

Petromin Resources Ltd. (TSX-V: PTR) – Initiating Coverage – Implementing C02 Capture and Sequestration Technology in China

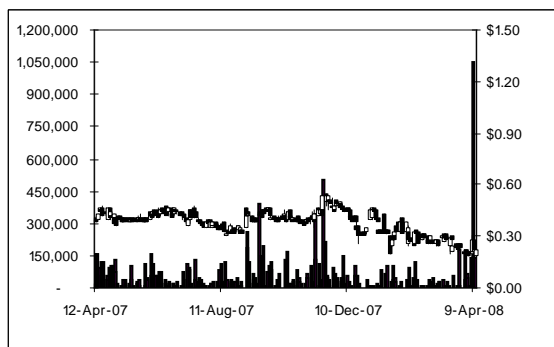
Sector/Industry: Oil and Gas

www.petromin.ca

Market Data (as of April 14, 2008)

Current Price	C\$0.24
Fair Value	C\$0.81
Rating*	BUY
Risk*	4 (Speculative)
52 Week Range	C\$0.18 – C\$0.55
Shares O/S	58,294,374
Market Cap	C\$13.99 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	5.11
YoY Return	-44.2%
YoY TSX-V	-23.0%

*see back of report for rating and risk definitions



Investment Highlights

- Petromin focuses on finding and enhancing petroleum and coalbed methane (CBM) reserves worldwide, through C02 Capture and Sequestration (CCS) Technology.
- CCS technology helps enhance recovery rates of oil from mature and depleted oil fields, and CBM from unminable coal seams while at the same time reducing greenhouse gas emissions in the atmosphere.
- The company is actively focusing on two enhanced CBM projects in China. One of the projects is a Production Sharing Contract (PSC) on one of PetroChina's (NYSE: PTR) leases. PetroChina is China's largest oil and gas producer.
- The company's two major competitive advantages are that they have access to technology (through their agreement with the Alberta Research Council), and that they already have agreements with several state agencies in China.
- In addition, the company has interests in five projects in Alberta, Canada; four of which are currently producing at 112 bpd net.

Risks

- CCS is still in the early phases of development; the long-term viability of its applications have not been proven yet.
- Petromin is exposed to all the risks associated with any other exploration and production company.
- While we expect the company to have sufficient cash in FY2008, access to capital is crucial to be able to continue pursuing exploration and development programs.

Key Financial Data (FYE - Sept 30)

(C\$)	2005	2006	2007	2008E	2009E
Revenue	924,023	1,762,368	1,940,369	2,236,915	2,519,180
Net Income	(627,188)	(2,821,770)	(1,435,838)	(1,295,952)	(1,534,562)
Cash	215,284	523,629	426,122	537	2,869
Working Capital	(854,486)	110,657	(64,310)	(459,234)	(514,918)
Total Assets	1,631,129	2,219,999	1,796,598	2,820,788	2,830,588

Petromin Resources Ltd is an oil and gas company focusing on finding and enhancing petroleum and coalbed methane (CBM) reserves worldwide through C02 Capture and Sequestration (CCS) Technology. Currently, they are focusing on developing two ECBM projects in China. The company also has interests in five projects in Alberta, Canada; four of which are currently producing at 112 bpd net for Petromin.

**Company
Overview**

Petromin Resources Ltd., based in Vancouver, Canada, is an oil and gas company focusing on finding and enhancing petroleum and coalbed methane (CBM) reserves worldwide through CO₂ Capture and Sequestration (CCS) Technology. In addition to enhancing recovery rates of oil from mature and depleted oil fields, and CBM from unminable coal seams, CCS technology also helps reduce CO₂ (the most dominant greenhouse gas) in the atmosphere. CCS is still in the early phases of development. Although, there have been several successful pilot operations testing this technology, the long-term viability of its applications has not been proven yet. Considering that there is an emerging demand and interest for clean technology worldwide, we believe that, CCS technology, if proved economically viable for a long-term operation, has the potential to be major breakthrough for the industry.

China is the number one greenhouse gas emitter, and is ranked number three in CBM reserves worldwide – which makes them the best market to test and commercialize CCS technology. Currently, Petromin is actively focusing on two projects in China – a multi-well pilot test project and a product sharing contract (PSC) on one of PetroChina's leases. PetroChina (NYSE: PTR) is China's largest oil and gas producer.

Petromin's competitive advantage lies in the fact that they have an agreement with the Alberta Research Council. The ARC has developed an advanced CCS technology. The agreement allows Petromin to transfer ARC's CCS technology and expertise to enhanced oil recovery (EOR) and enhanced CBM (ECBM) projects worldwide. Petromin's strategy is to joint venture their projects with local corporations or government agencies, and implement ARC's CCS technology. The company has signed agreements with the China United CBM (CUCBM), which is a government company that has exclusive rights for all CBM projects in China, and several state agencies in China, which gives them a considerable advantage. By joint venturing the projects, the company also reduces the risks associated with their early stage projects. In addition to their projects in China, the company has signed letters of agreements/LOI's with companies to test and implement CCS technology in Kuwait, Algeria, Indonesia and Mexico.

Petromin has a strong management team with extensive experience working with public companies and in the energy sector. Although the company is based in Canada, they have strong ties in China, which is one of the reasons why they have been able to attain relationships with Chinese state agencies and corporations. In October 2007, Petromin signed a master technical services agreement with Enviro Energy (HK: 8182). Enviro is a public company listed on the Hong Kong Growth Enterprise Market and has a market cap of HK\$ 2.2 billion, or \$285.53 million.

In October 2007, both companies signed a master technical services agreement. According to the agreement, Petromin will provide personnel, expertise, experience, contacts, technology and research services towards the development of Enviro's oil and gas business. Both companies have equal interests in the projects that PTR is currently focusing on in China

In addition to their projects in China, the company also has five oil and gas projects in Alberta, Canada, located along the Western Canada Sedimentary Basin, which is considered

as the most productive hydrocarbon area in Canada. Four of those projects are currently producing at 112 bpd (net for Petromin). Petromin is trying to increase production from these projects, so that their cash flows will help the company fund their operations in China.

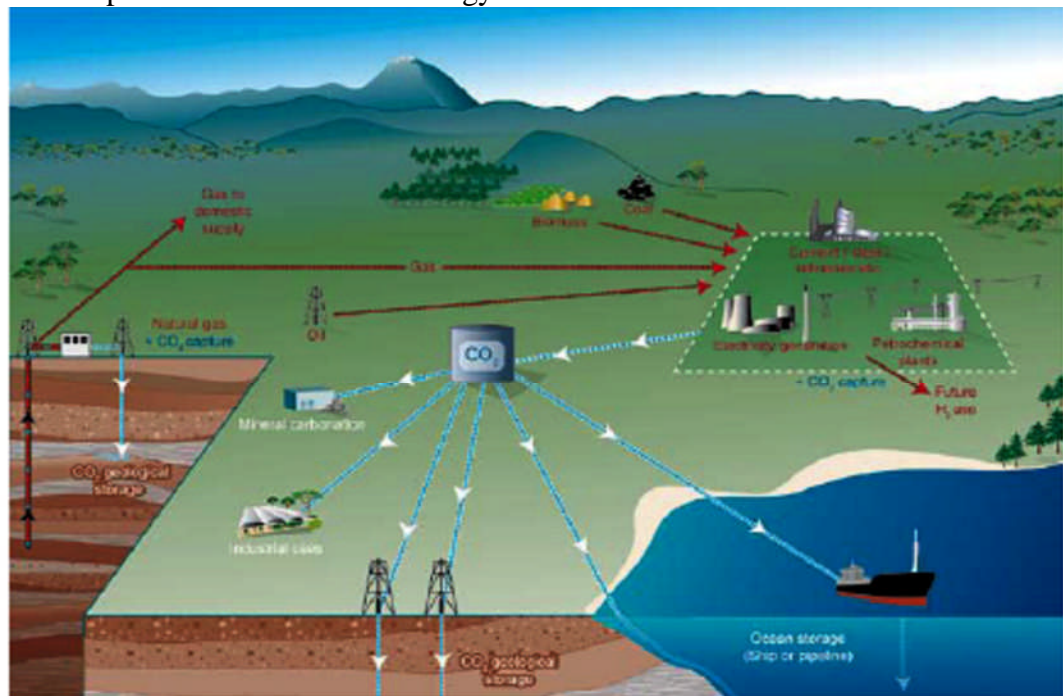
In just 18 months, Petromin has transitioned from a company with only conventional oil and gas projects in Alberta, Canada, to a company that is focusing on finding and enhancing petroleum and coalbed methane (CBM) reserves through CCS technology. In January 2007, the company achieved Tier 1 status on the TSX Venture Exchange. We believe the next 12 months will be very exciting for the company as they progress their two projects in China. Positive results from these operations will create significant upside potential to the company.

Before we take a look at the company’s projects, it is essential to understand the importance of CCS technology in the oil and gas industry today.

CO2 Capture and Sequestration Technology

CO2 Capture and Sequestration (CCS) technology captures CO2 in the atmosphere, stores it underground, and uses that stored CO2 to enhance oil recovery from mature or depleted oil and gas reservoirs, and coalbed methane (CBM) recovery from unmineable coal seams. In addition to enhancing recovery of oil and CBM, CCS technology has another major advantage. CO2 is the most dominant green house gas in the atmosphere. By capturing CO2 in the atmosphere and storing it underground, the technology has the potential to significantly reduce greenhouse gases in the atmosphere.

A pictorial representation of the technology is shown below.



