**PEARL EXPLORATION AND PRODUCTION LTD.**
750, 736 – 6th Avenue S.W., Calgary, Alberta
Canada T2P 3T7

May 16, 2006

Dear SignalEnergy Inc. Shareholder,

We are pleased to enclose our offer (the "Offer") to purchase all of the outstanding common shares ("Signal Shares") of SignalEnergy Inc. ("Signal"). Shareholders depositing their Signal Shares under the Offer will receive on closing, at the election of each Shareholder, (i) 0.25 of a common share ("Pearl Share") of Pearl Exploration and Production Ltd. ("Pearl"), or (ii) $1.45 in cash, or any combination of (i) or (ii), subject to an aggregate maximum cash amount of $35 million. In the event that Signal shareholders collectively elect for more than this maximum aggregate cash amount, the amount of cash they receive will be prorated. Based on publicly available information, Pearl estimates that Signal has approximately 74.6 million shares outstanding (on a fully diluted basis).

The offer is open for acceptance until 5:00 p.m. (Calgary time) at the place of deposit on June 21, 2006. The Offer is conditional upon, among other things, there being no actions that would have a material adverse effect on the business of Signal or the value of Signal Shares, and there being validly deposited under the Offer and not withdrawn at the expiry time, at least 66 2/3% of the outstanding Signal Shares. If Pearl acquires at least 66 2/3% Signal Shares pursuant to the Offer, it intends to acquire the remaining Signal Shares in accordance with applicable law.

Based on publicly available information, we believe the Offer represents fair and full value for your shares and deserves your acceptance. We believe that the acquisition of Signal complements Pearl's existing portfolio of North American opportunities. You will have an opportunity to participate in a company with a strategy for creating sustained shareholder value in the oil and gas industry with a portfolio of significant exploration and development opportunities. As well, you will have the opportunity to participate in a company within an operating group that has a proven track record of success in the oil and gas industry.

No brokerage charges will be incurred by you on tendering your shares to the Offer.

Detailed instructions for depositing your Signal Shares are included in the enclosed Offer documents. We urge you to review these documents carefully and to accept the Offer. Should you have questions about the Offer, please do not hesitate to consult Pearl's information agent or the depository at the telephone numbers listed in the takeover bid circular. Alternatively, consult your financial or other professional advisor.

We look forward to your acceptance of the Offer.

Yours sincerely,

**PEARL EXPLORATION AND PRODUCTION LTD.**

(signed) "*Gary Guidry*"
President and Chief Executive Officer