

Tax Implications of the Spinout of Petrominerales Ltd. – Petrominerales Shareholders

This summary provides information to assist holders (“Shareholders”) of common shares of Petrominerales Ltd. (“Petrominerales”) (the “Petrominerales Shares”) in understanding the Canadian and U.S. federal income tax consequences of the proposed scheme of arrangement (the “Arrangement”) wherein Shareholders exchange their Petrominerales Shares for common shares (the “New Petrominerales Shares”) of 1567725 Alberta Ltd. (“New Petrominerales”), a newly-incorporated Canadian company.

This information is general in nature only and should be read in conjunction with the Joint Management Information Circular (the “Circular”) in respect of the Arrangement dated November 19, 2010 which can be accessed under our SEDAR profile at www.sedar.com. Please refer to the sections entitled “Certain Canadian Federal Income Tax Considerations for Petrominerales Shareholders” and “Certain U.S. Federal Income Tax Considerations for Petrominerales Shareholders” for further details. The information contained in this summary is qualified in its entirety by the information contained in the above sections of the Circular.

The information included in this summary is not exhaustive of all potential tax considerations. This information is not binding on any tax authority. Shareholders and anyone affected by the Arrangement are urged to consult their own tax advisors regarding the tax consequences and considerations applicable to them as result of the Arrangement. New Petrominerales, Petrominerales and any of their respective successors, affiliates, advisors, agents or employees shall not incur any liability in respect of the accuracy of this information. The information contained in this summary is not intended to be, and should not be construed to be, legal, business or tax advice to any particular Shareholder, and no representation is made in this summary with respect to the tax consequences to any particular Shareholder.

Capitalized terms used and not otherwise defined in this summary have the meaning assigned to them in the Circular.

The information included in this summary is applicable to only to Shareholders other than Dissenting Petrominerales Shareholders. Dissenting Petrominerales Shareholders are urged to refer to the Circular and to consult their own tax advisors.

Overview

Under the Arrangement, each Shareholder will receive one New Petrominerales Share for every Petrominerales Share held immediately before the Arrangement.

General tax consequences of the Arrangement to Canadian resident Shareholders

Eligible Holders (as defined below and in the Circular) can elect to defer recognition of all or part of any gain that would otherwise be realized on the exchange of their Petrominerales Shares for New Petrominerales Shares, resulting in a “rollover” of their existing Petrominerales Shares. The transaction is “tax-deferred” because the Eligible Holder may, in certain circumstances, elect to have the proceeds of disposition of its Petrominerales Common Shares equal the adjusted cost base of such shares at the time of the exchange, thereby deferring any tax until a future disposition of the New Petrominerales Shares.

Please note that this election is not an automatic rollover and **electing Eligible Holders will be required to complete a joint tax election** with New Petrominerales which must be filed with the Canada Revenue Agency. Absent such an election, Shareholders will generally realize a gain (or loss) for tax purposes equal to the amount by which the fair market value at the time of the Arrangement of the New Petrominerales Shares received on the exchange exceeds (or is less than) the total of the adjusted cost base of the Petrominerales Shares to the Holder immediately before the Arrangement and any reasonable costs of disposition.

The Canadian tax consequences are discussed in further detail under the heading “Detailed Canadian Tax Considerations and Frequently Asked Questions”.

General U.S. tax consequences of the Reorganization to U.S. shareholders of Petrominerales

For U.S. tax purposes, the exchange of Petrominerales Shares for New Petrominerales Shares by a U.S. Shareholder (eg, a U.S. citizen, a U.S. resident, or a U.S.-formed entity) is expected to be considered a tax-deferred transaction, in which case the exchange should not give rise to any gain or loss for U.S. tax purposes and the U.S. Shareholder’s holding period and basis in its Petrominerales Shares will carry over to the New Petrominerales Shares. No ruling from the IRS is being obtained with respect to the exchange, however, and therefore it is not certain that tax-deferred treatment is available. Tax-deferred treatment is dependent on several factors, some of which cannot be known with certainty at this time, including that Petrominerales is not and has not been a “passive foreign investment company” (“PFIC”) at any point while the U.S. Shareholder has owned the Petrominerales Shares. If the exchange does **not** qualify as tax-deferred, the U.S. Shareholder will recognize taxable gain or loss, measured by the difference between the value of the New Petrominerales Shares and the U.S. Shareholder’s tax basis in the Petrominerales Shares that are exchanged. The U.S. tax consequences are discussed in further detail under the heading “Detailed U.S. Tax Considerations and Frequently Asked Questions”.