*Schematic Diagram of a Possible CCS System
Source: IPCC*

Implementation of CCS technology basically involves three main steps: CO₂ capture, storage and enhanced recovery. In the next section, we discuss each of these steps in detail.

CO₂ Capture: About 75% of all CO₂ in the atmosphere is emitted when fossil fuels are burnt to produce electricity. Fossil fuels supply over 85% of the world's energy needs. CO₂ can be captured and separated either directly from flue gases emitted from industries and fossil fuel power plants, or filtered from the air through photosynthesis. Capturing CO₂ is one of the most expensive steps in CCS technology. It is estimated that existing capture technologies account for up to 75% of the total cost of carbon capture, transport, and storage. Considering that this is a relatively new technology, and a major global research effort is now underway aimed at improving processes and lowering costs, we believe it is possible that a cost-effective CO₂ capturing technology could be developed going forward.

CO₂ Storage: The captured CO₂ is transported (after compression) and can be stored in underground oil and gas reservoirs, unmineable coal seams and saline formations. CO₂ is typically stored in a permeable layer underlying an impermeable layer. Since fluids cannot flow in an impermeable layer, the impermeable layer will not allow CO₂ and gas to escape back into the atmosphere.

Enhanced recovery: The stored CO₂ is then pumped into oil and gas reservoirs and coal seams to enhance recovery of oil and CBM that could otherwise not be produced or recovered. The technique used to enhance recovery of oil is different from that used for CBM recovery. Let us take a look at each of these processes.

- **CO₂ to enhance oil recovery (EOR)** - EOR techniques, as the name suggests, are used to enhance recovery of oil from mature or depleted oil and gas reservoirs. The commonly used EOR techniques are gas injection, chemical injection or thermal recovery. Among these techniques, gas injection is the most commonly used. In gas injection, gases like CO₂, N₂ and natural gas are injected under high pressure into reservoirs. These gases, at high pressure, either push oil that has been left behind toward the well bore, or dissolve in the oil and increase flow rates of oil by reducing oil viscosity. Both processes lead to higher oil recovery.

N₂ is the cheapest gas, and therefore, N₂ is the most widely used gas for EOR projects. However, CO₂ has been demonstrated to be an effective solvent in oil recovery because of its ability to dissolve in oil and swell oil much better than N₂. There are around 70 EOR projects using CO₂ underway, mainly in North America.

- **CO₂ to enhance CBM/CMM recovery:** Natural gas found in coal seams is called CBM. Methane when produced (or emitted) during the production of coal is called CMM (coal mine methane). Coal, because of its large internal surface area, stores six to seven times as much gas as conventional natural gas reservoirs (according to the Energy Information Association). CBM is considered a highly clean fuel when burnt, as it is generally more than 95% methane, and contains no sulphur compounds. Another advantage of CBM projects is that drilling is relatively cheaper as CBM is also accessible at shallow depths.

CBM is generally recovered from coal beds by dewatering the reservoir. By dewatering, the reservoir gets depressurized, and as a result, methane desorbs from the coal and flows to the surface. Although simple, this technique is not very efficient. As reservoir pressure is reduced, gas lacks the energy to flow up to the surface, resulting in lower flow rates. Also, there could be long delays in production when the reservoir is water saturated.

Enhanced CBM recovery techniques are used to overcome this problem. One such ECBM technique is to inject a high-absorbing gas such as CO₂. CO₂ will then displace methane from the coal seams. Lab studies have indicated that coal adsorbs nearly twice as much volume of CO₂ as methane, giving CO₂ the potential to efficiently displace methane and remain stored on the bed. As CO₂ is absorbed by the coal, CO₂ is sequestered and prevented from escaping to the atmosphere.

In addition to enhancing recovery of oil and CBM, and reducing greenhouse gas emissions, CCS technology, by extracting methane from coal seams, can potentially reduce coal mine related deaths. CMM related deaths are very prevalent in China, the number one coal producer in the world. In 2005 alone, China reported 6,000 deaths related to CMM. CMM gas emitted during the production of coal can be very hazardous as it can lead to methane explosions and sudden outbursts of coal and gas. This results in higher mining costs and the need for larger ventilation systems. By extracting CBM, the risks associated with CMM can be reduced.

Risks and Limitations of CCS

Now, we take a look at the risks and limitations of CCS technology.

High Implementation and Operating Costs – According to the Intergovernmental Panel on Climate Change (IPCC), implementation of CCS technology would increase the cost of electricity generated by a plant by 37% - 91%. However, the negative impact due to higher costs can be offset if regulators grant incentives to producers in terms of tax waivers or subsidies. Significant amounts of capital are being invested in developing CCS technology worldwide. For example, in their new budget, the Federal Government of Canada announced that they intend to invest \$240 million to develop a full-scale commercial demonstration of CCS in Saskatchewan. Therefore, advancement in technology also could lead to lower costs.

Geologic Potential: Due to the high costs involved in this technology, if the gas is not present in commercial quantities or if the gas cannot be produced, the project would not support an ECBM project.

Long-term Viability: CCS is still in the early phases of development; long term viability of its applications has not been proven yet.

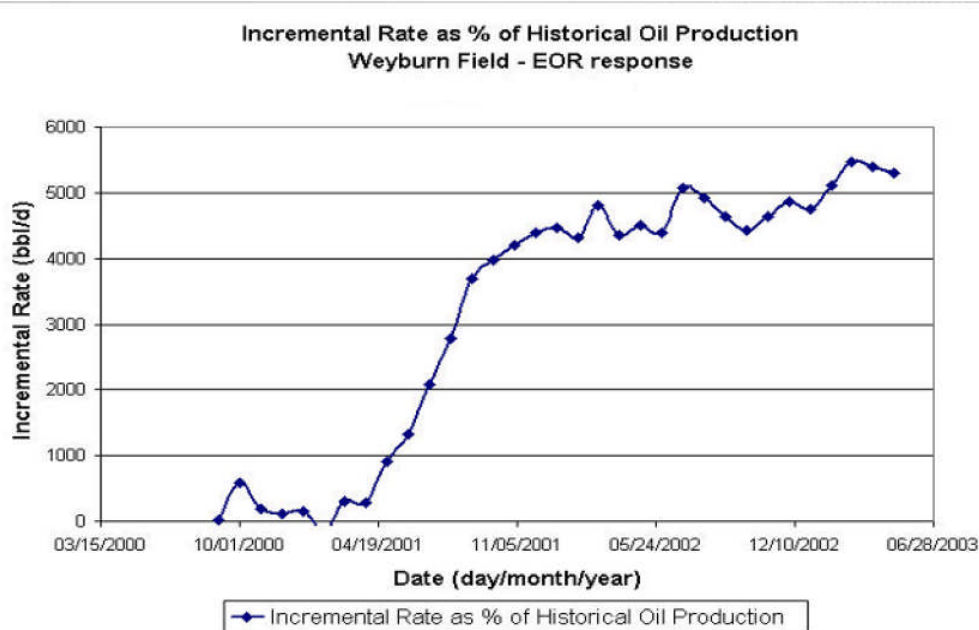
Policy Regulations: The economic viability of such products depends on the tax benefits and CO₂ credits that the project can receive.

Safety Hazard: Although it can reduce CMM related deaths, injection of CO₂ into mineable coals presents a safety hazard, as mines are required to have a limit of 3% CO₂ by volume in

the mine air. One way to overcome this problem is by using a mixture of CO₂ and other gases, such as N₂.

Successful Example – Encana’s Weyburn Field

One of the best and most successful examples of an economic CO₂ sequestration is Encana’s (NYSE/TSX: ECA) Weyburn field, located in Saskatchewan, Canada. Petromin’s partner, ARC, has a minority interest in this project. This project is one of the world’s largest CCS projects. The chart below shows how flow rates improved after CCS was implemented.



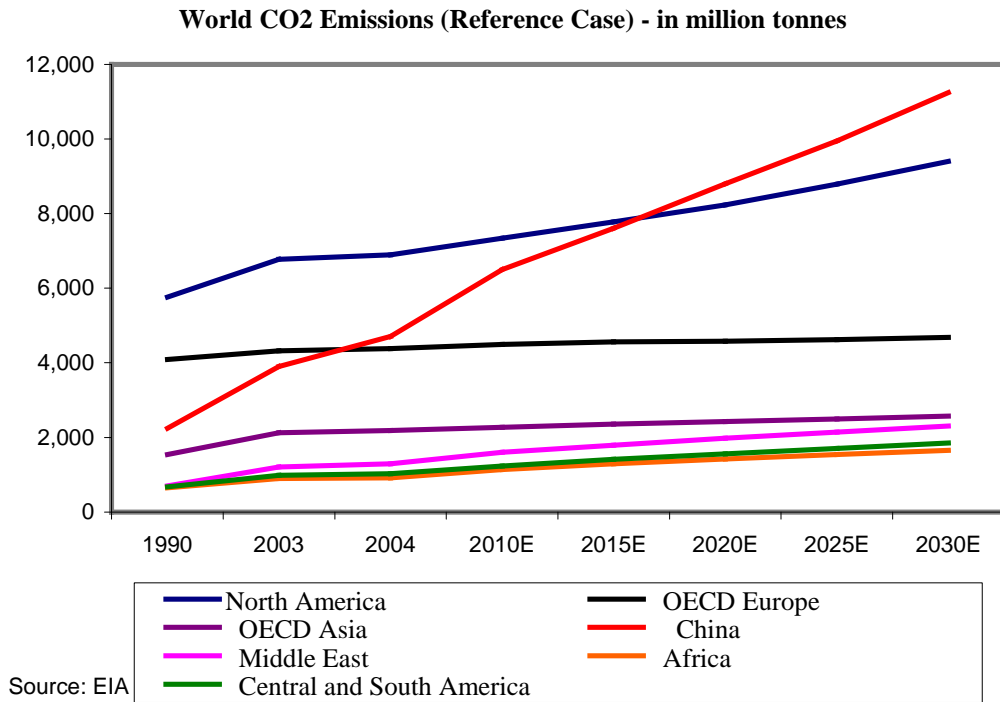
Source: Petromin

The Weyburn plant gets its CO₂ from a coal gasification facility in North Dakota, U.S.A. Initial investment in the project was \$1.3 billion. We believe that the success of the Weyburn project reflects the fact that CCS technology can be economically viable for EOR projects. However, long-term viability is yet to be proven.

