOME TAXES DISCOUNTED</u>				<u>AFTER INCOME TAXES DISCOUNTED</u>			
	<u>AT (%/year)</u>				<u>AT (%/year)</u>			
	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>
	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)
PROVED								
Developed Producing	80,244	64,469	53,579	45,717	76,011	62,136	52,258	44,944
Undeveloped	198,527	144,863	107,182	80,001	144,472	106,465	79,212	59,160
TOTAL PROVED	278,771	209,332	160,761	125,718	220,483	168,601	131,470	104,104
PROBABLE	188,917	142,450	110,272	87,090	123,416	92,292	70,700	55,136
TOTAL PROVED PLUS PROBABLE	467,688	351,782	271,033	212,808	343,899	260,893	202,170	159,240
POSSIBLE	222,421	156,405	113,630	84,802	144,561	101,579	73,729	54,956
PROVED PLUS PROBABLE PLUS POSSIBLE	690,109	508,187	384,663	297,610	488,460	362,472	275,899	214,196

Note:

* Table may not add due to rounding.

TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
AS OF DECEMBER 31, 2005
FORECAST PRICES AND COSTS

<u>RESERVES CATEGORY</u>	<u>REVENUE</u>	<u>ROYALTIES</u>	<u>OPERATING COSTS</u>	<u>DEVELOPMENT COSTS</u>	<u>FUTURE NET REVENUE BEFORE INCOME TAXES</u>	<u>INCOME TAXES</u>	<u>FUTURE NET REVENUE AFTER INCOME TAXES</u>
	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)	(US M\$)
TOTAL PROVED	428,105	32,248	40,104	74,982	278,771	58,288	220,483
TOTAL PROVED PLUS PROBABLE	712,991	57,039	66,882	121,382	467,688	123,789	343,899
PROVED PLUS PROBABLE PLUS POSSIBLE	988,996	79,120	93,192	126,575	690,109	201,649	488,460

Note:

* Table may not add due to rounding.

FUTURE NET REVENUE
BY PRODUCTION GROUP
AS OF DECEMBER 31, 2005
FORECAST PRICES AND COSTS

<u>RESERVES CATEGORY</u>	<u>PRODUCTION GROUP</u>	<u>FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year)</u>
		(US M\$)
TOTAL PROVED	Light and Medium Crude Oil	160,761
TOTAL PROVED PLUS PROBABLE	Light and Medium Crude Oil	271,033
PROVED PLUS PROBABLE PLUS POSSIBLE	Light and Medium Crude Oil	384,663

Pricing Assumptions

The following sets forth the benchmark reference prices, reflected in the reserves data and utilized in the December D&M Report.

Summary of Pricing Assumptions Constant Prices and Costs

The December D&M Report assumed a WTI at Cushing constant price of US\$61.11/bbl. The average selling price was US\$50.74/bbl at Orito and US\$44.61/bbl at Neiva.

SUMMARY OF PRICING ASSUMPTIONS FORECAST PRICES AND COSTS

Year	WTI Crude Oil at Cushing	Average Selling Price at Orito	Average Selling Price at Neiva
	(US\$/bbl)	(US\$/bbl)	(US\$/bbl)
2006	58.00	48.10	42.34
2007	56.38	46.72	41.15
2008	52.53	43.45	38.35
2009	51.69	42.74	37.73
2010	52.72	43.61	38.49
Thereafter	+2%/year	+2%/year	+2%/year

Note:

Light and medium crude oil prices averaged US\$44.27/bbl at the wellhead in 2005.

RECONCILIATION OF COMPANY NET RESERVES BY PRINCIPAL PRODUCT TYPE FORECAST PRICES AND COSTS

	NET RESERVES		
	Light and Medium Oil		
	Total Proved	Total Probable	Total Proved Plus Probable
	(mmbbls)	(mmbbls)	(mmbbls)
December 31, 2004	5,192	3,511	8,703
Extensions	—	—	—
Improved Recovery	—	—	—
Technical Revisions	4,503	4,098	8,601
Discoveries	—	—	—
Acquisitions	—	—	—
Dispositions	—	—	—
Economic Factors	(554)	(1,680)	(2,234)
Production	(346)	—	(346)
December 31, 2005	8,795	5,929	14,724

Note:

* Table may not add due to rounding.

**RECONCILIATION OF CHANGES IN
NET PRESENT VALUES OF FUTURE NET REVENUE
DISCOUNTED AT 10% PER YEAR
TOTAL PROVED RESERVES
CONSTANT PRICES AND COSTS**

	<u>2005</u>
	(US M\$)
Estimated Future Net Revenue at December 31, 2004 (without abandonment costs)	68,994
Oil and Gas Sales During the Period Net of Production Costs and Royalties ⁽¹⁾	(12,438)
Changes due to Prices, Royalties and Production Costs Related to Forecast Production ⁽²⁾	35,358
Development Costs During the Period	20,915
Changes in Estimated Future Development Costs	(63,188)
Accretion of Discount ⁽³⁾	8,249
Net Change in Income Taxes ⁽⁴⁾	(23,744)
Changes Resulting from Technical Reserves Revisions	116,984
Other ⁽⁵⁾	<u>(2,775)</u>
Estimated Future Net Revenue at December 31, 2005	<u>148,355</u>

Notes:

- (1) Company actual before income taxes, excluding general and administrative expenses.
- (2) The impact of changes in prices and other economic factors on future net revenue.
- (3) Estimated as 10 percent of the beginning of period net present value.
- (4) The difference between forecast income taxes at beginning of period and the actual taxes for the period plus forecast income taxes at the end of period.
- (5) Includes changes due to revised production profiles, development timing, actual price received in 2005 versus forecast, etc.

* Table may not add due to rounding.

FUTURE DEVELOPMENT COSTS⁽¹⁾⁽²⁾

<u>YEAR</u>	<u>FORECAST PRICES AND COSTS</u>		<u>CONSTANT PRICES AND COSTS</u>
	<u>TOTAL PROVED RESERVES</u>	<u>TOTAL PROVED PLUS PROBABLE RESERVES</u>	<u>TOTAL PROVED RESERVES</u>
	(US M\$)	(US M\$)	(US M\$)
2006	45,300	56,500	45,300
2007	29,682	53,958	29,100
2008	-	10,924	-
2009	-	-	-
2010	-	-	-
Thereafter	—	—	—
Total undiscounted	<u>74,982</u>	<u>121,382</u>	<u>74,400</u>
Total discounted at 10%	<u>68,920</u>	<u>109,249</u>	<u>68,415</u>

Notes:

- (1) The above table sets forth development costs deducted in the estimation of the Company's future net revenue attributable to the reserve categories noted above.
- (2) Future development costs are expected to be funded by internally generated cash flow, and from a combination of equity financing and debt, the costs of which are not expected to have an effect on the reserves or future net revenue.

* Table may not add due to rounding.

2006 PRODUCTION ESTIMATES

The following table sets out the volume of the Company's production estimated for the year ended December 31, 2006 which is reflected in the estimate of future net revenue disclosed in the December D&M Report.

<u>RESERVES CATEGORY</u>	<u>LIGHT AND MEDIUM OIL</u>	
	<u>Company Working Interest</u> (bbl/d)	<u>Company Net</u> (bbl/d)
PROVED DEVELOPED PRODUCING		
Orito	801	737
Neiva	223	205
Total Proved Developed Producing	1,024	942
TOTAL PROVED		
Orito	1,581	1,455
Neiva	417	384
Total Proved	1,998	1,838
TOTAL PROVED PLUS PROBABLE		
Orito	1,957	1,800
Neiva	557	512
Total Proved Plus Probable ⁽¹⁾	2,513	2,312

Note:

(1) No production assigned to possible reserves.

* Table may not add due to rounding.

Notes to Reserve Data Tables

In the tables set forth in this Appendix B, the following definitions and other notes are applicable:

- Crude oil reserves estimates presented in the D&M Reports are based on the definitions and guidelines contained in the COGE Handbook. A summary of those definitions is set forth below:

Reserve Categories

Reserves are estimated remaining quantities of crude oil anticipated to be recoverable from known accumulations, from a given date forward, based on:

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology; and
- specified economic conditions.

Reserves are classified according to the degree of certainty associated with the estimates.

- (a) **Proved reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (b) **Probable reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- (c) **Possible reserves** are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

Other criteria that must also be met for the categorization of reserves are provided in the COGE Handbook.

