

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

This document has been designed to provide additional tax information to assist holders (“Shareholders”) of common shares (“Petrobank Shares”) of Petrobank Energy and Resources Ltd. (“Petrobank”) in understanding the tax consequences of the proposed plan of arrangement, the purpose of which is for Petrobank to distribute its indirect interest in the shares of Petrominerales Ltd. (“Petrominerales”) to its Shareholders, hereinafter referred to as the “Reorganization”. This information is general in nature only and should be read in conjunction with the Joint Management Information Circular (the “Circular”) on the Reorganization 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 Petrobank Shareholders” and “Certain U.S. Federal Income Tax Considerations for Petrobank Shareholders” in the Circular 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 herein is provided for illustrative purposes only and is not inclusive of all potential tax considerations. This information is not binding on any tax authority. Anyone using this information is urged to consult their own tax advisors. Petrobank and its respective successors, affiliates, advisors, agents or employees shall not incur any liability in respect of the accuracy of this information. The information contained herein is not intended to be, and should not be construed to be, legal, business or tax advice to any particular shareholder of Petrobank.

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

The information included herein is applicable only to Shareholders other than Dissenting Petrobank Shareholders. Dissenting Petrobank Shareholders are urged to refer to the Circular and to consult their own tax advisors.

Overview

Pursuant to the Reorganization, each Shareholder will ultimately receive one new common share of Petrobank (“New Petrobank Share”) and approximately 0.62 of one share (“New Petrominerales Shares”) of 1567725 Alberta Ltd. (“New Petrominerales”), a newly created Canadian public company, in exchange for each Petrobank Share. Existing Petrominerales shareholders will then exchange their shares of Petrominerales for New Petrominerales Shares such that, following the Reorganization, existing Petrobank Shareholders will own 65% of New Petrominerales, which represents the 65% interest in Petrominerales that Petrobank previously held. Existing Petrominerales shareholders will own the remaining 35% of New Petrominerales, which represents their current interest in Petrominerales.

General tax consequences of the Reorganization to Canadian resident shareholders of Petrobank

Canadian resident Shareholders who participate in the Reorganization will receive an automatic tax-deferred rollover of their Petrobank Shares for New Petrobank Shares and New Petrominerales Shares, unless they elect otherwise. This automatic tax-deferral means that no gain or loss will be recognized for tax purposes on the exchange of the Petrobank Shares for New Petrobank Shares and New

Petrominerales Shares. This is discussed in further detail under the heading “Detailed Canadian Tax Considerations and Frequently Asked Questions”.

As a result of the automatic rollover, each Shareholder’s existing adjusted cost base in their Petrobank Shares will be allocated between their New Petrobank Shares and New Petrominerales Shares in proportion to the relative fair market value of such shares at the time of the Reorganization. The fair market value of the New Petrobank Shares will be equivalent to the fair market value of the existing Petrobank Shares excluding the value associated with Petrobank’s proportionate interest in Petrominerales. The fair market value of the New Petrominerales Shares issued to the Petrobank Shareholders will be equivalent to the fair market value of Petrobank’s proportionate interest in Petrominerales. Each Shareholder’s adjusted cost base in Petrobank Shares will be allocated proportionately between New Petrobank Shares and New Petrominerales Shares.

The adjusted cost base of the New Petrobank Shares should be computed as follows:

Existing adjusted cost base in Petrobank x $\frac{\text{Fair Market Value of New Petrobank Shares}}{\text{Fair Market Value of existing Petrobank Shares}}$

The adjusted cost base of the New Petrominerales Share should be computed as follows:

Existing adjusted cost base in Petrobank x $\frac{\text{Fair Market Value of New Petrominerales Shares received by Petrobank Shareholders}}{\text{Fair Market Value of existing Petrobank Shares}}$

An estimate of the allocation of the adjusted cost base between New Petrobank Shares and New Petrominerales Shares will be provided once the Reorganization has been completed based on current market prices at the time of the Reorganization.

To the extent a Shareholder has elected out of the automatic tax-deferred rollover, their respective adjusted cost base would be computed differently. This is discussed in further detail under the heading “Detailed Canadian Tax Considerations and Frequently Asked Questions”.

General tax consequences of the Reorganization to U.S. Shareholders of Petrobank

For U.S. tax purposes, Shareholders will be considered to have received a distribution from Petrobank equal to the fair market value of the New Petrominerales Shares received at the time of the Reorganization. The full amount of this distribution will be taxable as a dividend in the year of receipt. Assuming the Reorganization occurs prior to January 1, 2011, it is anticipated that the dividend generally will be “qualified dividend income” to individual Shareholders subject to reduced tax rates (i.e. maximum of 15% to individual Shareholders compared to the maximum ordinary income tax rate of 35%). After December 31, 2010 the maximum tax rate applicable to dividends received by individual Shareholders is scheduled to increase to 39.6% under current U.S. tax law unless the reduced 15% rate is extended by the U.S. Congress.