Detailed Canadian Tax Considerations and Frequently Asked Questions

The following set of Frequently Asked Questions provides general Canadian income tax information to Shareholders who are residents of Canada and hold their Petrominerales Shares as capital property.

1. Will the exchange of the Petrominerales Shares for New Petrominerales Shares be subject to Canadian federal income tax?

Eligible Holders can elect to recognize no gain on the exchange of their Petrominerales Shares for New Petrominerales Shares in the year of the exchange. This can be done by filing a joint tax election under section 85 of the Tax Act and applicable provincial tax legislation (the “Joint Tax Election”) with New Petrominerales. **The Joint Tax Election must be filed to achieve a tax-deferred rollover.** A Shareholder that does not file a Joint Tax Election is generally required to recognize the full amount of the gain or loss on the exchange in their income for tax purposes in the year of the exchange. Generally, there are three possible tax treatments to a Shareholder that disposes of Petrominerales Shares under the Arrangement:

1. Tax-deferred rollover under a Joint Tax Election – Eligible Holders wishing to reduce the amount of the gain realized on the disposition of their Petrominerales Shares under the Arrangement in the year of disposition can file the Joint Tax Election with New

Petrominerales. The Joint Tax Election permits the Eligible Holder to elect an amount, (the "Elected Amount") within certain limitations (discussed below) to be the proceeds of disposition for their Petrominerales Shares. Eligible Holders wishing to recognize no gain in the year of disposition would choose an Elected Amount equal to the adjusted cost base of their Petrominerales Common Shares at the time of the Arrangement, provided their circumstances permit. The gain realized by an Eligible Holder who files a Joint Tax Election is computed as follows:

A – B, where:

A = Proceeds of disposition, which is deemed to be the Elected Amount*; and

B = The total of: (i) the adjusted cost base of the Petrominerales Shares to the Eligible Holder immediately before the Arrangement (See Question 3 for additional information on this amount), and (ii) reasonable costs incurred on the disposition

**In general, the Elected Amount may not be:*

- (i) *less than the lesser of the adjusted cost base of the Petrominerales Shares to the Eligible Holder, and the fair market value of the Petrominerales Shares, in each case at the time of the exchange of Petrominerales Shares for New Petrominerales Shares; or*
- (ii) *greater than the fair market value of the Petrominerales Shares at the time of the exchange.*

Accordingly, an Eligible Holder who would otherwise realize a gain on the exchange can choose to realize no gain in the year of disposition by selecting an Elected Amount in A that is equal to the amount in B.

2. Recognize the full capital gain – Generally, a Petrominerales Shareholder that does not file a Joint Tax Election will be required to include in computing its income one-half of the amount of the gain realized on a disposition of their Petrominerales Shares in the year of disposition. The amount of the capital gain is computed as follows:

A – B, where:

A = Proceeds of disposition, which equals the value of the New Petrominerales Shares received under the Arrangement; and

B = The total of: (i) the adjusted cost base of the Petrominerales Shares to the holder immediately before the Arrangement, and (ii) reasonable costs incurred on the disposition

3. Recognize the full capital loss – Generally, a Petrominerales Shareholder will be required to deduct from taxable capital gains realized in the year one-half of the amount of the loss realized on a disposition of their Petrominerales Shares in the year of disposition. The amount of the capital loss is computed as follows:

A – B, where:

A = The total of: (i) the adjusted cost base of the Petrominerales Shares to the holder immediately before the Arrangement, and (ii) reasonable costs incurred on the disposition; and

B = Proceeds of disposition, which equals the value of the New Petrominerales Shares received under the Arrangement

2. Who is an Eligible Holder?

New Petrominerales will only enter into a Joint Tax Election with Shareholders that are Eligible Holders and that comply with the requirements for making the election as set out in the Circular and in a tax instruction letter that will be sent to Shareholders that indicate an intention to make the Joint Tax Election in the Tax Election Request Form. Shareholders interested in making a Joint Tax Election are urged to read the Circular, the Tax Election Request Form, and the tax instruction letter carefully to ensure that they follow the instructions set out in those documents.