The two most important factors that drive the demand for CCS technology are CBM potential and greenhouse gas emissions. In the next section, we take a look at the regions that have high CBM reserves and high greenhouse gas emissions.

Greenhouse Gas Emissions

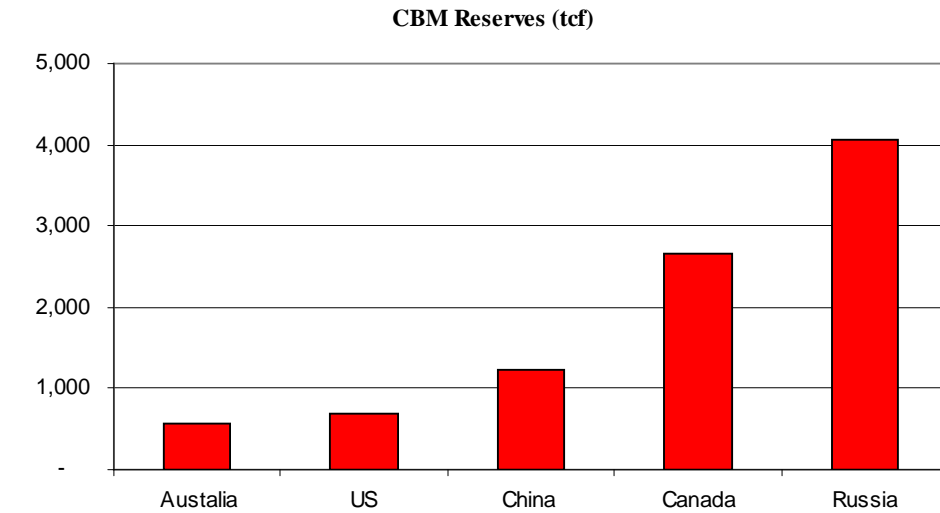
Greenhouse gas emissions in 2004 were 26.9 billion tonnes, up from 21.2 billion tonnes in 1990, which reflects a CAGR of 1.7%. North America, China and OECD Europe accounted for 25.6%, 17.5% and 16.3%, respectively, of total emissions, in 2004. The chart below shows projections for CO₂ emissions worldwide.



According to the EIA, global CO2 emissions are expected to grow by 1.8% per annum during 2004 – 30, and reach 42.9 billion tonnes by 2030. Note the significant growth in projected emissions in China. About 75% - 80% of China’s electricity is generated from coal, and coal, when burnt, produces three times more CO2 than gas-power generators. **In 2006, China overtook the U.S. to become the top emitter of greenhouse gases. China produced 6.2 billion tons of CO2, while the U.S. produced 5.8 billion tonnes in 2006 (according to the Netherlands Environmental Assessment Agency).** Emissions in China are expected to grow by a CAGR of 3.4% versus 1.2% in North America, and 0.3% in OECD Europe. By 2030, China will account for 26.2% (up from 17.5% in 2004) of total global emissions, while North America and OECD Europe’s contribution is expected to drop to 21.9% (down from 25.6% in 2004) and 10.9% (down from 16.3% in 2004), respectively. These forecasts clearly indicate that China has to rely more on clean energy technologies to cut its greenhouse gas emissions. The Kyoto protocol requires China to start cutting greenhouse gas emissions after 2012. In order to cut greenhouse gas emissions, China’s government is encouraging the development of clean energy technologies by granting tax incentives and other subsidies.

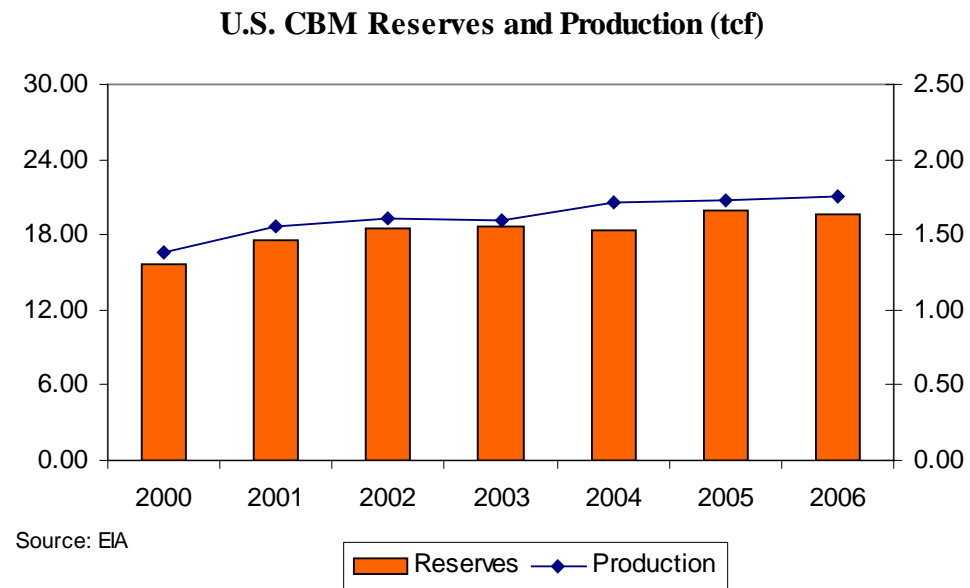
Canada is another country, which we believe, has the potential to be a major greenhouse gas emitter, as production from oil sands quadruple in the next 15 years. Oil sands are a major contributor to greenhouse gas emissions, and Canada has already started focusing on ways to reduce their greenhouse gas emissions. To meet the Kyoto agreement, the federal government of Canada has set targets to reduce greenhouse gas emissions by 20% from 2006 levels by 2020. According to Ottawa’s advisory panel, the National Round Table on the Environment and the Economy, CCS technology would account for nearly half of Canada’s emissions reductions if the country meets its 2020 targets.

CBM Reserves In terms of CBM reserves worldwide, Russia, Canada, China, the U.S. and Australia are the top five countries. The chart below shows their reserves.



Source: CUCBM and Merrill Lynch

The U.S. and Australia are two countries that have successfully implemented CBM projects. CBM production accounts for 10% and 30% of total natural gas production in the U.S and Australia, respectively. The chart below shows the growth in CBM reserves and production in the U.S.



Source: EIA

CBM production in the U.S. in 2006 was 1.76 tcf, up from 1.38 tcf in 2000, reflecting a CAGR of 4.1%. At the same time, CBM reserves also rose from 15.71 tcf to 19.62 tcf, a CAGR of 3.8%.

CBM potential in China: China produces 1 billion tonnes of coal per year, and is the

largest coal producing country in the world. Currently, more than 0.05 tcf of CBM is emitted every year without being productively used, and is thereby wasted. China ranked third in the world in terms of CBM reserves, has about 1,200 tcf of CBM reserves, versus 4,000 tcf and 2,600 tcf in Russia and Canada, respectively. According to the CUCBM and Merrill Lynch, 64% of the CBM deposits in China are found in the Central Region, 25% in the West, and 11% in the East. Shanxi and Inner Mongolia are the two largest sources. China intends to increase CBM production from 0.05 tcf in 2006 (3% of total natural gas production), to 0.35 tcf by 2010 (10% of total natural gas production), and 0.71 tcf by 2015.

China is the best candidate for CCS

Considering that China is number three in the world in terms of CBM reserves, and is currently the top greenhouse gas emitter, it is evident that China is the best market to test and commercialize CCS technology. Therefore, we believe, Petromin and their joint venture (JV) partners have rightly decided to place their initial focus on developing CBM projects in China. China's immense potential for exploration and development of CBM projects has led to a significant inflow of capital from foreign companies. According to Merrill Lynch and the CUCBM, foreign investment in CBM in China has increased from about \$20 mm in 1998 to \$140 mm in 2007 (estimate).

After China, we believe the second best region with good potential for implementing CCS is Canada, as Canada has the second largest CBM reserves and the potential to be a major greenhouse gas emitter in the future as production from oil sands increases.

Petromin's Competitive Advantage - Access to Technology and Significant Partnerships

The company's two major competitive advantages are that they have access to technology and that they already have agreements with several state agencies in China.

Access to Technology and Expertise - Petromin's competitive advantage lies in the fact that they have tied up with the Alberta Research Council (ARC). The ARC, a non-profit organization wholly owned by the province of Alberta, has developed an advanced CCS technology. As mentioned earlier, ARC is also a minority partner in the successful Weyburn Project.

In October 2006, Petromin signed a Technical Cooperation Agreement with the ARC in the application of the ARC's CCS technology and expertise in EOR and ECBM projects. This agreement was a major milestone for the company and totally changed the company's focus. Prior to this agreement, the company had only conventional oil and gas producing projects in Alberta, Canada. The tie up with the ARC gave Petromin the capability to transfer ARC's CCS technology and expertise to EOR and ECBM projects worldwide. Petromin's strategy is to partner with Chinese corporations or state agencies and provide technical expertise, technology transfer and funding to projects in China.