Each of the proved and probable reserve categories may be divided into developed and undeveloped categories:

- (d) **Developed reserves** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
 - (i) **Developed producing reserves** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
 - (ii) **Developed non-producing reserves** are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.
- (e) **Undeveloped reserves** are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserve estimates are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves;
- (b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves; and
- (c) at least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserve estimates and the effect of aggregation is provided in the COGE Handbook.

2. Forecast prices and costs

Future prices and costs that are:

- (a) generally acceptable as being a reasonable outlook of the future; and
- (b) if and only to the extent that, there are fixed or presently determinable future prices or costs to which the Company is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

The forecast summary table contained on page A-5 of Appendix A identifies benchmark reference pricing utilized in the March D&M Report. The forecast summary table contained on page B-4 of Appendix B identifies benchmark reference pricing utilized in the December D&M Report.

3. Constant prices and costs

Prices and costs used in an estimate that are:

- (a) the Company's prices and costs as at the effective date of the estimation, held constant throughout the estimated lives of the properties to which the estimate applies; and
- (b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which the Company is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

For the purposes of paragraph (a), the Company's prices are the posted prices for oil after historical adjustments for quality transportation, gravity and other factors.

The constant crude oil benchmark reference pricing utilized in the March D&M Report were as set forth on page A-4 of Appendix A. The constant crude oil benchmark reference pricing utilized in the December D&M Report were as set forth on page B-4 of Appendix B.

- 4. Estimated future abandonment and reclamation costs related to a property have not been taken into account by D&M in determining reserves that should be attributed to a property and in determining the aggregate future net revenue therefrom.
- 5. Columns may not add due to rounding.
- 6. Both the constant and forecast price and cost assumptions assumed the continuance of current laws and regulations.
- 7. The extended character of all factual data supplied to D&M was accepted by D&M as represented. No field inspection was conducted.
- 8. Undeveloped Reserves

Subject to the success of operations, within the next two years, the Company has the following plans regarding the development of proved and probable undeveloped reserves:

The Company's undeveloped medium to light oil reserves in the D&M Reports are located in Colombia within the Orito Caballos reservoir and at Neiva. The Company's proved undeveloped reserves are planned to be developed through the drilling of nine locations at Orito and nine at Neiva during 2006 and 2007, along with workovers and fracture stimulations at Orito in 2006. The D&M Reports include an additional five probable and 15 possible locations at Orito and 15 probable locations at Neiva, which are expected to be drilled starting in 2006 and continuing through 2009.

Undeveloped reserves, like all projects, are subject to competition for capital and consequently may be delayed or accelerated from time to time.

9. Income Taxes

After Income Tax amounts are shown after Colombian income tax. The Company does not expect to pay Canadian income tax.

Significant Factors or Uncertainties Affecting Reserves Data

There are numerous uncertainties inherent in estimating quantities of proved reserves, including many factors beyond the control of the Company. The reserve data included herein represents estimates only. In general, estimates of economically recoverable crude oil reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary considerably from actual results. The actual production, revenues, taxes and development and operating expenditures of the Company with respect to these reserves will vary from such estimates, and such variances could be material, provided that there is inherent degree of certainty associated with the particular reserves category disclosed.

Estimates with respect to proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be substantial, in the estimated reserves.

Consistent with the securities disclosure legislation and policies of Canada, the Company has used forecast prices and costs in calculating reserve quantities included herein. Actual future net cash flows also will be affected by other factors such as actual production levels, supply and demand for oil, curtailments or increases in consumption by oil purchasers, changes in governmental regulation or taxation, currency exchange rates and the impact of inflation on costs.

The Company's reserves at the Orito and Neiva fields are also subject to an R Factor calculation under which the Company's interest in reserves decreases as the ratio of cumulative revenues to cumulative costs increases. Accordingly, at higher prices the Company's reserve values increase but reserve volumes decline, thereby increasing reserve uncertainty. See "Industry Conditions — Incremental Production Contracts (IPCs)".

Oil Wells

The following table summarizes the Company's interests as at December 31, 2005 in oil wells, all of which are located onshore.

	Oil			
	Producing		Non-Producing ⁽¹⁾	
	Gross	Net	Gross	Net
Orito	53	42	65	51
Neiva	65	45	14	10
Total	<u>118</u>	<u>87</u>	<u>79</u>	<u>61</u>

Note:

(1) Wells also include wells that were drilled by the original holder of the blocks or Ecopetrol.

Undeveloped Land Holdings

The undeveloped land holdings of the Company total 2,516,966 acres (gross and net). Undeveloped acreage includes rights granted pursuant to Exploration Contracts and TEAs, which require certain work commitments. First term commitments for exploration licenses include evaluation of existing data and acquisition, processing and interpretation of additional seismic to be acquired by the Company. In the case of the Joropo Exploration Contract, the Company is in the second term, with a work commitment of drilling one exploration well. In the

case of TEAs, the work commitment is interpretation of existing data. If, at the end of the exploration term, the Company elects not to proceed with additional work commitments, all or a portion of this acreage may revert back to the ANH. In addition, a portion of the Company's TEAs will revert to the ANH at the end of their term. The amount the Company retains will ultimately depend on the location and size of any acreage, if any, selected within the TEA for conversion to an Exploration Contract. See "Industry Conditions — Exploration Contracts and TEAs."

Forward Contracts and Future Commitments

See "Management's Discussion and Analysis — Liquidity and Capital Resources" in this prospectus for a description of future commitments and see Note 11, "Commitments and Contingencies", to PCL's financial statements as at and for the year ended December 31, 2005 included in this prospectus and under the heading "Narrative Description of the Business" in this prospectus for a description of the forward contracts and future commitments of the Company.

The nature of the crude oil operations exposes the Company to risks associated with fluctuations in commodity prices and foreign currency exchange rates. To date, the Company has not utilized derivative instruments to manage these risks.

Abandonment and Reclamation Costs

Abandonment and reclamation costs were estimated for all legal obligations associated with the retirement of long-lived tangible assets such as wells, facilities and plants based on market prices or on the best information available where no market price was available. The estimated costs are then inflated at two percent over time until the actual retirement is expected to occur. In Colombia, Ecopetrol maintains ownership of all wells once the IPCs expire. Until the contracts expire, the Company is potentially liable for abandonment and reclamation costs for all wells drilled or intervened by the Company. As of December 31, 2005, 50 wells have either been drilled or intervened; however, the Company expects to incur costs on only 15 wells, due to the fact that most wells are expected to produce beyond the term of the IPCs. The Company estimates the total abandonment and reclamation costs net of salvage values of all the Company's operations to be \$2.4 million on an undiscounted basis and \$0.5 million discounted at 10 percent. In the next three financial years the Company does not anticipate incurring significant abandonment and reclamation costs. The calculation of future net revenue in Colombia excludes \$2.4 million on an undiscounted basis and \$0.5 million discounted at 10 percent, as these calculations do not include any costs for abandonment and reclamation activities in Colombia.

Tax Horizon

In Colombia, the Company's tax pools shelter it from paying current cash income taxes. The Company is subject to presumptive income tax and remittance tax in Colombia, see "Industry Conditions — Taxes". Based on the Company's current exploration and development plans, the Company does not expect to pay income tax within the next two years. As at December 31, 2005, the Company had \$145.3 million of Colombian tax pools available.

Environment

The Company continued its third year of operations in Colombia with 100 percent environmental compliance in executing its development programs and without any lost time accidents or environmental incidents. The Company's social responsibility strategies include environmental compliance and promoting fundamental relationships with local communities and the provincial and national authorities.

The Ministry of Environment in Colombia requires environmental licenses for all new exploration activity in accordance with strict national regulations. The Company's comprehensive environmental impact assessments and management plans ensured that the environmental license for the first exploration well in the Joropo block was obtained in the shortest time possible. The Company also presented environmental management plans covering 3-D seismic projects on the Casanare Este, Corcel, Casimena and Las Aguilas exploration blocks.

The Company carries out its activities and operations in compliance with all relevant and applicable environmental regulations and best industry practice. At present, the Company believes that it meets all applicable environmental standards and regulations and has included appropriate amounts in its capital expenditure budget to continue to meet its continuing environmental obligations. The costs incurred by the Company in respect of continued environmental compliance and site abandonment and reclamation costs amounted to less than one percent of the total capital expenditures incurred by the Company in 2005. See “Industry Conditions — Environmental Regulation” and “Risk Factors — Risks Related to the Company and its Business — Environmental”.