Following the Reorganization, U.S. Shareholders will have tax basis in the New Petrobank Shares equal to their existing tax basis in the Petrobank Shares and will have tax basis in the New Petrominerales Shares equal to the fair market value of the New Petrominerales Shares at the time of the Reorganization (i.e. the amount of the dividend).

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 provide general Canadian income tax information and guidance to Canadian resident Shareholders who hold their Petrobank Shares as capital property.

1. What will happen with my existing Petrobank Shares?

As discussed in the “Overview” section above, each Shareholder will ultimately receive one New Petrobank Share and approximately 0.62 of one New Petrominerales Share in exchange for each Petrobank Share. This is accomplished through two separate share exchanges:

1. First Exchange –Shareholders will exchange each of their Petrobank Shares for one New Petrobank Share and one Petrobank Special Share. The aggregate fair market value of the New Petrobank Shares will represent the fair market value of the existing Petrobank Shares excluding the value associated with Petrominerales. The aggregate fair market value of the Petrobank Special Shares will represent the fair market value of Petrobank’s proportionate interest in Petrominerales.
2. Second Exchange –Shareholders will transfer each Petrobank Special Share to New Petrominerales in exchange for approximately 0.62 of a New Petrominerales Share, after which the interest in Petrominerales currently held indirectly by Petrobank will be transferred to New Petrominerales.

2. Will the First Exchange of the Petrobank Shares for New Petrobank Shares and Petrobank Special Shares be subject to tax?

For Canadian tax purposes, the Petrobank Shares disposed of in exchange for New Petrobank Shares and Petrobank Special Shares will be deemed to have been disposed for proceeds of disposition equal to the aggregate adjusted cost base of the Petrobank Shares at the time of the exchange, resulting in no gain or loss on the disposition of the Petrobank Shares.

3. Will the Second Exchange of the Petrobank Special Shares for New Petrominerales Shares be subject to tax?

The Second Exchange will not be subject to tax unless a Shareholder elects otherwise. Most Shareholders can decide what, if any, gain or loss they would like to recognize for tax purposes. Each Shareholder should consult their own tax advisor for assistance in determining the most appropriate treatment. There are four possible tax treatments:

1. Automatic tax-deferred rollover – Assuming a Shareholder does not wish to recognize any gain or loss on the exchange of the Petrobank Special Shares, the Petrobank Special Shares will be deemed to be transferred to New Petrominerales at the Shareholder’s respective adjusted cost base in those shares, resulting in no gain or loss on the disposition. The computation of the adjusted cost base of the Petrobank Special Shares is discussed further in question #5 below. The adjusted cost base of the New Petrominerales Shares will then be

equal to the adjusted cost base of the Petrobank Special Shares prior to the exchange. There are no special elections or forms to be filed by Petrobank Shareholders wishing to follow this approach.

2. Recognize a loss – Assuming a Shareholder will have an inherent loss in their Petrobank Special Shares (as a result of an imbedded loss in their Petrobank Shares immediately prior to the Reorganization), they may wish to recognize the full amount of this loss for tax purposes, rather than deferring the loss to a future disposition of the New Petrominerales Shares. To recognize the full amount of the loss, a Shareholder should report the disposition of the Petrobank Special Shares on their tax return, with the overall loss computed as follows:

A – B, where:

A = Proceeds of disposition computed as the value of the New Petrominerales Shares received on the disposition of the Petrobank Special Shares

B = Adjusted cost base of the Petrobank Special Shares (See Question 5 for additional information on this computation)

3. Recognize the full gain – Certain Shareholders may wish to recognize the full amount of any accrued gain on their Petrobank Special Shares. To recognize the full amount of any accrued gain, a Shareholder should report the disposition of their Petrobank Special Shares on their tax return, with the overall gain computed as follows:

A – B, where:

A = Proceeds of disposition computed as the value of the New Petrominerales Shares received on the disposition of the Petrobank Special Shares

B = Adjusted cost base of the Petrobank Special Shares (See Question 5 for additional information on this computation)

4. Report a portion of the gain – Certain Shareholders may wish to recognize only a portion of the accrued gain on their Petrobank Special Shares. This may be done by filing a valid joint tax election (the “Joint Tax Election”) with New Petrominerales wherein the Shareholder can elect the value of their proceeds of disposition of their Petrobank Special Shares. Any Shareholder who files a Joint Tax Election may recognize a gain on the disposition of their Petrobank Special Shares on their tax return, with the gain computed as follows:

A – B, where:

A = Proceeds of disposition based on the elected amount in the Joint Tax Election

B = Adjusted cost base of the Petrobank Special Shares (See Question 5 for additional information on this computation)

4. How do I calculate the adjusted cost base of my Petrobank Shares before the Reorganization?

The adjusted cost base of shares is generally based on the amount paid to acquire such 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. Petrobank does not have the necessary information to determine your adjusted cost base in Petrobank Shares.

