

## **PETROMIN RESOURCES LTD.**

### **FORM 51-102F1 MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED DECEMBER 31, 2005**

The following is a discussion and analysis of the consolidated financial condition and operating results of Petromin Resources Ltd. (the "Company") for the three months ended December 31, 2005. The discussion should be read in conjunction with the unaudited interim consolidated financial statements of the Company and the notes thereto for the three months ended December 31, 2005 and the audited consolidated financial statements for the year ended September 30, 2005. The unaudited interim consolidated financial statements are prepared under Canadian generally accepted accounting principles and include the operating results of the Company and its subsidiaries.

Some of the statements set forth in this section are forward-looking statements relating to the Company's future operating results based on the information available to the Company as of February 28, 2006. These forward looking statements are subject to a variety of risks and uncertainties and other factors, but are not limited to, changes in government legislation and regulations, competition, foreign exchange rate, claims and litigation. The actual results may vary from the results anticipated in these statements.

#### **THE COMPANY**

The Company is a small oil and gas exploration and producing company with properties situated in the province of Alberta, Canada.

#### **CRITICAL ACCOUNTING POLICIES**

A summary of significant accounting policies is presented in Note 2 of the consolidated financial statements for the year ended September 30, 2005. The Company follows the full cost method of accounting for exploration and development expenditures whereby all costs, net of incentives, related to the exploration for and development of oil and gas reserves are capitalized in cost centers on a country-by-country basis. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, cost of production and gathering equipment and administrative charges directly related to acquisition, exploration and development activities. Proceeds from the disposal of oil and natural gas properties are applied against capitalized costs. Gains or losses are not recognized on disposals unless crediting the proceeds against costs would materially alter the rate of depletion. Exploration costs renounced due to flow-through share subscription agreements remain capitalized. However, for income tax purposes, the Company has no right to these expenses or the related depletion allowance. The amounts shown for oil and gas properties represent costs to date and are not intended to reflect present or future values.

The capitalized costs together with estimated future capital costs associated with the development of proven reserves are depleted and amortized using the unit-of-production method based on proven oil and natural gas reserves, before royalties, determined by Company and independent engineers. For purposes of the depletion and amortization calculations, oil and natural gas reserves are converted to a common unit of measure based upon their relative energy content.

In applying the full cost method, the Company performs a ceiling test which restricts capitalized costs less accumulated depletion and amortization from exceeding the estimated undiscounted value of future net revenues from proved oil and natural gas reserves less estimated future removal and site restoration costs, general and administrative expenses, financing costs and income taxes. In calculating the ceiling test, the year end prices of oil and natural gas are used and all costs are assumed to be constant.

The Company periodically reviews the cost associated with undeveloped properties to determine whether the costs will be recoverable. If the results of the review indicate an impairment has occurred, the cost of the property or the amount of the impairment is added to the full cost pool.

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a

reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount of the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability for an asset retirement obligation and the cost of the related long-lived asset.

The Company uses the fair value-based methodology of accounting for all awards of stock options and direct awards of stock.

## OVERVIEW

Four oil and natural gas wells were completed at no cost to the Company on its 320 acre block of land held in the Redwater area of central Alberta bringing the total number of wells to six in which the Company has interests.

The 11-35-039-28W400 oil and gas well on the Company's Gilby property reached payout and the Company's overriding royalty interest was converted to a 16 2/3% working interest.

Subsequent to December 31, 2005, the Company announced a private placement of 2,696,666 common shares at a price of \$0.15 for total proceeds of \$404,500.

## SUMMARY OF PROPERTIES

The Company has oil and gas properties in the province of Alberta, Canada. The Company is the operator of the Frog Lake prospect which has two producing heavy oil wells. In addition, the Company has farmed out the Redwater North, Morningside and Gilby properties. The Company receives income from the Redwater North and the Gilby properties and income is expected from Morningside when the farmee has completed its development programs.

## OIL AND GAS PRODUCTION

For the three month period ended December 31, 2005, the Company had two producing wells which produce approximately 150 barrels of oil per day. In addition, the Company received gross overriding royalties from two producing oil and gas wells and working interest income from another producing oil and gas well.

## SELECTED ANNUAL INFORMATION

The following table provides a brief summary of the Company's financial operations.

