

APPENDIX 1

FREQUENTLY ASKED QUESTIONS ABOUT INVESTING IN ECUADOR

The process of making any investment decision normally generates a number of questions. Presented here are answers to some of the common questions that investors have raised concerning opportunities and tax legislation in this nation.

***What risk of nationalization do investors face?**

A partial nationalization of Ecuador's petroleum industry occurred in 1973, when the Oil prices peaked \$ 40 barrel and was under a military regime and most of the foreign operators, with the exception of Texaco, City and Gulf were forced to leave the country. The current business and political environment significantly reduces the possibility of this happening again. Development and increase of the current production capacity will require significant capital and technological investments.

*** How do I find the right person in PETROECUADOR to discuss specific opportunities or how to bid on particular projects?**

A listing of key PETROECUADOR officials you can find in Appendix II. As changes occur frequently, you are advised to check with the commercial section of the Canadian Consulate, Quito.

***Are there taxes other than those on income of production which could significantly reduce profits from Ecuadorian operations?**

While the income tax is the most significant tax, the impact of other taxes, such as value-added tax, tax on fixed assets, municipal and the employees, could impact the profitability of investments in Ecuador and should also be evaluated before making any investment decisions.

*** Are currency restrictions to the cash flows to or from foreign operations in Ecuador?**

There are no restriction on dividend remittances and capital repatriations. Foreign equity investments no longer require prior approval by the Ministry of Industry.

*** Can foreign investors own equity in companies in the Ecuadorian petroleum industry?**