5. How do I calculate the adjusted cost base of my New Petrobank Shares and my Petrobank Special Shares?

Each shareholder's existing adjusted cost base in their Petrobank Shares will be allocated between their New Petrobank Shares and Petrobank Special Shares in proportion to the relative fair market value of such shares at the time of the Reorganization. The fair market value of the New Petrobank Shares will be equivalent to the fair market value of the existing Petrobank Shares excluding the value associated with Petrobank's proportionate interest in Petrominerales. The fair market value of the Petrobank Special Shares will be equivalent to the fair market value of Petrobank's proportionate interest in Petrominerales. Each Shareholder's adjusted cost base in Petrobank will be allocated proportionately between New Petrobank Shares and Petrobank Special Shares.

The adjusted cost base of New Petrobank Common Shares should be computed as follows:

$$\text{Existing adjusted cost base in Petrobank} \times \frac{\text{Fair Market Value of New Petrobank Shares}}{\text{Fair Market Value of existing Petrobank Shares}}$$

The adjusted cost base of Petrobank Special Shares should be computed as follows:

$$\text{Existing adjusted cost base in Petrobank} \times \frac{\text{Fair Market Value of Petrobank Special Shares}}{\text{Fair Market Value of existing Petrobank Shares}}$$

An estimate of the allocation of the adjusted cost base between New Petrobank Shares and Petrobank Special Shares will be provided once the Reorganization has been completed based on current market prices at the time of the Reorganization.

Please be advised that any estimate of fair market value used to calculate the above noted allocation is not binding on the Canada Revenue Agency or any particular Shareholder and as such, the above noted estimate of the adjusted cost base allocation will not be binding on the Canada Revenue Agency.

6. How do I calculate the adjusted cost base of my New Petrominerales Shares?

The adjusted cost base of a Shareholder's New Petrominerales Shares will depend on whether the Shareholder chooses to recognize any gain or loss on the disposition of the Petrobank Special Shares, as outlined in question 3 above.

1. Automatic tax-deferred rollover – Assuming a Shareholder chooses an automatic tax-deferred rollover (as discussed above), the adjusted cost base of their New Petrominerales Shares will be deemed to be equal to the adjusted cost base of their Petrobank Special Shares (as discussed in question 5 above).
2. Recognize a loss – Assuming a Shareholder chooses to recognize the full amount of any inherent loss in their Petrobank Special Shares, the adjusted cost base of their New Petrominerales Shares will equal the fair market value of the New Petrominerales Shares at the time of the Reorganization (i.e. item A in the formula in Question 3 above).
3. Recognize the full gain – Assuming a Shareholder chooses to recognize the full amount of any accrued gain in their Petrobank Special Shares, the adjusted cost base of their New Petrominerales Shares will equal the fair market value of the New Petrominerales Shares at the time of the Reorganization (i.e. item A in the formula in Question 3 above).
4. Report a gain less than the full amount of the gain – Assuming a Shareholder chooses to file a Joint Tax Election, as described above, the adjusted cost base of their New Petrominerales Shares will equal the amount elected as proceeds of disposition in the Joint Tax Election.

7. How do I determine how many Petrobank Shares I owned on the date of the Reorganization?

Your securities broker can provide you with this information.

8. How do I determine how many New Petrobank Shares and New Petrominerales shares I will own after the Reorganization?

A Shareholder will receive one New Petrobank Share and approximately 0.62 of one New Petrominerales Share for every Petrobank Share owned at the time of the Reorganization.

9. Do I have to report any dispositions on my tax return?

Yes. Both the disposition of the Petrobank Shares for New Petrobank Shares and Petrobank Special Shares and the subsequent disposition of the Petrobank Special Shares for New Petrominerales Shares should be reported on your tax return. The proceeds of disposition of the Petrobank Shares will be equal to the adjusted cost base of those shares, resulting in no gain or loss. The proceeds of disposition of the Petrobank Special Shares will depend on the alternative treatment each Shareholder chooses as discussed in question 3 above.