Community Relations

Petrominerales has established a community relations approach that is based on three principles:

- Local employment is promoted by identifying, providing and supporting job opportunities within Petrominerales’ operating areas. This has been well received by the local communities and contributed to maintaining a positive relationship in and around our operations;
- Education and training programs are focused on strengthening the relationships between communities and the local authorities and on helping communities identify new markets for their goods and services to reduce their dependence on the oil business. Petrominerales’ approach also encourages local community engagement in the government development planning process, and reinforces the link between oil revenues and municipal budgets; and
- Community engagement creates a partnership in the preparation of environmental base line studies for local environmental management, which strengthens the relationship with communities by combining Petrominerales’ expertise and environmental approach with local knowledge of the environment and land management. The Company is continuing to build a relationship of trust by encouraging communities to become involved in all aspects of the Company’s environmental management processes.

Petrominerales’ approach has been cited by both the government and the oil industry as the best practice model to follow. As an example of this approach, Petrominerales recently conducted a highly successful community consultation process with the traditional Embera people of the La Venada indigenous reservation in connection with the west Orito/Las Aguilas 3-D seismic project. In Colombia during 2005, 99 indigenous consultation processes were undertaken by industry, with only three yielding positive agreements. The Petrominerales agreement resulted in participation of indigenous representatives in the environmental impact studies, which covered an important portion of their traditional territory. The process produced a set of agreements with the people of La Venada that, in the national context, was accomplished in a very short time frame and at a low cost. By the end of March 2006, the Company’s seismic acquisition was completed with total environmental compliance and no health or safety incidents.

Fundación Vichituni

Petrominerales has created and initially funded Fundación Vichituni to assist in developing and enhancing basic social and environmental values in the regions directly influenced by the Company’s operations. Vichituni, from the traditional Embera language, translates as “you are worthy”. Fundación Vichituni’s mission is to promote community growth and an enhanced quality of life. This Foundation involves entire communities, governments and third party partners contributing to the creation and completion of educational projects with a focus on developmental issues. After comprehensive research and a careful strategic planning process, the Foundation has created two main lines of work in which this community development program will be focused on:

- Working with authorities and communities in the Land Use Plan of Putumayo, which will strengthen the local government’s capacity to plan their development; and
- Increasing the knowledge of the cultural and traditional diversity of the communities in Putumayo, allowing a better use of the land by harmonizing diverse development approaches.

This foundation is also seeking international funding and partnerships with the goal of self-sustainability within the first two years of its operation.

Security

Although there are certain security risks associated with operating in Colombia, as there are in many countries, the security environment in Colombia has improved significantly since the election of President Alvaro Uribe in 2002, and the Company believes these risks can be effectively managed. Working with local communities promotes an atmosphere of mutual respect, benefit and trust, and thereby decreases the risk of serious security issues. Within Bogotá and in field operating areas, Petrominerales maintains contact with appropriate local, regional and national bodies to monitor any local security situations and mitigate risk. Crime statistics from the Colombian National Police indicate that in 2005, compared to 2002, homicides decreased by 40 percent, kidnapping decreased by 62 percent, pirating decreased by 50 percent and auto theft decreased approximately 40 percent. In the case of the energy industry, pipeline attacks decreased only slightly, but their impact on the industry has been significantly minimized. During the same period, terrorism against electricity infrastructure decreased approximately 43 percent.

Capital Expenditures

The following table summarizes capital expenditures related to the Company's activities for the year ended December 31, 2005:

	(\$000)
Development drilling and completions	18,683
Facilities and equipment	293
Seismic	5,095
Workovers and other	14,353
Total capital expenditures	<u>38,424</u>

Development

The following table summarizes the gross and net development wells in which the Company participated during the year ended December 31, 2005. All wells were located in Colombia.

	Development		Total	
	Gross	Net	Gross	Net
Development oil wells	3.0	2.4	3.0	2.4
Success rate	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Company's development plans are discussed under the heading "Narrative Description of the Business".

History

Production

The following table shows the Company's average working interest production volumes before deduction of royalties payable to others, and average netbacks received for each of the last four fiscal quarters by product type. See "Property Descriptions" for production volumes by major area.

	Three Months Ended			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
Average daily production (bbl/d)	<u>1,072</u>	<u>1,024</u>	<u>1,073</u>	<u>955</u>

Average daily working interest production averaged 1,356 bbl/d in the first quarter of 2006. As a result of recompletions and the completion of the Orito 117 and 118 wells, production in May 2006 averaged 2,588 bbl/d working interest to the Company before deduction of an eight percent royalty.

Light and Medium Crude Oil Netback (\$ per bbl)

The following table shows the Company's crude oil netback values for the periods indicated.

	Three Months Ended			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
Average price received	49.13	52.34	60.24	52.50
Royalties	3.93	4.19	4.82	4.20
Operating costs ⁽¹⁾	8.46	10.09	9.41	10.08
Netback	<u>36.74</u>	<u>38.06</u>	<u>46.01</u>	<u>38.22</u>

Note:

(1) Operating costs are expenses incurred in the operation of producing properties and include items such as Ecopetrol operating fees, field staff salaries, repairs and maintenance, overhead fees and other costs.

FORM 51-101F2
REPORT ON RESERVES DATA BY
INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR

To the board of directors of Petrobank Energy and Resources Ltd. (the “Company”):

1. Pursuant to the request of the Company, we have evaluated the Company’s reserves data as of December 31, 2005. The reserves data include the following:
 - (a) (i) proved, proved-plus-probable, and proved-plus-probable-plus-possible oil and gas reserves estimated as of December 31, 2005, using forecast (as defined in our report) prices and costs; and
 - (ii) the related estimated future net revenue for proved and proved-plus-probable reserves; and
 - (b) (i) proved, proved-plus-probable, and proved-plus-probable-plus-possible oil and gas reserves estimated as of December 31, 2005, using constant (as defined in our report) prices and costs; and
 - (ii) the related estimated future net revenue for proved and proved-plus-probable reserves.
2. The reserves data are the responsibility of the Company’s management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the “COGE Handbook”) prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to assure that reserves estimates are free of material misstatement and are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of Canadian income taxes) in thousands of United States dollars (M US\$) for proved-plus-probable reserves evaluated by us, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, evaluated as of December 31, 2005, and identifies the respective portions thereof that we have evaluated and reported to Company’s management:

Independent Qualified Reserves Evaluator	Description and Effective Date of Evaluation	Location of Reserves	Net Present Value of Future Net Revenue (before Canadian Income Tax, Discounted at 10 Percent)			
			Audited	Evaluated	Reviewed	Total
			(M US\$)	(M US\$)	(M US\$)	(M US\$)
DeGolyer and MacNaughton	Appraisal Report as of December 31, 2005 on the Orito Field and Neiva Block in Colombia for Petrobank Energy and Resources Ltd. dated March 8, 2006	Colombia	Not Applicable	202,170	Not Applicable	202,170

5. In our opinion, the reserves and revenue evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.
6. We have no responsibility to update our report referred to in paragraph 4 for events and circumstances occurring after the report preparation date.
7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

DeGolyer and MacNaughton, Dallas, Texas USA, dated March 8, 2006.

Submitted,

DeGOLYER and MacNAUGHTON

(signed) "R. M. Shuck, P.E."
R. M. Shuck, P.E.
Senior Vice President
DeGolyer and MacNaughton

FORM 51-101F3
REPORT OF MANAGEMENT AND DIRECTORS
ON OIL AND GAS DISCLOSURE

Terms to which a meaning is ascribed in National Instrument 51-101 have the same meaning herein.

Management of Petrominerales Ltd. (the "Company") are responsible for the preparation and disclosure, or arranging for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

- (a) (i) Proved and Proved plus probable oil and gas reserves estimated as at December 31, 2005 using forecast prices and costs; and
- (ii) the related estimated future net revenue; and
- (b) (i) Proved oil and gas reserves estimated as at December 31, 2005 using constant prices and costs; and
- (ii) the related estimated future net revenue.

Independent qualified reserves evaluators have evaluated the Company's reserves data. The reports of the independent qualified reserves evaluators, to the extent not already filed, will be filed with securities regulatory authorities concurrently with this report.