According to the agreement, ARC works as a contractor and Petromin compensates them for the services they provide. There is no revenue sharing agreement between the companies.

Partners: Subsequent to signing the agreement, Petromin was able to sign agreements with China United Coalbed Methane (CUCBM), a federal state level energy agency in China, and several other state level agencies to pursue ECBM projects using CCS technology.

Petromin has signed agreements with the following government agencies in China:

China United Coalbed Methane (CUCBM) – CUCBM has exclusive rights to undertake exploration, development and production of CBM projects in the country in cooperation with foreign enterprises. Both projects that Petromin is currently focusing on in China are joint ventured with CUCBM.

Shanxi Energy Inc. is a state-owned coal energy development company. In March 2007, Petromin signed an agreement with Shanxi Energy, wherein the companies will work together to develop CO₂ sequestration, coal heap utilization in power generation, surface coal mine and environmental energy related projects.

Heilongjiang Coal Geological Bureau (HCGL): In June 2006, Petromin signed an agreement with the HCGL, wherein both companies will explore and develop Heilongjiang province's CBM resources. Heilongjiang province is considered to have the largest onshore petroleum resources in China, in addition to a few major coal deposits (in some areas, individual coal seams measure 30 m, while combined thickness measures more than 80m).

Partnerships with state agencies imply that Petromin will have access to most of the CBM projects in those provinces.

**Enviro Energy
International
Holdings
Limited**

Although Petromin is based in Canada, they have strong ties in China, which is one of the reasons why they have been able to attain relationships with Chinese state agencies and corporations. In October 2007, Petromin signed a master technical services agreement with Enviro Energy. According to the agreement, Petromin will provide personnel, expertise, experience, contacts, technology and research services towards the development of Enviro's oil and gas business. Both companies have equal interests in the projects that Petromin is currently focusing on in China.

Enviro is a public company listed on the Hong Kong Growth Enterprise Market and has a market cap of HK\$ 2.2 billion, or \$285.53 million. Enviro Energy focuses on CBM, CMM mitigation, GHG emissions reduction and other clean development projects.

**CBM Projects
in China**

Petromin primarily focuses on two ECBM projects in China:

- 1) A multi-well pilot CO₂ injection for a ECBM project in the Qinshui Basin, Shanxi Province, in partnership with CUCBM
- 2) A Production Sharing Contract (PSC) in the southern Junggar Basin, Xinjiang Province, in partnership with CUCBM and PetroChina.

**First ever
Multi-Well
CO₂ Injection
for ECBM**

Petromin and Enviro Energy, along with CUCBM, intend to design and implement a 5-year multi-well pilot CO₂ injection ECBM production and geological project in China. Petromin entered into an agreement with CUCBM to pursue this project in July 2007. This program is the continuation of a single well pilot test in the Qinshui Basin, Shanxi Province, conducted by the Chinese (Chinese Ministry of Commerce and China United Coalbed Methane) and the

Canadian Government (in collaboration with the ARC) in early 2007. The Qinshui basin in Shanxi is a major CBM production base. The objective of this project is to show that CO₂ will enhance production of CBM from the deep unminable coal seams. If and when proven feasible, the companies intend to implement other pilot tests in other coal-rich regions of China.

Encouraging results from the previously conducted single-well pilot test prompted the companies to advance the project. Their goal is to demonstrate that this project is viable, and eventually take similar projects into commercial production. The following were a few of the main results of the single-well pilot test:

1. The test showed that methane rates nearly double to 55% after injection of CO₂ into the coal bed and that coal seams in the area are permeable and stable enough to absorb CO₂ and enhance methane production.
2. The project confirmed that ARC's CCS technology can be applied in China's coal beds and recommended proceeding to a multi-well pilot test at the south Qinshui site.
3. Commercial application of the CCS technology at Qinshui basin is technically feasible.
4. The project is possibly economic using zero or reasonable CO₂ credit value, which, we believe, is highly encouraging.
5. Although actual flow rates were not disclosed, simulation studies indicated that at least 65% recovery of original-oil-in-place (OGIP) is achievable with CCS.

In addition to these results, the study also indicated that flue gas (gas emitted by power plants) can achieve high recovery of CBM. This is positive as it means that costs can be significantly reduced, since less CO₂ filtering and processing is required.

Ownership: CUCBM, with 60% interest, will be the operator of the project. Petromin and Enviro, with 20% interest each, along with the ARC, will provide technical guidance, expertise and assistance in the design.

Infrastructure: Infrastructure is good in this area. According to the 11th Five-Year Plan (2006-10), China intends to build a total of 10 CBM pipelines (spanning 1,441 km) with a total capacity of 6.53 billion cu. meters by the end of 2010. The total estimated investment for this project is about 3.09 billion RMB (\$437.80 million).

Notably, a 120km CBM pipeline from Duanshi (North China's Shanxi Province) to Bo'ai (Central China's Henan province) with a capacity of 1 billion cu. meters is planned. It will be the first cross-province CBM pipeline and pass through Qinshui basin in Shanxi, close to Petromin and CUCBM's multi-well pilot operations. The project is yet to receive approval from the National Development and Reform Commission (NDRC), China's top economic planning body. Total investment in the project is estimated to be about 400 to 500 million RMB (\$56.67 to \$70.84 million).

The area has several coal power plants, chemical plants and fertilizers plants. The companies expect to use the captured CO₂ from these sources. Shanxi province encourages development of such clean energy technologies, and we expect the company to receive support from the

government going forward. The report on the single-well pilot test mentioned that CO₂ could be sourced from the Tian’Ji Chemical Fertilizers Plant, Lucheng, at 800 tonnes per day CO₂.

Project Plan and Costs: The first two phases of the pilot project will most likely utilize 5- 7 wells for a planned injection/production test. The pilot test is initially planned for 5 years. However, if results are encouraging, management indicated that they might shorten the period to three years and commence commercial production by 2011.

The total estimated cost of this pilot program, which includes drilling 5 – 7 wells, installing the injection facility, pipeline, and CO₂ capturing facility, is about 24.9 million RMB (\$3.53 million). The companies intend to spend 9.9 million RMB (\$1.40 million) in the first year. Petromin’s contribution will be about 1.73 mm RMB (\$0.25 million). The capital contribution of each party in the second phase, which will cost an additional 15 mm RMB, (\$2.13 million) has not been decided yet.

If the pilot turns successful, the study (based on the single-well pilot test) recommended a 90 – well program (45 injectors and 45 producers) to take the project into commercial production.

This program has yet to receive approval from the Chinese government. CUCBM has now submitted the project plan to the Ministry of Science and Technology (MOST) of the People’s Republic of China for a Specialized Project Funding of International Technology Cooperation. Once the approval is received, a more detailed agreement between Petromin and the CUCBM will be negotiated. Our discussions with management indicated that they intend to receive approvals and commence operations in the first half of 2008. Depending on the flow rates, the company will sell the produced gas from this operation. Petromin will receive 20% of the revenues from production.

**CBM
Production
Sharing
Contract with
PetroChina**

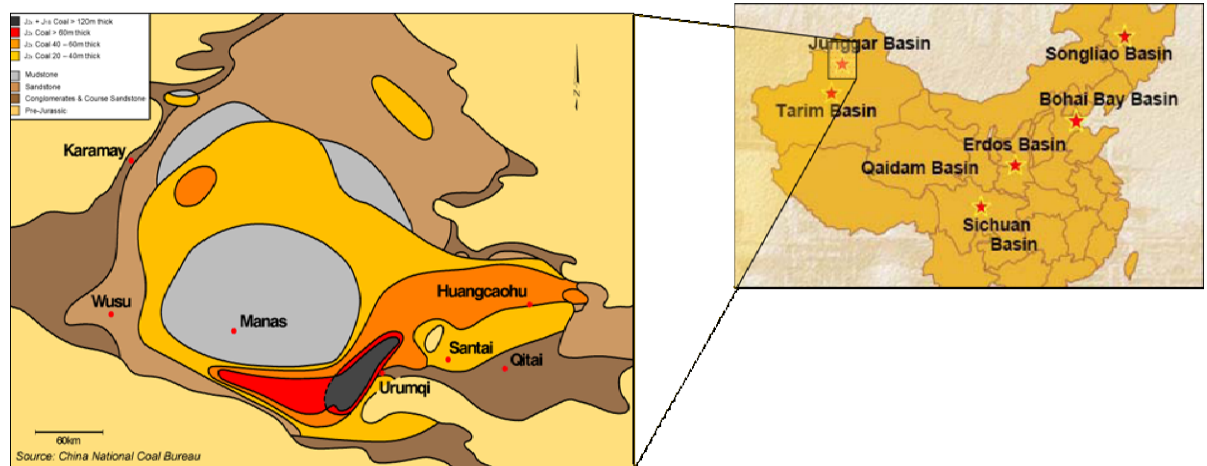
Petromin holds interest in a CBM production sharing contract (PSC) covering 655 sq. km (253 sections) in China’s western Xinjiang Autonomous Region. The project is on a lease owned by PetroChina (NYSE: PTR - market capitalization of US\$268 billion). This is the first CBM PSC project that PetroChina has leased out to a foreign entity.

Ownership: Petromin and its nominee (the company has not yet named the nominee) attained interest in this project through an 80% acquisition of Terra West Corporation (TWE), a privately owned CBM development company that has a 47% interest in the PSC. PetroChina and the CUCBM have ownership of 48%, and 5%, respectively, in the project. Petromin has a 40% interest in TWE, which implies a 18.8% interest in the project.