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

Further information and guidance on preparing and filing the Joint Tax Election will be posted to our website after the Reorganization. A copy of the relevant forms and a step-by-step guide to completing the Joint Tax Election will be included with the information on our website. Completed Joint Tax Election forms must be received by New Petrominerales no later than 90 days after the date of the Reorganization. New Petrominerales has agreed to execute and mail the Joint Tax Election to the CRA within 30 days after it receives the election. Shareholders with

a filing due date prior to or around the 90 day deadline are therefore advised to forward their completed Joint Tax Elections at an earlier date.

11. I understand that New Petrominerales will pay dividends to its shareholders. How will these dividends be treated for tax purposes?

Dividends received or deemed to be received on the New Petrominerales Shares will 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. Assuming you are not subject to alternative minimum tax, for an individual Shareholder residing in the province of Alberta, the overall maximum effective tax on the New Petrominerales dividends will be 17.72% in 2011, compared to 39% on ordinary income. Because of the preferential tax rate applicable to these dividends, 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.

Generally, dividends received by a Canadian corporation should be deductible in computing the corporation's taxable income. To the extent the corporation is a private corporation, "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 who hold their Petrobank Shares as a capital asset. The questions and answers below assume that (i) Petrobank has current and accumulated earnings and profits (as computed for U.S. tax purposes) at least equal to the value of the New Petrominerales Shares received by Shareholders, and (ii) Petrobank is not and has never been a passive foreign investment company for U.S. tax purposes. U.S. Shareholders should consult their own U.S. tax advisors regarding the U.S. federal income tax treatment of the Reorganization to them.

1. How will the Reorganization be treated for U.S. federal income tax purposes?

The exchange of Petrobank Shares for New Petrobank Shares will not be a taxable event for U.S. federal income tax purposes. Each Shareholder's tax basis and holding period for its Petrobank Shares will become its tax basis and holding period for its New Petrobank Shares.

For U.S. federal income tax purposes, the receipt of Petrobank Special Shares and their exchange for New Petrominerales Shares will be treated as a distribution by Petrobank to its Shareholders of the New Petrominerales Shares. This distribution is expected to be taxable as a dividend. The amount of the dividend will be the fair market value of the New Petrominerales Shares at the time of their receipt, which amount will also become the Shareholder's U.S. tax

basis in the New Petrominerales Shares received. The Shareholder's holding period for the New Petrominerales Shares will begin on the day after the date of the Reorganization.

If the Reorganization occurs before January 1, 2011, it is anticipated that the dividend generally will be "qualified dividend income" to individual Shareholders subject to reduced tax rates (i.e. maximum of 15% to individual Shareholders compared to the maximum ordinary income tax rate of 35%). After December 31, 2010 the maximum tax rate applicable to dividends received by individual Shareholders is scheduled to increase to 39.6% under current U.S. tax law unless the reduced 15% rate is extended by the U.S. Congress.

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

Dividends paid by New Petrominerales generally 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 income tax treaty, the withholding tax rate may be reduced to 15%. Any Canadian withholding tax may be creditable as a foreign tax credit against the U.S. Shareholder's U.S. income tax liability, subject to the requirements and limitations of the U.S. foreign tax credit.

Dividends received by U.S. Shareholders will be subject to U.S. federal income tax at the tax rates applicable to dividend income at the time of receipt. The maximum U.S. federal income tax rate on dividend income of individual shareholders is scheduled to increase to 39.6% on January 1, 2011 under current U.S. tax law. However, the reduced rate of 15% currently in effect for 2010 may be extended by the U.S. Congress.

3. How will sales of New Petrominerales Shares be treated for tax purposes?

Generally, a U.S. taxpayer will be subject to tax on any gain realized upon the sale or other taxable disposition of the New Petrominerales Shares. If the New Petrominerales Shares are held as a capital asset and have been held for more than one year, such gain would be taxable as long-term capital gain. For 2010, the maximum tax rate on long-term capital gains of individual taxpayers is 15%; this rate is scheduled to increase to 20% on January 1, 2011 under current U.S. tax law, but the 15% reduced rate may be extended by the U.S. Congress.

4. Why was the Reorganization not structured as a tax-free spinoff for U.S. tax purposes?

The Reorganization does not meet the technical requirements of a tax-free spinoff under U.S. federal income tax law.

5. Will there be a Canadian withholding tax applicable on the Reorganization?

There is not expected to be Canadian withholding tax applicable to the Reorganization transaction. Canadian withholding tax will only be applicable in respect of future dividends paid by New Petrominerales, as outlined above.

Shareholders Resident Outside of Canada and the U.S.

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

The taxation of the Reorganization to Shareholders residents outside of Canada and the U.S. 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. Will there be a Canadian withholding tax applicable on the Reorganization?

There is not expected to be Canadian withholding tax applicable to the Reorganization transaction. Canadian withholding tax will only be applicable in respect of future dividends paid by New Petrominerales, as outlined below.

3. 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. 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.