	Year Ended September 30, 2005	Year Ended September 30, 2004	Year Ended September 30, 2003
Total revenues	\$ 924,023	\$ 388,104	\$ 578,162
Loss	627,188	1,261,281	685,912
Basic and diluted loss per share	(0.02)	(0.05)	(0.03)
Total assets	1,631,129	1,533,880	2,047,851
Total long-term liabilities	11,905	31,759	30,936
Cash dividends	-	-	-

## RESULTS OF OPERATIONS

For the three month period ended December 31, 2005, the Company recorded revenue of \$264,091. In addition, direct costs (operating expenses and royalties) totalled \$153,825. This compared to revenue of \$109,433 and direct costs of \$82,031 for the three months ended December 31, 2004. Depletion and amortization expense was \$47,729 for the three month period ended December 31, 2005 compared to \$92,147 for the three month period ended December 31, 2004.

The Company's administrative expenses increased to \$392,898 for the three months ended December 31, 2005 from \$161,551 for the three months ended December 31, 2004. This is primarily attributable to stock-based compensation of \$248,053, an increase of \$17,200 in consulting expenses, offset by decreases in travel and promotion of \$21,466 and listings and transfer agent fees of \$9,680.

The Company incurred a loss of \$330,076 for the three months ended December 31, 2005 as compared to a loss of \$223,417 for the three months ended December 31, 2004.

## SUMMARY OF QUARTERLY RESULTS

	<u>Revenue</u>	<u>Profit (Loss)</u>	<u>Per Share Basic and Diluted</u>
<b>Fiscal 2004</b>			
Second quarter	\$ 93,468	\$ (147,363)	\$ (.01)
Third quarter	84,635	(137,004)	-
Fourth quarter	110,820	(834,138)	(.01)
<b>Fiscal 2005</b>			
First quarter	109,433	(223,417)	(.01)
Second quarter	168,747	(313,568)	(.01)
Third quarter	265,483	(276,562)	(.01)
Fourth quarter	380,360	186,359	-
<b>Fiscal 2006</b>			
First quarter	264,091	(330,076)	(.01)

## LIQUIDITY AND CAPITAL RESOURCES

The Company's cash decreased from \$215,284 on September 30, 2005 to \$182,644 on December 31, 2005.

In addition to the company's loss for the quarter of \$330,076, accounts receivable increased by \$16,874, accounts payable increased by \$13,437 and accounts payable – related parties decreased by \$160,945. This was offset by the add back of depletion and amortization and stock-based compensation, resulting in net cash of \$198,378 used in operating activities.

At December 31, 2005 there were 4,777,756 warrants and 3,732,310 options outstanding. The warrants expire on September 1, 2006. The stock options expire on March 12, 2006, November 12, 2006, September 30, 2009 and October 28, 2010. Assuming that the warrants and the stock options are exercised before they expire, the Company would receive gross proceeds of \$716,663 and \$610,707, respectively.

Subsequent to the Company arranged, subject to regulatory approval, a private placement of 2,696,666 common shares at an agreed price of \$0.15 per share for total proceeds of \$404,500.

The Company's future capital requirements will depend on many factors, including, among others, cash flow from operations. To the extent that existing resources are insufficient to fund the Company's losses until profitability is reached, the Company may need to raise additional funds through debt or equity financing. If additional funds are raised through the issuance of equity securities, the percentage ownership of current shareholders will be reduced and such equity securities may have rights,

preferences, or privileges senior to those of the holders of the Company's common stock. No assurance can be given that additional financing will be available, or that it can be obtained on terms acceptable to the Company and its shareholders. If adequate funds are not available, the Company may be required to delay possible expansion plans or acquisitions.

### **RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties during the three month period ended December 31, 2005:

- a) Paid or accrued \$19,500 (2004 - \$19,500) in management fees to a director;
- b) Paid or accrued \$66,600 (2004 - \$27,000) in consulting fees to directors, officers and companies controlled by directors and officers;
- c) Paid or accrued \$4,125 (2004 - \$nil) in interest on loans payable to directors and officers.

These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

### **OUTLOOK**

The Company will continue to pursue oil and natural gas exploration and development opportunities.

### **ADDITIONAL INFORMATION**

Additional information pertaining to the Company is available on its website at [www.petromin-resources.com](http://www.petromin-resources.com) and on the SEDAR website at [www.sedar.com](http://www.sedar.com).