In order to encourage the development and production of CBM, the Chinese Government has offered the following incentives to the companies:

- 1) Waived tax on CBM gas production
- 2) Priority to CBM gas over conventional gas to access pipeline
- 3) Granted a subsidy of approximately US\$1.00/mcf for CBM gas over conventional gas pricing.

We believe, these incentives are highly encouraging and will have a significant positive impact on the economics of the project. The map below shows the company's focus area.



Source: Petromin Resources

Previous Activities and Geology: The PSC is located in the southern margin of the Junggar sedimentary basin, which is an active hydrocarbon producing basin and highly prospective for CBM reserves because of its thick coal seams and high gas content. There are several active coal mines in the southern sector of the basin. According to the CUCBM, the Junggar Basin holds about 69 tcf of CBM (11.5 billion bbl). In comparison, the Western Canadian Sedimentary Basin (WCSB) in Canada is estimated to hold 528 tcf of OGIP, with 11 – 45 tcf of them being marketable (according to the Canadian Gas Potential Committee). PetroChina is the major operator in this area. The nearest gas producing field to TWE's PSC block is located to the north in the Hutubi area.

In 2006, TWE conducted a three-well test program (drilled to a depth of 526 – 768 m). The wells intersected significant thickness of coal (16 – 43m) in the primary target, the Jurassic Xishanyao formation, and confirmed the presence of natural gas in the coal. The Jurassic Xishanyao formation is well developed and is currently mined by underground mining methods. According to a test conducted by Norwest Corporation, an international CBM and Energy Consulting company (based in Calgary), the quality of coal in the area is similar to that of Horseshoe Canyon coals in Alberta (The Canadian Society for Unconventional Gas predicts Horseshoe Canyon hold 66 tcf of CBM), only that the beds in the Junggar basin are much thicker. The study showed that the tested coal is high volatile bituminous C to sub-bituminous A in rank, with variable gas content ranging to 0.1 mcf / ton of coal. The coal thickness encountered in the test wells together with the tested gas contents provides a gas potential of 8.0-8.5 bcf/section (square mile). No resource calculation was completed based on the 3 test wells. Flow rates in the area are not known. **However, considering that the average flow rates from the thinner coal seams in the Alberta Horseshoe Canyon CBM play are about 125 – 150 mcf/d, Petromin's management expects the flow rates in the Junggar basin could be higher.** The second and deeper target, the Jurassic Badaowan formation, is a relatively underexplored area. Estimated average coal tonnage in the area is around 50.7 million ton/section. **The partners expect to come out with an initial gas resource estimate in 2008.**

Infrastructure: The lease area is connected to PetroChina's West-East gas pipeline (capacity of 420 bcf) that spans over 10 Chinese provinces. Also, there are other gas pipelines that transport gas from the basin to Urumqi city, which is located immediately beside TWE's PSC block. Urumqi currently utilizes all the gas produced in the Junggar Basin. Additional oil and natural gas pipelines are expected in this basin.

Current development and future plans: The companies plan to drill their first well in the spring. The first well, which will be drilled to over 1 km will test the coal seams in the Jurassic formations (primary and secondary targets). Although the well location is yet to be identified, management believes that it will be closer to the three wells drilled in 2006. The companies also plan to complete surface and sub-surface geophysics and geological studies in the area.

Total estimated expenses for this program are about US\$2.7 million over the next two years. Petromin's contribution, we estimate, will be around US\$0.51 million.

Prior to entering into agreements with the two projects in China, the company had signed agreements with companies to exploit CBM deposits in other areas. Although Petromin is yet to formalize agreements with these companies, we believe that such relationships could possibly offer upside potential going forward.

**Potential
Projects in
Other Areas**

United Oil Projects (UOP) of Kuwait: In February 2007, the company signed a LOI with United Oil Projects (UOP) of Kuwait, to implement CCS technology for EOR projects in Kuwait. UOP participates in industrial projects, with focus on petrochemicals, oil and natural gas sectors. The company is a subsidiary of Kuwait Projects Company Holdings (KIPCO) Group, one of the largest premier investment holding companies in the Middle East and North Africa (MENA) region.

Like in China, Petromin intends to provide technical support, engineering design, and share capital investment of CCS projects in Kuwait. A formal agreement between the parties has yet to be signed.

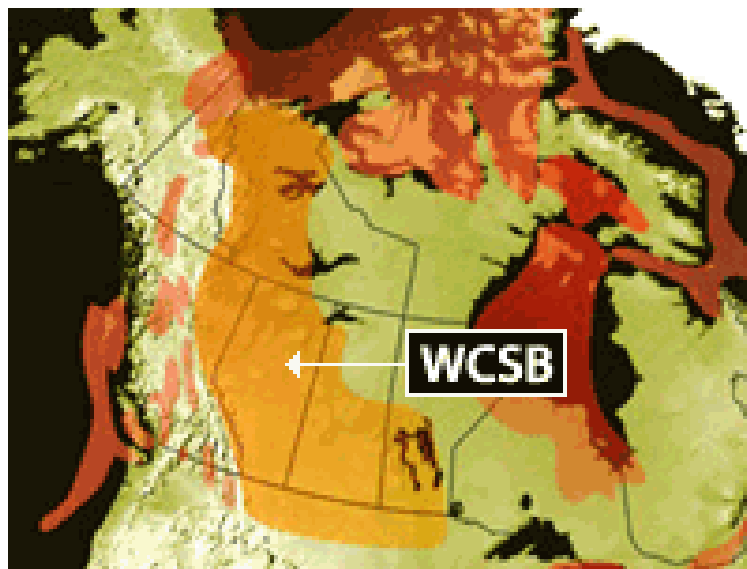
Also, cutting greenhouse gas emissions is becoming a priority in the Middle East. For example, Abu Dhabi (United Arab Emirates) has plans to launch up to 15 carbon projects to capture as much as 20 million tons a year of greenhouse gas emissions by 2020.

We believe that Petromin's relationship with one of the largest investment holding companies in the Middle East could turn out to be beneficial for the company going forward.

In addition to their CCS projects, the company owns interests in five oil and gas projects in central Alberta, of which four are currently producing. All the properties are located in the Western Canada Sedimentary Basin, which is considered the most productive hydrocarbon area in Canada.

Projects in Canada

The WCSB currently accounts for about 98% of natural gas production in Canada.



Source: Petromin

The total net production for the company from the four producing projects is about 112 bpd. Petromin expects to increase production from these projects going forward, so that cash flows from these projects can be used to fund the company's CCS projects.

As at September 2006, the projects had a reserve estimate of 179,000 bbl, up 9.6% YOY. The company has not put out a reserve report since then. Below is a brief description of each of the five projects.

Frog Lake – This project is located within the heavy oil deposits of the lower cretaceous age in the McLaren channel sand. The sands extend over 50 miles from SE to NW forming a narrow trend of excellent heavy oil reservoir containing over 1 billion bbl of OOIP, along the Western Canada Sedimentary Basin.

This project is the company's main producer at this time. The company currently has three producing oil wells in this project, with interests ranging between 45 – 60% in these wells. Total net production from three wells is about 66 bpd (100% oil). The average gross production from each well is about 46 bpd.

The company plans to drill a fourth well in this area. However, drilling is being held up as Petromin is awaiting clarification from Indian Oil and Gas Canada (IOGC) regarding a pending royalty reduction application from Petromin's partner, Frog Lake Energy Resource Corp. (FLERC). The IOGC is an organization committed to managing and administering oil and gas resources on Indian reserve lands.

Redwater – Petromin has a 100% working interest (WI) in certain oil and natural gas leases in the Redwater area of Alberta. This project has six producing wells with a combined net production of 30 boepd (about 70% oil and 30% gas). The average gross production from

each well is about 20 boepd. Two of the wells have gross overriding royalties (GORR) until payout, at which time payout will be converted to 50% WI in one and 25% WI in the other. Petromin's WI in the other four wells range between 12.5% - 25%.

Gilby – Located in Sonoka, this project has one producing well, which is also the discovery well. The well is currently producing at 77 boepd gross (100% gas). Petromin's share of production is 13 bpd. The company has a 16.67% WI in the well. The producing well also contains Colony and Glauconitic gas zones which are being assessed for dual completion.

On April 14, 2008, the company announced they completed an additional well in the area, midway between its producing well and a new gas discovery currently producing at 480 boepd (100% gas). The new well will be directly offset by a gas pipeline. The primary target encountered a total of 13 meters of potential gas play. Production testing is scheduled to commence immediately.

Morningside - This project has two producing Glauconitic gas wells. The company retains a GORR, which is convertible to a 10% WI after payout on the first well and a non-convertible GORR on the second well. The wells have an average gross production of 38.3 bpd. Net production for Petromin from both wells is about 3 bpd.

In addition to these two wells, Petromin also has interests in fields that directly offset an oil well currently producing over 100 bpd. Petromin is planning additional drilling in the area to determine the potential in the Colony, Lower Glauconitic and Basal Manville Sands.

Calmar – This project, also located in Central Alberta, is not currently producing. Petromin has 32% of wellhead revenues on the earning well, until payout, converting to a 52% WI after payout.

Current developments: At this time, the company plans to drill their fourth well in the Frog Lake property, their third well in the Morningside project, and their second well in the Gilby area. Drilling costs per well in this region range between \$0.55 million and \$0.75 million per well. Therefore, we believe the company will have to spend about \$0.50 million - \$0.75 million for the three wells.