In general terms an Eligible Holder under the Arrangement is a beneficial holder of Petrominerales Shares (other than a Dissenting Petrominerales Shareholder or Petro International Ltd.):

- (i) who is a resident of Canada for purposes of the Tax Act and not exempt from tax under Part I of the Tax Act;
- (ii) who is a non-resident of Canada for purposes of the Tax Act who would be subject to tax under Part I of the Tax Act on a gain realized on a disposition of the Petrominerales Shares under the Arrangement; or
- (iii) that is a partnership that owns Petrominerales Shares if any partner or partners of the partnership would be described in (i) or (ii) above if they held the Petrominerales Shares directly.

3. How do I calculate the adjusted cost base of my Petrominerales Shares immediately before the Arrangement?

The adjusted cost base of your shares is generally based on the amount that you paid to acquire the shares, subject to possible adjustments under certain circumstances (e.g., shares received from an estate, shares received on a tax-deferred exchange, etc.). If you have any doubt as to the adjusted cost base of your shares please consult your tax advisor. Neither Petrominerales nor New Petrominerales has the necessary information to determine your adjusted cost base in Petrominerales Shares.

4. How do I calculate the adjusted cost base of my New Petrominerales Shares issued under the Arrangement?

The adjusted cost base of your New Petrominerales Shares will depend on whether you file a Joint Tax Election, as outlined in the response to question 1 above.

1. Joint Tax Election – If you file a Joint Tax Election, the adjusted cost base of New Petrominerales Shares issued to you under the Arrangement will be equal to the Elected Amount.
2. No Joint Tax Election – If you do not file a Joint Tax Election, the adjusted cost base of New Petrominerales Shares issued to you under the Arrangement will generally be equal to the fair market value of those New Petrominerales Shares at the time of the Arrangement.

In either case, the adjusted cost base of a New Petrominerales Share issued to you under the Arrangement at any time will be averaged together with the adjusted cost base of any other New Petrominerales Shares held by you at that time as capital property.

5. How do I determine how many Petrominerales Common Shares I owned on the date of the Reorganization?

Your securities broker can provide you with this information.

6. How do I determine how many New Petrominerales Shares I will own after the Arrangement?

A Petrominerales Shareholder will receive one New Petrominerales Share for every Petrominerales Share they own at the time of the Arrangement.

7. Do I have to report a disposition on my Canadian income tax return?

Yes. The disposition of the Petrominerales Shares should be reported on your Canadian income tax return, even where there is no resulting gain or loss to be reported. The amount of your proceeds of disposition for your Petrominerales Shares will depend on whether you make a Joint Tax Election, as discussed in the response to question 1 above.

8. How do I prepare and file the Joint Tax Election

A tax instruction letter will be sent to each Petrominerales Shareholder who indicates an interest in filing a Joint Tax Election by checking the appropriate box in the Tax Election Request Form, and delivering that Tax Election Request Form to Computershare Trust Company of Canada. The same information will also be posted to our website after the Arrangement. Completed Joint Tax Election forms must be received by New Petrominerales no later than 90 days after the date of the Arrangement. New Petrominerales has agreed to execute and mail Joint Tax Election forms that are correct, complete, and in compliance with the provisions of the Tax Act (and applicable provincial and territorial tax legislation) to the Canada Revenue Agency (and applicable provincial and territorial tax authorities) within 30 days after their receipt. To avoid late filing penalties, Shareholders must ensure that the Joint Tax Election forms are received by the appropriate tax authorities on or before the earlier of: (i) the day on which the Eligible Holder is required to file an income tax return for the taxation year in which the exchange occurs, and (ii) June 30, 2011. Accordingly, Eligible Holders may be required to forward their tax election forms to New Petrominerales earlier than 90 days after the Arrangement in order to avoid late filing penalties.

9. How will New Petrominerales dividends be treated for tax purposes?

Dividends received or deemed to be received on the New Petrominerales Shares will generally be included in computing the shareholder's income for tax purposes. It is expected that New Petrominerales will designate any dividends paid as "eligible dividends" for Canadian income tax purposes. Where the shareholder is an individual, the dividends will be subject to a dividend gross-up and dividend tax credit, resulting in a lower overall effective tax rate compared to the tax rates on ordinary income. For an individual shareholder residing in the province of Alberta, the combined federal and provincial tax rate on dividends paid on New Petrominerales Shares will generally be 17.72% in 2011, compared to 39% on ordinary income. The dividend income may give rise to alternative minimum tax to certain shareholders. Please consult your own tax advisor to determine whether or not this may apply to your dividend income and potential tax liability.