The Board of Directors of the Company has:

- (c) reviewed the Company's procedures for providing information to the independent qualified reserves evaluators;
- (d) met with the independent qualified reserves evaluators to determine whether any restrictions affected the ability of the independent qualified reserves evaluators to report without reservation qualified reserves evaluators, to inquire whether there had been disputes between the previous independent qualified reserves evaluators; and
- (e) reviewed the reserves data with management and the independent qualified reserves evaluators.

The Board of Directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with Management. The Board of Directors has approved:

- (f) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;
- (g) the filing of the report of the independent qualified reserves evaluators; and
- (h) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

signed "John D. Wright"

John D. Wright
President & Chief Executive Officer

signed "Steven J. Benedetti"

Steven J. Benedetti
Senior Vice President and Colombian Country Manager

signed "Jerald L. Oaks"

Jerald L. Oaks
Director

signed "Ernesto Sarpi"

Ernesto Sarpi
Director

May 5, 2006

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COMPILATION REPORT

To the Directors of Petrominerales Ltd.

We have read the accompanying unaudited pro forma consolidated balance sheet of Petrominerales Ltd. (the "Company") as at March 31, 2006 and the unaudited pro forma consolidated statements of operations for the three months ended March 31, 2006 and for the year ended December 31, 2005, and have performed the following procedures:

1. Compared the figures in the columns captioned "PM" to the audited balance sheet of the Company as at April 20, 2006, and found them to be in agreement.
2. Compared the figures in the columns captioned "PCL" to the unaudited interim financial statements of Petrominerales Colombia Ltd. as at March 31, 2006 and for the three months then ended, and the audited financial statements of Petrominerales Colombia Ltd. as at December 31, 2005 and for the year then ended and found them to be in agreement.
3. Made enquiries of certain officials of the Company who have responsibility for financial and accounting matters about:
 - (a) the basis for determination of the pro forma adjustments; and
 - (b) whether the unaudited pro forma consolidated financial statements comply as to form in all material respects with the regulatory requirements of the various Securities Commissions and similar regulatory authorities in Canada.

The officials of the Company:

- (c) described to us the basis for determination of the pro forma adjustments; and
 - (d) stated that the unaudited pro forma consolidated financial statements comply as to form in all material respects with the regulatory requirements of the various Securities Commissions and similar regulatory authorities in Canada.
4. Read the notes to the unaudited pro forma consolidated financial statements and found them to be consistent with the basis described to us for determination of the pro forma adjustments.
5. Recalculated the application of the pro forma adjustments to the aggregate of the amounts in the columns captioned "PM" and "PCL" as at March 31, 2006, and for the three months then ended and for the year ended December 31, 2005, and found the amounts in the column captioned "PM Pro Forma" to be arithmetically correct.

Pro forma financial statements are based on management's assumptions and adjustments which are inherently subjective. The foregoing procedures are substantially less than either an audit or a review, the objective of which is the expression of assurance with respect to management's assumptions, the pro forma adjustments, and the application of the adjustments to the historical financial information. Accordingly, we express no such assurance. The foregoing procedures would not necessarily reveal matters of significance to the unaudited pro forma financial statements, and we therefore make no representation about the sufficiency of the procedures for the purposes of a reader of such statements.

Calgary, Canada
June 13, 2006

(Signed) DELOITTE & TOUCHE LLP
Chartered Accountants

PETROMINERALES LTD.
PRO FORMA CONSOLIDATED BALANCE SHEET
(Unaudited, thousands of Canadian dollars)

<u>As at March 31, 2006</u>	<u>PM</u>	<u>PCL</u>	<u>Pro Forma Adjustments (Note 2)</u>	<u>PM Pro Forma</u>
Assets				
Current assets				
Cash and cash equivalents	\$ —	\$ 124	\$ 55,800	\$ 55,924
Accounts receivable and other current assets	—	6,135	—	6,135
	<u>—</u>	<u>6,259</u>	<u>55,800</u>	<u>62,059</u>
Capital assets	—	119,841	—	119,841
	<u>\$ —</u>	<u>\$126,100</u>	<u>\$ 55,800</u>	<u>\$181,900</u>
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	\$ —	\$ 16,702	\$ —	\$ 16,702
Asset retirement obligations	—	669	—	669
	<u>—</u>	<u>17,371</u>	<u>—</u>	<u>17,371</u>
Shareholders' equity				
Common shares	—	18	174,901	174,919
Contributed surplus	—	119,101	(119,101)	—
Deficit	—	(10,390)	—	(10,390)
	<u>—</u>	<u>108,729</u>	<u>55,800</u>	<u>164,529</u>
	<u>\$ —</u>	<u>\$126,100</u>	<u>\$ 55,800</u>	<u>\$181,900</u>

PETROMINERALES LTD.
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited, thousands of Canadian dollars)

<u>For the year ended December 31, 2005</u>	<u>PM</u>	<u>PCL</u>	<u>Pro Forma Adjustments</u>	<u>PM Pro Forma</u>
Revenues				
Crude oil	\$ —	\$20,177	\$ —	\$20,177
Royalties	<u>—</u>	<u>(1,614)</u>	<u>—</u>	<u>(1,614)</u>
	<u>—</u>	<u>18,563</u>	<u>—</u>	<u>18,563</u>
Expenses				
Production	—	3,571	—	3,571
General and administrative	—	3,536	—	3,536
Foreign exchange loss	—	199	—	199
Depletion, depreciation and accretion	<u>—</u>	<u>6,974</u>	<u>—</u>	<u>6,974</u>
	<u>—</u>	<u>14,280</u>	<u>—</u>	<u>14,280</u>
Income before taxes	—	4,283	—	4,283
Taxes	<u>—</u>	<u>(1,556)</u>	<u>—</u>	<u>(1,556)</u>
Net income	<u>\$ —</u>	<u>\$ 2,727</u>	<u>\$ —</u>	<u>\$ 2,727</u>
Earnings per share (Note 3)				<u>\$ 0.03</u>

PETROMINERALES LTD.
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited, thousands of Canadian dollars)

<u>For the three months ended March 31, 2006</u>	<u>PM</u>	<u>PCL</u>	<u>Pro Forma Adjustments</u>	<u>PM Pro Forma</u>
Revenues				
Crude oil	\$ —	\$7,204	\$ —	\$7,204
Royalties	<u>—</u>	<u>(576)</u>	<u>—</u>	<u>(576)</u>
	<u>—</u>	<u>6,628</u>	<u>—</u>	<u>6,628</u>
Expenses				
Production	—	1,179	—	1,179
General and administrative	—	961	—	961
Foreign exchange loss	—	105	—	105
Depletion, depreciation and accretion	<u>—</u>	<u>2,258</u>	<u>—</u>	<u>2,258</u>
	<u>—</u>	<u>4,503</u>	<u>—</u>	<u>4,503</u>
Income before taxes	—	2,125	—	2,125
Taxes	<u>—</u>	<u>(500)</u>	<u>—</u>	<u>(500)</u>
Net income	<u>\$ —</u>	<u>\$1,625</u>	<u>\$ —</u>	<u>\$1,625</u>
Earnings per share (Note 3)				<u>\$ 0.02</u>

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005 and March 31, 2006

(Unaudited, in Canadian dollars)

NOTE 1 — BASIS OF PRESENTATION

The accompanying unaudited pro forma consolidated financial statements (the “Pro Forma Financial Statements”) of Petrominerales Ltd. (the “Company”) have been prepared by management in accordance with Canadian generally accepted accounting principles for inclusion in a prospectus relating to the initial public offering and secondary offering of common shares of the Company.

The Company was incorporated on April 20, 2006. Pursuant to an underwriting agreement dated June 13, 2006, the Company agreed to sell 16,000,000 common shares in an initial public offering from treasury on an underwritten basis, and the Company’s shareholder, Petro International Ltd. agreed to sell up to 4,000,000 common shares of the Company held by it through a secondary offering of Petro International Ltd.’s shareholdings of the Company on a “best efforts” basis, in each case at a price of \$3.75 per common share.

Pursuant to a share exchange agreement dated June 9, 2006, the Company acquired all of the issued and outstanding common shares of Petrominerales Colombia Ltd. (“PCL”) from Petro International Ltd. in exchange for 78,999,900 newly issued common shares of the Company.