Management

Brief biographies of management, as provided by the company, follow.

Kenny W. Chan - Co-Chairman & CEO: Mr. Chan brings over 30 years of experience to Petromin in resource acquisitions, international finance and marketing. He has built a network of contacts in Europe, North America and Asia and has established a loyal base of shareholders due to his reputed track record of structuring successful resource companies in the past and present.

In the early 1980s – at the pinnacle of the resource cycle – Mr. Chan and his associates financed and developed key natural resources, raising millions of dollars for companies listed on the public markets namely Pegasus Gold Corp., Galactic Resources, Cornncopia Resources, Geodome Resources, and Glamis Gold Corp (TSX: GLG). At Pegasus Gold, Mr.

Chan and partners introduced the first ever “heap leach” method of gold recovery in North America – which is now predominantly applied and widely accepted as being industry standard for gold mining.

Dr. A. Ross Gorrell – President & Co – Chairman: Dr. Gorrell brings 30 years experience in geological evaluations of resource properties in Canada and has served as Director, Officer and Controlling Principle of many successful mining and oil and gas ventures listed on the Toronto Stock Exchange. He is well recognized in Canada for his extensive knowledge of the oil and gas industry and has been instrumental in the development of Petromin since 1990.

Peter Y. Ho – Vice President Business Development: Mr. Peter Ho has over 26 years of professional experience in the Petroleum Industry. He is acknowledged as a leading expert in heavy oil exploitation, coal bed methane development and enhanced oil recovery in North America and China. His wealth of experience includes designing the Weyburn CO2 sequestration (CCS) project and the first every CCS for enhanced coal bed methane project in China. He has served in management positions for TransCanada Pipelines Ltd., Texaco Canada Resources Inc., Kerr McGee Corporation and BP Resources Canada Ltd.

Mike Suk – Vice President Corporate Affairs: Mr. Mike Suk began his career as a Public Relations consultant, developing communications campaigns for resource companies listed on the Toronto Stock Exchange and American Stock Exchange, namely Teck Cominco Ltd (NYSE: TCK) (CESL engineering), Transglobe Energy Corp. (Nasdaq: TGA), Western Prospector Group Ltd. (TSXV: WNP) and Blue Pearl Mining Ltd. Most recently, as part of the Investor Relations Department for Starcore International Mining, Mike was instrumental in raising capital market awareness of the corporation and enhancing its public profile. As the Vice President of Corporate Affairs for Petromin, Mr. Suk plays a vital role in the day-to-day business of the organization, managing the Company’s marketing and shareholder communications program and administering corporate relations and legal affairs.

International Energy Advisory Board

Donald O. Downing – Chairman, Advisory Board: Dr. Downing, a geologist and economist, has over 30 years experience in the energy industry principally with Imperial Oil Ltd. (1979-1992) where he managed international uranium and coal marketing and latterly was head of the coal division and President and CEO of Byron Creek Collieries a unit of Esso Resources. He was President of The Coal Association of Canada (1993-98) and Vice President & Director of Norwest Corporation (1999-2006). Most recently he founded, with other Norwest Corporation principals, TerraWest Energy Corp. (TWE) a private company with a significant coalbed methane project in China and he remains a director of the company. Majority shareholding in TWE was taken by Petromin and its nominees through share subscription in November 2007.

Phil Bretzloff – Member: Mr. Bretzloff has over 30 years experience acting for oil, gas and energy companies for Canadian and international private and public corporations. His background includes Senior Counsel for Petro-Canada and Union Oil Company of Canada and Partner with Cumming Blackett Bretzloff Todesco, Gowlings and Baker McKenzie in both Calgary and China.

He was lead counsel for the Baker McKenzie team in drafting contracts including various Production Sharing Contracts, Pipeline Joint Venture Contracts and Pipeline Construction Contracts for the 5000 km trans-national West-to-East Gas Pipeline in China on behalf of PetroChina in negotiations with proposed partners Shell (NYSE: RDS – B), Exxon Mobil (NYSE: XOM) and GazProm. During this period Mr. Bretzloff resided in Beijing. Some of Phil’s professional affiliations include the Petroleum Advisory Forum, the International Bar Association and the Association of International Petroleum Negotiators.

Robert Curr – Member: Mr. Curr currently acts as senior technical leader to Petromin and affiliated company TerraWest Energy Corp. He advises TWE on exploration strategy, well locations and geology. He has over 40 years of experience in oil and gas exploration in Western Canada, and Internationally in Turkey, UK, Italy and China. Bob has extensive experience in non-conventional oil and gas production specializing in coal bed methane gas. He also has knowledge and experience in the field of CO2 injection used to enhance production of coal bed methane with field experience with Burlington Resources Ltd. in the prolific CBM region of the San Juan Basin, New Mexico, USA.

Outlook for Natural Gas

Supply and Demand of Natural Gas: Natural gas around the world is priced based on regional fundamentals (supply and demand), the prices vary from region to region because other than a small amount of LNG, it is hard to arbitrage gas. We believe that a study of supply and demand of natural gas in regions where Petromin has its projects, will help us get a feeling for the direction of future natural gas prices in the regions. The table below shows the worldwide supply and demand forecast for Natural Gas according to the EIA. Supply and demand in North America, China and the Middle East are shown in the table.

World Natural Gas Supply and Demand - in trillion cu. feet							
	2003	2010	2015	2020	2025	2030	Average 2003-30
North America							
Production	27.1	28.1	28.2	29.3	29.2	29.6	0.4%
Consumption	27.4	29.6	32.7	34.7	35.7	36.6	1.1%
Deficit	-0.3	-1.5	-4.5	-5.4	-6.5	-7.0	
China							
Production		2.5	3.1	3.5	4.0	4.3	4.1%
Consumption	1.2	3.0	3.9	5.1	6.2	7.0	6.8%
Deficit		-0.5	-0.8	-1.6	-2.2	-2.7	
Middle East							
Production	10.0	13.8	17.4	20.1	21.8	24.1	3.3%
Consumption	7.9	11.0	13.0	15.0	17.1	19.6	3.4%
Surplus	2.1	2.8	4.4	5.1	4.7	4.5	
World							
Production	95.2	116.3	129.2	141.2	151.9	163.3	1.9%
Consumption	95.5	116.5	134.3	149.9	165.5	182.0	2.4%
Deficit	-0.3	-0.2	-5.1	-8.7	-13.6	-18.7	

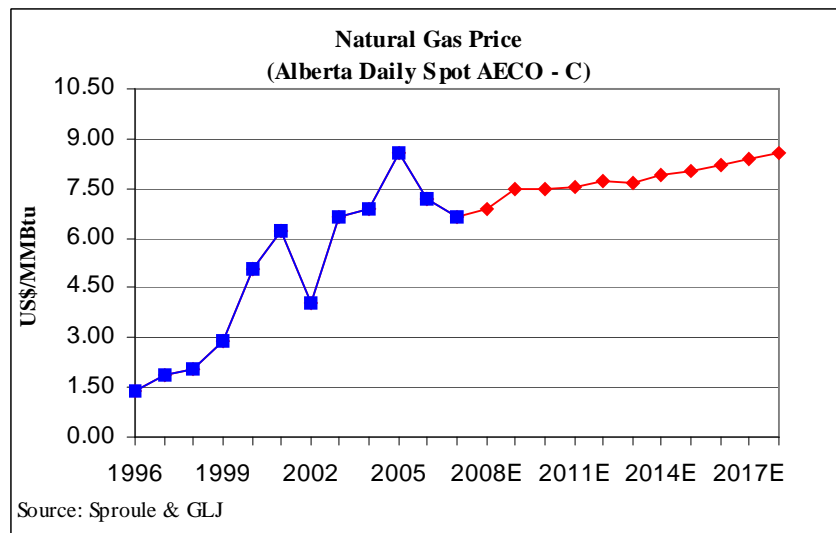
Source: EIA

As shown in the table, consumption growth is expected to exceed production growth in NA, China and the Middle East. However, the Middle East is expected to continue to incur a supply surplus going forward. Both, N.A. and China are expected to be in a deficit.

We believe that this shortage of supply, along with higher demand, will support higher natural gas prices in N.A. and China. As for the Middle East, we expect natural gas prices to stay or soften from current levels going forward.

Price Forecasts: Lower natural gas prices have led to a decrease in drilling activity in the past 12 months. We believe that a milder than expected winter around the world and short-term inventory surpluses were responsible for the low prices of natural gas in 2007. Prices have picked up in the past few months, and are currently trading at about US\$10/mmbtu (NYMEX). Based on natural gas fundamentals (supply and demand), we have a positive outlook on natural gas prices in N.A. and China.

The chart below shows historic and forecast prices for Alberta Daily spot prices (AECO). Although spot prices of AECO are different from gas prices in China, we expect the direction of prices in these countries to be similar to that of AECO, based on supply-demand forecasts.



Average prices in 2007 were \$6.65/mmbtu, compared to \$1.39/mmbtu in 1996, which represents a CAGR of 15.3% increase. The chart shows that prices are expected to stay above \$6.90/mmbtu through 2018, and well above the historic average (1996 – 2007) of \$4.95/mmbtu.