Any dividends received by a Canadian corporation should generally be deductible in computing the corporation's taxable income. To the extent the corporation is, for purposes of the Tax Act, a "private corporation" or a "subject corporation", a 33 1/3 percent refundable tax may apply to this dividend income. Please consult your own tax advisor to determine whether or not this will impact your potential tax liability.

Detailed U.S. Tax Considerations and Frequently Asked Questions

The following set of Frequently Asked Questions provides general U.S. federal income tax information and guidance to U.S. Shareholders of Petrominerales who hold their Petrominerales Shares as capital assets.

1. Will the exchange of the Petrominerales Shares for New Petrominerales Shares be subject to tax?

The exchange of the Petrominerales Shares for New Petrominerales Shares will not be subject to U.S. tax if certain requirements are met, in which case no gain or loss will be recognized by the Petrominerales Shareholder and the tax basis and holding period of the Petrominerales Shares will be carried over to the New Petrominerales Shares. Among the requirements that must be met for tax-free treatment of the exchange is that Petrominerales must not have been a PFIC during a U.S. shareholder's period of ownership. Although Petrominerales does not believe that it or New Petrominerales is or has been a PFIC or is likely to become a PFIC in the future, determining whether a non-U.S. corporation, like Petrominerales, is a PFIC is a complex determination. We advise you to consult the Circular for a more detailed description of the PFIC rules and seek independent U.S. tax advice concerning the PFIC issue. If the exchange *is* taxable, a U.S. Shareholder will recognize gain or loss measured by the difference between the value of the New Petrominerales Shares and the U.S. Shareholder's tax basis in its Petrominerales Shares. The U.S. Shareholder will then have a tax basis in its New Petrominerales Shares equal to the fair market value of such New Petrominerales Shares and a new holding period will begin.

U.S. Shareholders are urged to discuss the possibility of tax-free treatment of the exchange with their own tax advisers.

2. How will New Petrominerales dividends be treated for tax purposes?

Any dividends paid by New Petrominerales will be subject to Canadian non-resident withholding tax at a rate of 25% of the gross amount of the dividend. For New Petrominerales Shareholders who are residents of the U.S. and are entitled to benefits under the Canada-United States tax treaty, the withholding tax rate may be reduced to 15%. Canadian withholding tax may be creditable against U.S. tax as a foreign tax credit, subject to the restrictions and eligibility considerations of the Internal Revenue Code.

As long as New Petrominerales is not a PFIC, dividends received by U.S. Shareholders generally will be subject to U.S. federal income taxation in 2011 and after as ordinary income, unless the U.S. Congress extends the preferential tax rate (15%) for “qualified dividends” and the New Petrominerales dividends are eligible for qualified dividend treatment. Additional state and local taxes may also apply.

3. Does a U.S. Shareholder that exchanges Petrominerales Shares for New Petrominerales Shares pursuant to the Arrangement have to report the transaction to the IRS?

Even if the Arrangement is tax-free for a U.S. Shareholder, a U.S. Shareholder may be required to report information concerning the Arrangement to the IRS. Reporting may need to be undertaken in the form of a special statement attached to the U.S. Shareholder’s tax return and also on IRS Form 926. There are numerous exceptions to these reporting requirements, so a U.S. Shareholder should consult with its own tax advisor concerning the appropriate IRS reporting required of such U.S. shareholder with respect to the Arrangement.

Shareholders Resident Outside of Canada and the U.S.

1. Will the exchange of the Petrominerales Shares for New Petrominerales Shares be subject to tax?

The taxation of the exchange of the Petrominerales Shares for New Petrominerales Shares will depend on the tax laws in the country in which the shareholder is resident for tax purposes. Shareholders are urged to consult their own tax advisor to appropriately assess the tax consequences of the share exchange.

2. How will dividends paid or deemed to be paid on New Petrominerales Shares be treated for Canadian tax purposes?

Any dividends paid or deemed to be paid by New Petrominerales will be subject to Canadian non-resident withholding tax at a rate of 25% of the gross amount of the dividend. New Petrominerales Shareholders who are residents of a country with which Canada has negotiated a tax treaty may be eligible for a reduced rate of withholding. Such withholding tax may or may not be creditable against tax paid in the shareholder’s country of residency, depending on the

applicable tax laws. Shareholders are urged to consult their own tax advisors to appropriately assess the tax consequences of any dividends that may be received from New Petrominerales.