The Pro Forma Financial Statements have been prepared from and should be read in conjunction with:

- The audited balance sheet of the Company as at April 20, 2006;
- The audited financial statements of PCL as at December 31, 2005 and 2004 and for each of the years in the three year period ended December 31, 2005; and
- The unaudited interim financial statements of PCL as at and for the three month period ended March 31, 2006.

Accounting policies used in the preparation of the Pro Forma Financial Statements are in accordance with those used in the preparation of PCL’s audited financial statements as at December 31, 2005 and 2004 and for each of the years in the three year period ended December 31, 2005.

The acquisition of PCL by the Company is a non-arms length transaction between 100 percent owned subsidiaries of Petrobank Energy and Resources Ltd. and as such is recorded at carrying values.

The underlying assumptions for the pro forma adjustments provide a reasonable basis for presenting the significant financial effects directly attributable to the transactions discussed herein, however, the Pro Forma Financial Statements are not necessarily indicative of the results of operations expected in future years.

NOTE 2 — PRO FORMA ADJUSTMENTS

The unaudited pro forma consolidated balance sheet gives effect to the following transactions as if they had occurred on March 31, 2006 while the unaudited pro forma consolidated statement of operations for the three month period ended March 31, 2006 and for the year ended December 31, 2005 give effect to the following transactions as if they had occurred on January 1, 2005.

- (a) The initial public offering of 16,000,000 common shares of the Company from treasury for net proceeds of \$55.8 million.
- (b) The incorporation of the Company and, in connection with the closing of the initial public offering, the acquisition of all of the issued and outstanding common shares of PCL by the Company in exchange for 78,999,900 common shares of the Company.
- (c) The amount shown as contributed surplus on PCL’s audited financial statements has been included in common shares as if PCL and the Company had been combined since inception.

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005 and March 31, 2006

(Unaudited, in Canadian dollars)

NOTE 3 — EARNINGS PER SHARE

Pro forma earnings per share for the three months ended March 31, 2006 and the year ended December 31, 2005 have been calculated using 95,000,000 outstanding common shares, as demonstrated in the table below:

	<u>Number of Common Shares</u>
Incorporation	100
Issued pursuant to share exchange agreement	78,999,900
Issued pursuant to initial public offering	<u>16,000,000</u>
Pro forma outstanding common shares	<u><u>95,000,000</u></u>

PETROMINERALES COLOMBIA LTD.
BALANCE SHEETS
(Unaudited, thousands of Canadian dollars)

	As at	
	March 31, 2006	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	\$ 124	\$ 132
Accounts receivable and other current assets	6,135	2,651
	6,259	2,783
Capital assets	119,841	100,187
	\$126,100	\$102,970
 Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 16,702	\$ 20,534
Asset retirement obligations (Note 3)	669	628
	17,371	21,162
Shareholder's equity		
Common shares (Note 2)	18	18
Contributed surplus (Note 2)	119,101	93,805
Deficit	(10,390)	(12,015)
	108,729	81,808
	\$126,100	\$102,970

See accompanying notes to these financial statements.

PETROMINERALES COLOMBIA LTD.
STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
(Unaudited, thousands of Canadian dollars)

	Three months ended March 31,	
	2006	2005
Revenues		
Crude oil	\$ 7,204	\$ 4,740
Royalties	(576)	(379)
	<u>6,628</u>	<u>4,361</u>
Expenses		
Production	1,179	816
General and administrative	961	851
Foreign exchange loss	105	167
Depletion, depreciation and accretion	2,258	1,666
	<u>4,503</u>	<u>3,500</u>
Income before taxes	2,125	861
Taxes	(500)	(337)
Net income	1,625	524
Deficit, beginning of period	(12,015)	(14,742)
Deficit, end of period	<u>\$(10,390)</u>	<u>\$(14,218)</u>

See accompanying notes to these financial statements.

PETROMINERALES COLOMBIA LTD.
STATEMENTS OF CASH FLOW
(Unaudited, thousands of Canadian dollars)

	Three months ended March 31,	
	2006	2005
Operating Activities		
Net income	\$ 1,625	\$ 524
Depletion, depreciation and accretion	2,258	1,666
	3,883	2,190
Changes in other non-cash working capital	(2,988)	(1,926)
	895	264
Financing Activities		
Contributed surplus received	25,296	3,933
	25,296	3,933
Investing Activities		
Expenditures on capital assets	(21,871)	(4,901)
Changes in other non-cash working capital	(4,328)	974
	(26,199)	(3,927)
Net change in cash position	(8)	270
Cash and cash equivalents, beginning of period	132	89
Cash and cash equivalents, end of period	\$ 124	\$ 359

See accompanying notes to these financial statements.

PETROMINERALES COLOMBIA LTD.
NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
As at and for the three months ended March 31, 2006
(All tabular amounts are expressed in thousands of Canadian dollars)

NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements for Petrominerales Colombia Ltd. (“Petrominerales” or the “Company”) as at and for the three months ended March 31, 2006 should be read in conjunction with the audited financial statements as at and for the year ended December 31, 2005. The notes to these unaudited interim financial statements do not conform in all respects to the note disclosure requirements of generally accepted accounting policies for annual financial statements. These unaudited interim financial statements are prepared using the same accounting policies and methods of computation as disclosed in the audited financial statements as at and for the year ended December 31, 2005.

NOTE 2 — SHARE CAPITAL

As at March 31, 2006 the Company had 12,000 common shares outstanding, par value of US\$1.00 per share, in the amount of \$18,000.

To date, the Company has funded operations with equity contributions from its indirect parent company, Petrobank Energy and Resources Ltd. (“Petrobank”), which have been recorded as contributed surplus.

NOTE 3 — ASSET RETIREMENT OBLIGATIONS

Changes to asset retirement obligations were as follows:

	Three months ended March 31,	
	2006	2005
Asset retirement obligations, beginning of period	\$628	\$422
Accretion expense	13	6
Changes in estimated future cash flows and other	28	—
Asset retirement obligations, end of period	\$669	\$428

The obligations have been calculated using an inflation rate of two percent and discounted using a credit-adjusted risk free rate of eight percent per annum. Most of these obligations are not expected to be paid until the end of the related Incremental Production Contract, 17.25 years in the future, and are expected to be funded from the Company’s general resources available at the time of settlement. The total undiscounted amount of estimated cash flows required to settle the obligations is \$2.5 million (2005 — \$2.1 million).

NOTE 4 — COMMITMENTS AND CONTINGENCIES

The Company has estimated work commitments remaining on its exploration contracts in Colombia totaling US\$4.0 million which are to be incurred by the end of 2006 and includes drilling one exploration well on the Joropo block in the Llanos basin. If the proposed Chicago exploration contract is awarded, the Company would commit to drilling two exploration wells and acquire 3-D seismic data during a 23-month period at an estimated cost of US\$10.0 million.

The Company’s remaining work commitments pursuant to its technical evaluation agreements in Colombia, including contracts finalized subsequent to March 31, 2006, are expected to total US\$1.2 million until the end of 2006 and include reprocessing 2-D seismic and performing regional studies including the feasibility of the Company’s patented THAI™ heavy oil recovery process.

PETROMINERALES COLOMBIA LTD.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (Continued)

As at and for the three months ended March 31, 2006

(All tabular amounts are expressed in thousands of Canadian dollars)

NOTE 4 — COMMITMENTS AND CONTINGENCIES (Continued)

In April 2006, the Company contracted to secure a rig in Colombia for a minimum 16-month term that is expected to commence drilling in the third quarter of 2006 and result in expected payments over the contract term of approximately US\$13.0 million, a portion of which will satisfy the exploration work commitments noted above.

In May 2006, the Company committed to a second rig in Colombia for a minimum 18-month term that is expected to commence drilling in June 2006 and result in expected payments over the contract term of approximately US\$13.5 million.

NOTE 5 — SUBSEQUENT EVENTS

PCL entered into a loan agreement with Petrobank evidencing Petrobank's agreement to continue to fund PCL's capital requirements up to an amount not to exceed \$20 million from April 1, 2006 up to the Closing Date, which amount will be repaid by the Company using a portion of the proceeds from the Treasury Offering. The loan bears interest at a rate of nine percent per annum. As at June 8, 2006, approximately US\$7.7 million has been drawn against this agreement.

In April 2006, the Company obtained a commitment from an international bank for a US\$50 million revolving credit facility with an initial US\$25 million borrowing base. The facility is subject to standard closing conditions.