Outlook for Oil

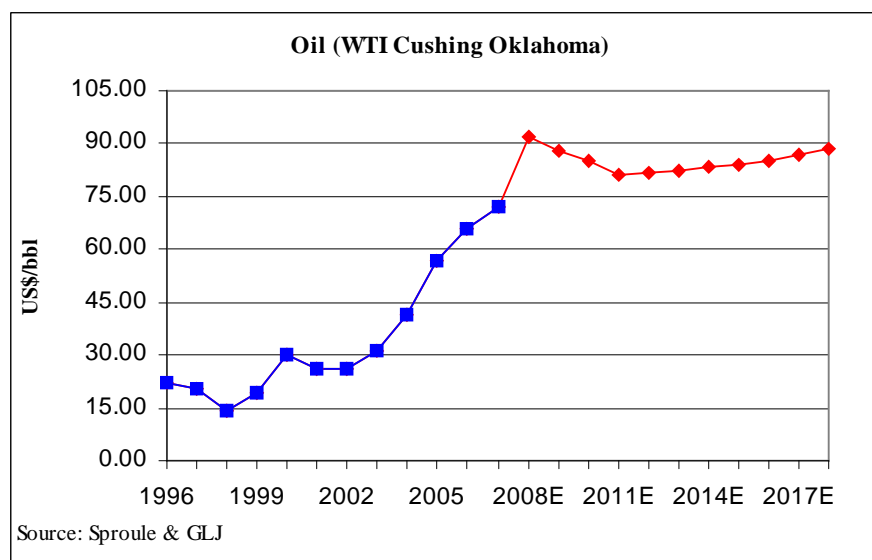
World Supply and Demand of Oil: Unlike natural gas, crude oil prices are impacted by worldwide supply and demand. Prices worldwide tend to move in tandem because of the ability to transport oil more readily than natural gas. The section below presents the forecasted world supply and demand of oil until 2030.

Production is expected to grow at a slower pace than consumption: The table below shows the expected growth in global production. According to the EIA, global production is expected to rise from 84.3 million bpd in 2004, to 117.7 million bpd by 2030, which reflects a CAGR of 1.3%. The table below shows supply and demand forecasts through 2030.

Oil - Supply and Demand	1990	2004	2010E	2015E	2020E	2025E	2030E	CAGR (2004 - 30)
Consumption								
OECD North America	20.5	25.0	25.9	27.3	28.7	30.1	32.0	1.0%
OECD Europe	13.7	15.6	15.4	15.5	15.6	15.7	15.8	0.0%
China	2.3	6.4	9.4	10.5	11.9	13.6	15.7	3.5%
Middle East	3.5	5.7	7.1	7.8	8.4	9.1	9.8	2.1%
Central and South America	3.8	5.4	6.5	7.4	8.2	9.0	9.7	2.3%
OECD Asia	7.1	8.5	8.5	8.8	8.9	9.1	9.3	0.3%
Africa	2.1	2.8	3.3	3.9	4.3	4.6	4.9	2.2%
World Consumption	66.5	82.5	90.7	97.3	103.7	110.4	117.6	1.4%
World Production	66.3	84.3	90.7	97.4	103.8	110.4	117.7	1.3%
Surplus (Deficit)	(0.20)	1.80	0.00	0.10	0.10	0.00	0.10	

Although global consumption of oil is expected to rise at the slightly faster rate of 1.9% during 2004-2035, the oil market is not expected to be in deficit. The supply-demand forecasts show that prices are likely to soften going forward.

Price Forecasts: The chart below shows historic oil prices, along with projections.

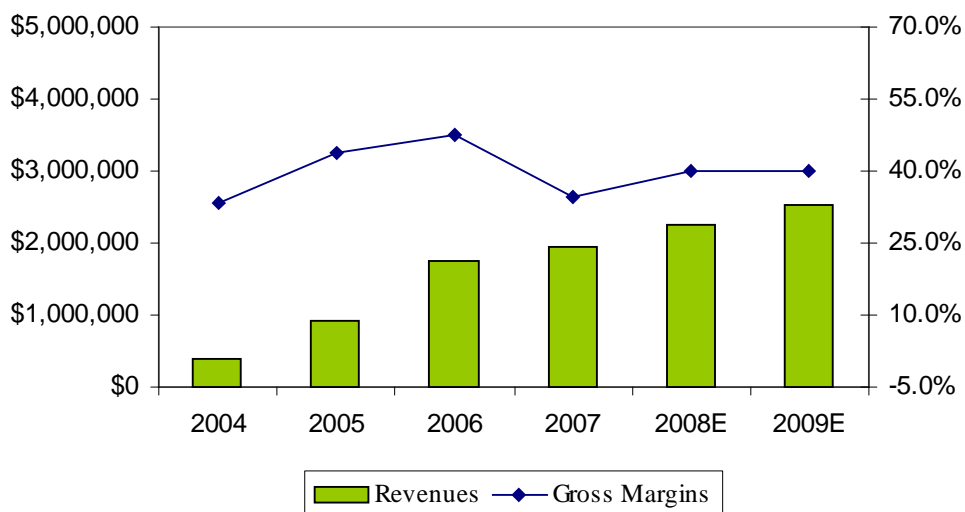


The average WTI Cushing Oklahoma oil price in 2007 was US\$72.27/bbl, compared to \$21.99/bbl in 1996, reflecting a CAGR of 11.4%. Prices are currently at record highs and are trading close to \$100/bbl. Based on fundamentals, we expect prices to soften going forward, However, we believe that oil demand growth is strong enough to support prices above historical averages (\$35.5/bbl during 1996-2007). Based on the forecasts, oil prices are expected to stay above \$80.00/bbl through 2018.

Financials

Revenues: The company currently generates revenues from its producing wells in Alberta. During FY2003 – 07, the company’s revenues (net of royalties) grew by a CAGR of 71%, from \$0.39 million to \$1.94 million. Revenues increased primarily due to an increase in production levels. The company has not disclosed their production rates in the previous years, therefore, we are not in a position to determine the growth in production levels. The chart below shows revenues and gross margins since FY2004, along with our forecasts.

Revenues and Gross Margins



Our forecasts only assume production from Petromin’s projects in Canada. For conservatism, we have not accounted for revenues from pilot production in China in FY2008 and FY2009.

Our revenue forecasts for FY2008, and FY2009, are \$2.24 million and \$2.52 million, respectively.

Since the company reports revenues in the income statement net of royalties, gross margins in the income statement do not really reflect the company’s true gross margins. Gross margins ranged between 33.3% to 47.5% during FY2003 – 07. Gross margins in FY2007 were 34.5% (down from 47.5% in FY2006). Since, we do not know the production rates in the previous years, we were not able to estimate netbacks.

The company has not yet posted positive EBITDA. EBITDA in FY2007 increased YOY from (\$2.64 million) to (\$1.10 million). EBITDA increased as stock based compensation (a non-cash expense) dropped YOY from \$1.69 million to \$0.16 million. The company was also able to reduce their G&A expenses from \$1.79 million to \$1.61 million, which is a positive sign.

After deducting depreciation expenses (non-cash expenses) of \$0.43 million, other income of \$0.03 million (which include interest income, foreign exchange gain and others), and tax recovery (non-cash) of \$0.07 million, the company posted a net loss of \$1.44 million (EPS: -\$0.03 per share) in FY2007, down from a net loss of \$2.82 million (EPS: -\$0.07) in FY2006.

Our estimates for FY2008, and FY2009, are net losses of \$1.30 million (EPS: -\$0.02) and \$1.53 million (EPS: -\$0.03), respectively.

Cash Flows

The company spent \$0.76 million (\$1.71 million in FY2006) on operations and \$0.21 million (\$0.04 million in FY2006) on investing activities in FY2007. These expenses were funded

by cash on hand at the end of FY2006 of \$0.52 million, and the capital raised (\$0.87 million) from equity financings in FY2007.

In Q1 – 2008 (quarter ended December 2007), the company spent \$0.60 million for the acquisition of 40% ownership in TWE. The company recently completed a non-brokered private placement of 5.87 million shares at \$0.38 per share to raise \$2.23 million. We estimate the company to spend a total of \$1.10 million on investing activities in FY2008.

Cash and Liquidity Position

At the end of Q1 - 2008 (ended December 2007), the company had \$1.49 million in cash and \$1.13 million in working capital, versus \$0.43 million and (\$0.06 million), respectively, at the end of FY2007. The table below shows the company's cash and liquidity position.

Liquidity Position(in C\$)	2005	2006	2007	Q1 - 2008
Cash	215,284	523,629	426,122	1,491,652
Working Capital	(854,486)	110,657	(64,310)	1,126,528
Current Ratio	0.30	1.14	0.92	2.87
Debt	150,000	30,000	30,000	30,000
Debt / Assets	9.2%	1.4%	1.7%	0.01
Activity Ratios				
Days Accounts Receivables	62	73	57	
Days Accounts Payables	334	257	124	

The company had \$0.03 million in debt at the end of Q1-2008 (end of December 2008). We believe the company has sufficient cash on hand to fund their operating and investing activities in FY2008. For FY2009, we believe the company will have to raise close to \$1.20 million.

Stock Options

The company has no outstanding warrants. At the end of December 2008, the company had 4.97 million stock options (1.92 million are currently 'in-the-money' – assuming that none of the options were exercised since the end of December 2008), with a weighted average exercise price of \$0.26 per share, and maturity periods between September 2009 and April 2012.

Valuation

We have valued the company based on a sum-of-the-parts method.

Valuation of the producing properties in Alberta, Canada: We valued the company's projects in AB, Canada based on their known proved and probable reserves of 179,000 bbl. The average EV (enterprise value)/reserve estimates and EV/boepd of peer companies operating in Western Canada is \$19.02/bbl and \$42,758/boepd, respectively. Based on the average ratios, our estimate of the fair value of the company's projects in AB, Canada is \$4.10 million, or \$0.07 per share. In order to be conservative, we have not accounted for the upside potential from growth in reserve estimates or production. The table below shows a summary of our valuation.