AUDITORS' REPORT

To the Directors of Petrominerales Colombia Ltd.

We have audited the balance sheets of Petrominerales Colombia Ltd. as at December 31, 2005 and 2004 and the statements of operations and deficit and cash flow for each of the years in the three year period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and all the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
March 10, 2006 (except for Notes 7 and 12
which are as of June 13, 2006)

(Signed) DELOITTE & TOUCHE LLP
Chartered Accountants

PETROMINERALES COLOMBIA LTD.

BALANCE SHEETS

(Thousands of Canadian dollars)

	<u>As at December 31,</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 132	\$ 89
Accounts receivable and other current assets	<u>2,651</u>	<u>2,063</u>
	2,783	2,152
Capital assets (Note 3)	<u>100,187</u>	<u>68,531</u>
	<u>\$102,970</u>	<u>\$ 70,683</u>
 Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 20,534	\$ 4,701
Asset retirement obligations (Note 4)	<u>628</u>	<u>422</u>
	<u>21,162</u>	<u>5,123</u>
Shareholder's equity		
Common shares (Note 5)	18	18
Contributed surplus (Note 5)	93,805	80,284
Deficit	<u>(12,015)</u>	<u>(14,742)</u>
	<u>81,808</u>	<u>65,560</u>
	<u>\$102,970</u>	<u>\$ 70,683</u>

Commitments and contingencies (Note 11)
Subsequent events (Notes 7 and 12)

Signed on behalf of the Board:

(Signed) ALASTAIR MACDONALD
Director

(Signed) STEVEN J. BENEDETTI
Director

See accompanying notes to these financial statements.

PETROMINERALES COLOMBIA LTD.
STATEMENTS OF OPERATIONS AND DEFICIT
(Thousands of Canadian dollars)

	<u>Years ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues			
Crude oil	\$ 20,177	\$ 21,734	\$ 12,560
Royalties	(1,614)	(1,743)	(997)
	<u>18,563</u>	<u>19,991</u>	<u>11,563</u>
Expenses			
Production	3,571	3,816	4,087
General and administrative	3,536	2,634	1,928
Foreign exchange loss (gain)	199	457	(576)
Depletion, depreciation and accretion	6,974	10,197	7,577
Impairment (Note 3)	—	—	15,000
	<u>14,280</u>	<u>17,104</u>	<u>28,016</u>
Income (loss) before taxes	4,283	2,887	(16,453)
Taxes (Note 6)	(1,556)	(1,036)	(140)
Net income (loss)	2,727	1,851	(16,593)
Deficit, beginning of year	(14,742)	(16,593)	—
Deficit, end of year	<u>\$(12,015)</u>	<u>\$(14,742)</u>	<u>\$(16,593)</u>

See accompanying notes to these financial statements.

PETROMINERALES COLOMBIA LTD.
STATEMENTS OF CASH FLOW
(Thousands of Canadian dollars)

	Years ended December 31,		
	2005	2004	2003
Operating Activities			
Net income (loss)	\$ 2,727	\$ 1,851	\$(16,593)
Depletion, depreciation and accretion	6,974	10,197	7,577
Impairment	—	—	15,000
	<u>9,701</u>	<u>12,048</u>	<u>5,984</u>
Changes in other non-cash working capital (Note 10)	1,119	(445)	2,385
	<u>10,820</u>	<u>11,603</u>	<u>8,369</u>
Financing Activities			
Contributed surplus received (Note 5)	13,521	5,520	67,139
	<u>13,521</u>	<u>5,520</u>	<u>67,139</u>
Investing Activities			
Expenditures on capital assets	(38,424)	(13,906)	(71,342)
Changes in other non-cash working capital (Note 10)	14,126	(3,193)	(6,162)
	<u>(24,298)</u>	<u>(17,099)</u>	<u>(77,504)</u>
Net change in cash position	43	24	(1,996)
Cash and cash equivalents, beginning of year	89	65	2,061
Cash and cash equivalents, end of year	<u>\$ 132</u>	<u>\$ 89</u>	<u>\$ 65</u>

See accompanying notes to these financial statements.

PETROMINERALES COLOMBIA LTD.
NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003.
(All tabular amounts are expressed in thousands of Canadian dollars)

NOTE 1 — DESCRIPTION OF BUSINESS

Petrominerales Colombia Ltd. (the “Company” or “Petrominerales”), is incorporated in Bermuda. The Company is a wholly-owned subsidiary of Petro International Ltd, which in turn is a wholly-owned subsidiary of Petrobank Energy and Resources Ltd. (“Petrobank”). Petrominerales is engaged in the exploration for and development and production of crude oil in the country of Colombia, with production from Incremental Production Contracts (“IPCs”) on the Orito and Neiva blocks. The Company’s exploration activities are focused in Colombia’s Llanos and Putumayo Basins pursuant to five exploration contracts and five technical evaluation agreements.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

These financial statements include the accounts of the Company and its branch in Colombia and are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

Basis of Presentation

The Company, which operates through a branch in Colombia, assumed work commitments on the Orito and Neiva incremental production blocks. Upon acquisition of the associated assets and liabilities, the Company adopted the cost basis used by Petrobank.

Measurement Uncertainty

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

Amounts recorded for depletion, depreciation and accretion costs and amounts used for ceiling test calculations are based on estimates of crude oil reserves and future costs required to develop those reserves that are subject to measurement uncertainty. Changes in these estimates could materially impact the financial statements of future periods.

Capital Assets

In 2003, the Company followed Accounting Guideline 5, “Full Cost Accounting in the Oil and Gas Industry” (“AcG-5”). Under AcG-5, the Company recorded impairment based on net capitalized costs in each cost centre that exceeded a calculated ceiling. The ceiling was equal to the undiscounted future net revenues, based on year-end prices and costs, derived from proved reserves, less the estimated development and site restoration costs, plus the lower of cost less impairment, and estimated fair value of undeveloped properties.

On January 1, 2004, the Company adopted Accounting Guideline 16, “Oil and Gas Accounting Full Cost” (“AcG-16”), which replaced AcG-5. AcG-16 modified how the ceiling test is performed and is consistent with CICA section 3063, “Impairment of Long-Lived Assets”. The adoption of AcG-16 had no effect on the Company’s financial results.

PETROMINERALES COLOMBIA LTD.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003.
(All tabular amounts are expressed in thousands of Canadian dollars)

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Capitalized costs are accumulated in cost centres on a country-by-country basis and are depleted and depreciated using the unit-of-production method based upon estimated proved reserves before royalties as determined by independent engineers. The Company has one cost centre, Colombia. Included in costs subject to depletion are estimated costs to develop proved reserves. Costs relating to undeveloped properties may be excluded from the depletion base until it is determined whether or not proved reserves exist or if impairment of such costs has occurred. Depreciation of fixed assets is calculated using the straight-line method over the estimated life of the asset.

A limit is placed on the carrying value of the net capitalized costs in each cost centre in order to test impairment. An impairment loss exists when the carrying value of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. If an impairment loss is determined to exist, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to income. Reserves are determined pursuant to the Canadian Securities Administrators' National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities".

The Company does not capitalize general and administrative or interest costs.

Asset Retirement Obligations

The Company recognizes the estimated fair value of future retirement obligations associated with capital assets as a liability. The fair value is capitalized and amortized over the same period as the underlying asset. The Company estimates the liability based on the estimated costs to abandon and reclaim the wells that are expected to be inactive upon expiration of the IPC's in mid-2023. Only wells that the Company has drilled, completed workovers on, or performed enhancements to are included in the estimate. This estimate is evaluated on a periodic basis and any adjustment to the estimate is applied prospectively. The change in net present value of the future retirement obligation due to the passage of time is expensed as accretion. Actual retirement obligations settled during the period reduce the future retirement liability.

Derivative Financial Instruments

The Company historically has not utilized derivative financial instruments in its management of exposures to fluctuations in crude oil prices, foreign currency exchange rates and interest rates but may do so in the future. The Company does not enter into derivative financial instruments for trading or speculative purposes. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. For financial instruments to qualify for hedge accounting they are to be formally assessed, both at inception and on an ongoing basis to determine whether these instruments are highly effective in offsetting changes in fair values or cash flows of hedged items. Gains and losses on contracts that constitute effective hedges are deferred and recognized in income when the related transactions occur.

PETROMINERALES COLOMBIA LTD.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003.

(All tabular amounts are expressed in thousands of Canadian dollars)

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Operations

The Company's crude oil operations in Orito and Neiva are conducted jointly with the Colombian state oil company, Ecopetrol. Accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

Revenue Recognition

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

Foreign Currency Translation

The Company translates foreign currency denominated monetary assets and liabilities at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at transaction date exchange rates except depletion and depreciation expense, which is translated at the same historical exchange rates as the related assets. Exchange gains or losses are included in the determination of net income as foreign exchange loss (gain).

Income Taxes

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

Cash and Cash Equivalents

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

NOTE 3 — CAPITAL ASSETS

<u>December 31, 2005</u>	<u>Cost</u>	<u>Accumulated Depletion and Depreciation</u>	<u>Net Book Value</u>
Crude oil properties	\$138,867	\$38,759	\$100,108
Corporate and other	1,027	948	79
	<u>\$139,894</u>	<u>\$39,707</u>	<u>\$100,187</u>
<u>December 31, 2004</u>	<u>Cost</u>	<u>Accumulated Depletion and Depreciation</u>	<u>Net Book Value</u>
Crude oil properties	\$100,542	\$32,057	\$68,485
Corporate and other	763	717	46
	<u>\$101,305</u>	<u>\$32,774</u>	<u>\$68,531</u>

At December 31, 2005, crude oil properties included \$8.6 million (2004 — \$3.2 million) relating to unproved properties that have been excluded from the depletion calculation.

PETROMINERALES COLOMBIA LTD.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003.
(All tabular amounts are expressed in thousands of Canadian dollars)

NOTE 3 — CAPITAL ASSETS (Continued)

An impairment test calculation was performed for the Colombian cost centre at December 31, 2005 in which the estimated undiscounted future net cash flows associated with the proved reserves exceeded the carrying amounts. The benchmark prices used in the impairment tests at December 31, 2005 are outlined in the following table:

<u>Year</u>	<u>WTI Crude Oil⁽¹⁾</u> <u>US\$/bbl</u>
2006	\$58.00
2007	56.38
2008	52.53
2009	51.69
2010	52.72
Thereafter inflation % change	2%

(1) Actual prices used in the impairment tests were adjusted for price differentials specific to the Company's operations.

The 2003 impairment expense represents the write-down of the carrying value of the impaired properties to their estimated recoverable amount pursuant to AcG-5 as described in Note 2. The Company would not have had any further impairment charges had the new full cost accounting guideline, AcG-16, been adopted in 2003.

NOTE 4 — ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligations were estimated by management based on the estimated costs to reclaim and abandon the wells the Company has drilled, completed workovers on, or performed enhancements to that are expected to be inactive prior to the expiration of the IPC's in mid-2023, and the estimated timing of the costs to be incurred in future periods.

Changes to asset retirement obligations were as follows:

	<u>2005</u>	<u>2004</u>
Asset retirement obligations, beginning of year	\$422	\$331
Obligations incurred	165	60
Accretion expense	41	31
Asset retirement obligations, end of year	<u>\$628</u>	<u>\$422</u>

The obligations have been calculated using an inflation rate of two percent and discounted using a credit — adjusted risk free rate of eight percent. These obligations are estimated to be paid at the end of the related IPC contract, 17.5 years in the future, and are expected to be funded from general Company resources at the time of settlement. The total undiscounted amount of estimated cash flows required to settle the obligations at December 31, 2005 is \$2.4 million (2004 — \$2.1 million).

NOTE 5 — SHARE CAPITAL

Common Shares — Authorized and Issued

12,000 common shares, par value of US\$1.00 per share, in the amount of \$12,000.

PETROMINERALES COLOMBIA LTD.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003.

(All tabular amounts are expressed in thousands of Canadian dollars)

NOTE 5 — SHARE CAPITAL (Continued)

To date, the Company has funded operations with equity contributions indirectly from Petrobank, which have been recorded as contributed surplus. Petrobank contributed an additional \$25.3 million to the Company during the first quarter of 2006.

NOTE 6 — 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 (loss) before taxes. The principal reasons for this difference are as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Income (loss) before taxes	\$ 4,283	\$ 2,887	\$(16,453)
Statutory income tax rate	38.5%	38.5%	38.5%
Expected tax expense (recovery)	\$ 1,649	\$ 1,111	\$ (6,334)
Increase (decrease) in income tax provision resulting from:			
Non-deductible expenses	288	409	284
Future tax asset not recognized (recognized)	<u>(1,937)</u>	<u>(1,520)</u>	<u>6,050</u>
Future income tax provision	—	—	—
Presumptive income taxes	<u>1,556</u>	<u>1,036</u>	<u>140</u>
Income tax provision	<u>\$ 1,556</u>	<u>\$ 1,036</u>	<u>\$ 140</u>

Presumptive income taxes are based on equity levels in Colombia, can be recovered against income taxes payable in future periods, and can be carried forward for five years.

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

	As at December 31,			
	<u>2005</u>		<u>2004</u>	
	<u>Future Income Tax Assets</u>	<u>Future Income Tax Liabilities</u>	<u>Future Income Tax Assets</u>	<u>Future Income Tax Liabilities</u>
Loss carry forwards	\$ 13,994	\$ —	\$ 16,481	\$ —
Asset retirement obligations	220	—	148	—
Capital assets	<u>3,464</u>	—	—	7
Valuation allowance	17,678	—	16,629	7
	<u>(17,678)</u>	—	<u>(16,622)</u>	—
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7</u>	<u>\$ 7</u>

Non-capital losses total \$29.0 million and expire in 2011.

NOTE 7 — BANK DEBT

The Company's borrowing base under its credit facility at December 31, 2005 was two billion Colombian Pesos, or approximately US\$0.9 million. In March 2006, the credit facility was extended to four billion

PETROMINERALES COLOMBIA LTD.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003.

(All tabular amounts are expressed in thousands of Canadian dollars)

NOTE 7 — BANK DEBT (Continued)

Colombian Pesos, or approximately US\$1.8 million. The facility is an operating line of credit under which the Company can borrow at the fixed term deposit rate set by the Central Bank of Colombia (5.96 percent at December 31, 2005) plus six percent. Advances under the facility are collateralized by a promissory note provided by the Company.

NOTE 8 — RELATED PARTY TRANSACTIONS

Petrominerales maintains a technical services agreement with its indirect parent company, Petrobank, for items such as geological, geophysical, and engineering services provided. All charges are based on cost plus a marginal administrative fee, no more than five percent. In 2005, these costs totaled \$1.3 million (2004 \$0.9 million, 2003 \$1.7 million). The general and administrative expense charged in 2005 totaled \$0.5 million (2004 — \$0.6 million, 2003 — \$0.5 million), and the capitalized items totaled \$0.8 million in 2005 (2004 — \$0.3 million, 2003 — \$1.2 million).

NOTE 9 — FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The nature of the crude oil operations exposes the Company to risks associated with fluctuations in commodity prices and foreign currency exchange rates. To date, the Company has not utilized derivative instruments to manage these risks.

Credit Risk

A substantial portion of the Company's accounts receivable are with customers and joint-venture participants in the oil industry and are subject to normal industry credit risks. Crude oil production is sold to two counterparties, the Colombian state oil company, Ecopetrol, and a large international oil company. Typically, the Company's maximum credit exposure to customers is revenue from two months' sales. While counterparties to derivative instruments could expose the Company to losses in the event of non-performance, the Company only deals with large credit-worthy institutions, and does not anticipate non-performance by these counterparties.

NOTE 10 — CHANGES IN OTHER NON-CASH WORKING CAPITAL

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Accounts receivable and other current assets	\$ (588)	\$ 444	\$(2,385)
Accounts payable and accrued liabilities	<u>15,833</u>	<u>(4,082)</u>	<u>(1,392)</u>
	<u>\$15,245</u>	<u>\$(3,638)</u>	<u>\$(3,777)</u>
Attributable to operating activities	\$ 1,119	\$ (445)	\$ 2,385
Attributable to investing activities	\$14,126	\$(3,193)	\$(6,162)
Other cash flow information:			
Cash taxes paid	\$ 547	\$ 298	\$ 419
Cash interest paid	\$ —	\$ 2	\$ 10

NOTE 11 — COMMITMENTS AND CONTINGENCIES

In May 2002, the Company assumed US\$46 million of work commitments on the Orito and Neiva incremental production blocks and three exploration blocks in Colombia. The Company completed its

PETROMINERALES COLOMBIA LTD.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003.
(All tabular amounts are expressed in thousands of Canadian dollars)

NOTE 11 — COMMITMENTS AND CONTINGENCIES (Continued)

required work commitments on the Neiva and Orito blocks and relinquished the three exploration blocks at a cost of US\$0.8 million.