	Company	Symbol	Price	EV/BOE	EV/boepd
1	Zapata Energy Corp	ZCO	\$2.62	\$8.35	\$27,397
2	Rock Energy	RE	\$3.02	\$11.52	\$31,536
3	Berens Energy	BEN	\$0.90	\$15.90	\$37,729
4	Gentry Resources Ltd.	GNV	\$2.82	\$16.54	\$49,587
5	Iteration Energy Ltd	ITX	\$6.50	\$24.75	\$51,872
6	West Energy Ltd	WTL	\$3.56	\$37.07	\$58,429
	Average			\$19.02	\$42,758
Fair Value of PTR's projects in AB, Canada				\$3,404,773	\$4,788,941
Average Value					\$4,096,857
Average Value Per Share					\$0.07

* Valuation of PTR is based on their current production of 112 bpd net, and proven and probable reserves of 179,000 bbls

Valuation of projects in China: Although we believe the company's ECBM projects in China have good potential, since both projects are in very early stages, we can only value the company based on the average market value of its peers. We believe we cannot use any other valuation metric to value these projects at this time.

Although there are several companies focusing on CBM exploration in China, most of them are not good comparables to Petromin with regard to size or stage. However, there are two companies that we believe are comparable to Petromin in terms of their focus, stage and size.

	Company	Symbol	Price	EV (in \$mm)
1	Pacific Asia China Energy	TSXV: PCE	\$0.38	\$32.46
2	Far East Energy	OTC BB: FEEC	\$0.49	\$52.49
	Average			\$42.48

- **Green Dragon to acquire Pacific Asia China Energy (TSX: PCE) for \$35.2 million** – PCE focuses on the development of two CBM projects (with CUCBM) in China (Guizhou and Huangshi projects). On March 27, 2008, the company entered into an agreement with Green Dragon Gas's (LSE: GDG) wholly owned subsidiary, Greka China Ltd., where Greka will acquire all the outstanding shares of PCE at a price of \$0.38 per share. The total value of the deal is approximately \$35.2 million.
- **Far East Energy (OTCBB: FEEC)** – Far East is focused on exploring CBM projects in China through its agreements with ConocoPhillips (NYSE: COP) and CUCBM.

The average enterprise value (market capitalization + debt – cash) of the two companies is \$42.5 million, while the market values Petromin's projects at only \$8.8 million (market capitalization of PTR – our fair value estimate of the company's projects in AB, Canada – working capital). Based on an average enterprise value of \$42.48 million, we have estimated the fair value of the company's projects in China at \$0.72 per share.

Note that this valuation does not take into account the value of the company's access to the CCS technology, which has the potential to enhance recovery, and at the same time generate benefits from achieving carbon credits.

Adding working capital to our fair value estimates of the company's projects, brings our estimate of the fair value of Petromin at this time at \$0.81 per share. The table below shows a summary of our valuation.

Valuation Summary	Value (in \$mm)	VPS
CBM Projects in China	\$42.48	\$0.72
Producing Properties in Alberta	\$4.10	\$0.07
Working Capital	\$1.13	\$0.02
Fair value of the company	\$47.70	\$0.81

Rating

Based on our valuation models and analysis of the company's projects, we initiate coverage on Petromin with a BUY rating and a fair value estimate of \$0.81 per share. Our fair value estimate reflects an upside potential of 238% from current price levels. It is important to note that our valuation does not account for the upside potential from the successful implementation of the CCS technology and production growth from the company's projects in AB, Canada. We believe, the next 12 months will be very exciting for the company as they progress their two projects in China. Positive results from these operations will create significant upside potential for the company.

Risks

The following risks, though not exhaustive, will cause our estimates to differ from actual results:

- CCS is still in the early phases of development; long term viability of its applications have not been proven yet.
- Petromin is exposed to all the risks associated with any other exploration and production company.
- While we expect the company to have sufficient cash in FY2008, access to capital is crucial to be able to continue pursuing exploration and development programs.
- As revenues are directly related to commodity prices, growth and profitability of the company will depend heavily on oil and gas prices in Canada and China.

We rate the shares Risk 4 (Speculative).

Appendix

Petromin Resources Ltd. - Income Statement

(in C\$)

	2004	2005	2006	2007	2008E	2009E
Revenues	388,104	924,023	1,762,368	1,940,369	2,236,915	2,519,180
Operating Expenses	258,940	518,304	925,110	1,270,534	1,346,527	1,516,438
Gross Margin	129,164	405,719	837,258	669,835	890,389	1,002,742
Stock Based Compensation	256,561	-	1,688,559	163,478	188,462	212,243
General and Administrative	690,530	797,014	1,791,232	1,605,268	1,677,686	1,763,426
EBITDA	(817,927)	(391,295)	(2,642,533)	(1,098,911)	(975,760)	(972,927)
Depletion, Depreciation and Accretion	375,294	177,570	195,015	430,149	320,192	561,634
EBIT	(1,193,221)	(568,865)	(2,837,548)	(1,529,060)	(1,295,952)	(1,534,562)
Interest Income	1,899	972	8,859	9,493		
Other Income	(69,272)	(59,000)		18,050		
Investment Income (Loss)						
Foreign Exchange Gain(Loss)	(687)	(295)	6,919	579		
Taxes	-	-	-	(65,100)	-	-
Net Income (Loss)	(1,261,281)	(627,188)	(2,821,770)	(1,435,838)	(1,295,952)	(1,534,562)
EPS	(0.05)	(0.02)	(0.07)	(0.03)	(0.02)	(0.03)

Petromin Resources Ltd. - Balance Sheet
(in C\$)

	2004	2005	2006	2007	2008E	2009E
Assets						
Current Assets						
Cash	23,567	215,284	523,629	426,122	537	2,869
Accounts Receivables	123,430	155,953	352,886	303,169	349,502	393,604
	146,997	371,237	876,515	729,291	350,039	396,473
Equipment	8,474	12,099	31,322	27,339	44,334	55,293
Oil and Gas Properties	1,378,409	1,247,793	1,312,162	1,039,968	1,827,781	1,780,187
Long-term Investment					598,634	598,634
	1,533,880	1,631,129	2,219,999	1,796,598	2,820,788	2,830,588
Liabilities						
Current Liabilities						
Accounts Payable and Accrued Liabilities	712,242	474,849	651,147	431,868	457,699	515,453
Accounts Payable and Accrued Liabilities - related parties	728,400	600,874	84,711	331,733	351,574	395,938
Loans Payables	150,000	150,000	30,000	30,000	-	-
	1,590,642	1,225,723	765,858	793,601	809,273	911,391
Asset Retirement Obligations and Others	31,759	11,905	17,410	31,976	32,458	32,458
Convertible Debentures						
	1,622,401	1,237,628	783,268	825,577	841,731	943,849
Shareholders' Equity						
Share Capital	11,012,921	12,339,913	14,813,023	15,589,673	17,705,199	18,935,199
Contributed Surplus	355,884	138,102	1,529,992	1,693,470	1,881,932	2,094,176
Subscriptions received in advance				30,000	30,000	30,000
Deficit	(11,457,326)	(12,084,514)	(14,906,284)	(16,342,122)	(17,638,074)	(19,172,636)
	(88,521)	393,501	1,436,731	971,021	1,979,057	1,886,739
Total Liabilities and S.E	1,533,880	1,631,129	2,219,999	1,796,598	2,820,788	2,830,588

Petromin Resources Ltd. - Cash Flow Statement
(in C\$)

	2004	2005	2006	2007	2008E	2009E
Operating Activities						
Net Income	(1,261,281)	(627,188)	(2,821,770)	(1,435,838)	(1,295,952)	(1,534,562)
Non-Cash Items:						
Depletions, Amortization and Accretion of ARO	487,309	178,652	196,598	431,454	320,674	561,634
Stock Based Compensation	256,561	-	1,688,559	163,478	188,462	212,243
Future Income Taxes and Others			-	(65,100)		
	(517,411)	(448,536)	(936,613)	(906,006)	(786,816)	(760,684)
Change in Non-Cash Working Capital Items:						
Accounts Receivable	74,749	(32,523)	(196,933)	49,717	(46,333)	(44,102)
Accounts Payable and Accrued Liabilities	395,892	(364,919)	(577,652)	96,967	45,672	102,118
	470,641	(397,442)	(774,585)	146,684	(661)	58,016
	(46,770)	(845,978)	(1,711,198)	(759,322)	(787,477)	(702,668)
Financing Activities						
Issuance of Capital Stock for Cash	-	1,109,210	2,176,441	841,750	2,127,392	1,230,000
Subscriptions Received in Advance	-	-	-	30,000		
Payment on Loans Payable	-	-	(120,000)		(30,000)	
	-	1,109,210	2,056,441	871,750	2,097,392	1,230,000
Investing Activities						
Investment in Oil and Gas Properties	(85,321)	(41,828)	(13,357)	(206,169)	(1,100,000)	(500,000)
Acquisition of Equipment		(8,751)	(23,541)	(3,766)	(25,000)	(25,000)
Long-term Investment and Others					(610,500)	
Finder's Fee Payable	(10,000)	(20,936)				
	(95,321)	(71,515)	(36,898)	(209,935)	(1,735,500)	(525,000)
Increase(decrease) in Cash	(142,091)	191,717	308,345	(97,507)	(425,585)	2,332
Cash (BOP)	165,658	23,567	215,284	523,629	426,122	537
Cash (EOP)	23,567	215,284	523,629	426,122	537	2,869

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

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1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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