In 2004, the government of Colombia, through the National Hydrocarbon Agency (“ANH”), began offering all undeveloped and unlicensed exploration areas in the country under compelling new fiscal terms. At December 31, 2005 Petrominerales had signed five new exploration licenses and three new Technical Evaluation Areas (“TEAs”).

The Company has first-phase work commitments remaining on its five new exploration contracts in Colombia totaling an additional US\$5.3 million which is to be incurred before October 2006 and includes reprocessing 2-D and 3-D seismic, shooting additional 3-D seismic, and drilling one well on the Joropo Block in the Llanos Basin. Upon completion of the first-phase commitments, the Company can elect to return the block to the ANH or proceed to a second-phase by drilling one well per block.

The Company’s remaining work commitments on the three new TEAs in Colombia are expected to total US\$0.9 million until October 2006 and include reprocessing and evaluating existing 2-D seismic, and performing regional studies including the feasibility of Petrobank’s patented THAI™ heavy oil recovery process. Upon expiry of the contracts, the Company has the option to negotiate an exploration block within the TEA. During the contract period, the Company also has a right of first refusal over any exploration blocks proposed by third parties within the TEA.

The Company has issued letters of credit totaling \$1.0 million in connection with the Company’s exploration contracts.

The Company has committed to secure a drilling rig in Colombia for a minimum 16-month term expected to commence in the third quarter of 2006 for approximately US\$13.0 million.

NOTE 12 — SUBSEQUENT EVENTS

On March 23, 2006, the Company finalized an agreement for an additional heavy oil TEA, Guatiquia, covering 391,409 acres in the Llanos Basin of Colombia. The first-phase commitment to be completed by December 2006 is US\$0.4 million and involves reprocessing and interpreting existing 2-D seismic data.

In the first quarter of 2006, the Company fulfilled its first-phase commitment on the recently acquired Joropo block by drilling one exploration well, which was dry and abandoned. The Company has retained the block by committing to drill a second exploration well by December 2006 (estimated work commitment of US\$4 million).

In April 2006, the Company submitted a work commitment proposal regarding the Chicago TEA to the ANH. The proposal includes the acquisition of 3-D seismic data and drilling two exploration wells during a 23-month period at an estimated total cost of US\$10 million.

On April 17, 2006, the Company obtained a commitment letter from a major bank approving a credit line of up to US\$50 million to support the Company’s development activities in Colombia. The initial borrowing base shall be set at US\$25 million and redetermined every six months.

Petrominerales has negotiated the Technology License Agreement and Option Agreement regarding evaluating the use of Petrobank’s patented THAI™ heavy oil technology. The Technology License Agreement is subject to a 10% of gross production licensing fee and under the Option Agreement, Archon Technologies International Ltd. will have the right to acquire a working interest between 10% to 50% in any Petrominerales heavy oil project using the THAI™ technology. Archon Technologies International Ltd. may

PETROMINERALES COLOMBIA LTD.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003.

(All tabular amounts are expressed in thousands of Canadian dollars)

NOTE 12 — SUBSEQUENT EVENTS (Continued)

also elect to act as operator of such heavy oil project, at which time the parties would enter into the Joint Operating Agreement to govern this relationship.

Petrobank and Petrominerales entered into a Management Services Agreement dated June 9, 2006 and effective May 1, 2006 providing for, among other services, the services of John D. Wright and Corey C. Ruttan as President and Chief Executive Officer and Chief Financial Officer, respectively of Petrominerales. Under the Management Services Agreement, Petrobank will also provide corporate, administrative, financial, treasury, accounting, information technology and human resources support to Petrominerales. The Management Services Agreement requires that Petrominerales pay Petrobank a monthly fee of \$75,000 for such services.

PCL entered into a loan agreement with Petrobank evidencing Petrobank's agreement to continue to fund PCL's capital requirements up to an amount not to exceed \$20 million from April 1, 2006 up to the Closing Date, which amount will be repaid by the Company using a portion of the proceeds from the Treasury Offering. The loan bears interest at a rate of nine percent per annum. As at June 8, 2006, approximately US\$7.7 million has been drawn against this agreement.

In May 2006, the Company committed to a second rig in Colombia for a minimum 18-month term that is expected to commence drilling in June, 2006 and result in expected payments over the contract term of approximately US\$13.5 million.

AUDITORS' REPORT

To the Directors of Petrominerales Ltd.

We have audited the balance sheet of Petrominerales Ltd. (the "Company") as at April 20, 2006. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, the balance sheet presents fairly, in all material respects, the financial position of the Company as at April 20, 2006, in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
May 4, 2006 (except for Note 2
which is as of June 13, 2006)

(Signed) DELOITTE & TOUCHE LLP
Chartered Accountants

PETROMINERALES LTD.

BALANCE SHEET

(in Canadian dollars)

**As at
April 20,
2006**

Assets

Current assets

Cash **\$114**

Shareholder's equity

Common shares (Note 1) **\$114**

Signed on behalf of the Board:

(Signed) JERALD L. OAKS
Chairman

(Signed) KENNETH R. MCKINNON
Director

See accompanying notes to the balance sheet.

PETROMINERALES LTD.
NOTES TO THE BALANCE SHEET
As at April 20, 2006
(in Canadian dollars)

Note 1 — FORMATION OF THE COMPANY

Petrominerales Ltd. (the “Company”), was incorporated in Bermuda on April 20, 2006. The Company is a wholly-owned subsidiary of Petro International Ltd., which in turn is a wholly-owned subsidiary of Petrobank Energy and Resources Ltd. There are 5,000 authorized common shares, with a par value of US\$1.00 per common share. The Company issued 100 initial common shares on April 20, 2006 for cash proceeds of \$114 (US\$100).

Note 2 — EVENTS SUBSEQUENT TO APRIL 20, 2006

(a) Initial Public Offering and Secondary Offering

Pursuant to an underwriting agreement dated June 13, 2006 the Company agreed to sell 16,000,000 common shares from treasury in an initial public offering on an underwritten basis, and the Company’s shareholder, Petro International Ltd. agreed to sell up to 4,000,000 common shares of the Company through a secondary offering of Petro International Ltd.’s shareholdings of the Company on a “best efforts” basis, in each case at a price of \$3.75 per common share. The treasury offering and secondary offering are expected to close on or about June 29, 2006.

(b) Changes to Authorized Capital

On May 11, 2006, the Company amended its articles to increase its authorized capital to 200,000,000 common shares, with a par value of US\$1.00 per common share.

(c) Acquisition of Petrominerales Colombia Ltd.

Pursuant to a share exchange agreement dated June 9, 2006, the Company acquired all of the issued and outstanding common shares of Petrominerales Colombia Ltd. from Petro International Ltd. for 78,999,900 common shares of the Company.

CERTIFICATES OF THE COMPANY AND THE PROMOTER

Dated: June 13, 2006

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of the *Securities Act, 1988* (Saskatchewan), by Part VII of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 63 of the *Securities Act* (Nova Scotia), by Part 6 of the *Securities Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island) and by Part XIV of the *Securities Act* (Newfoundland and Labrador) and the respective regulations thereunder.

PETROMINERALES LTD.

(Signed) JOHN D. WRIGHT
Chief Executive Officer

(Signed) COREY C. RUTTAN
Chief Financial Officer

On behalf of the Board of Directors:

(Signed) ALASTAIR MACDONALD
Director

(Signed) JERALD L. OAKS
Director

On behalf of the Promoter:

PETROBANK ENERGY AND RESOURCES LTD., as promoter

(Signed) JOHN D. WRIGHT
Chief Executive Officer

CERTIFICATE OF THE UNDERWRITER

Dated: June 13, 2006

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of the *Securities Act*, 1988 (Saskatchewan), by Part VII of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 63 of the *Securities Act* (Nova Scotia), by Part 6 of the *Securities Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island) and by Part XIV of the *Securities Act* (Newfoundland and Labrador) and the respective regulations thereunder.

HAYWOOD SECURITIES INC.

(Signed) JOHN WILLETT
Managing Director