

December 22, 2003

Twoco Petroleum Ltd.
1050, 1122 - 4th Street S.W.
Calgary, Alberta T2R 1M1

Attention: Mr. Wayne Malinowski

Dear Sirs:

Re: Issue and Sale of Flow-Through Special Warrants

First Associates Investments Inc. (the "**Agent**") understands that the authorized capital of Twoco Petroleum Ltd. (the "**Corporation**"), an Alberta Corporation, consists of an unlimited number of common shares (the "**Common Shares**") and an unlimited number of preferred shares. The Agent further understands that (i) the Corporation proposes to issue and sell, by way of private placement, up to 1,176,500 special share purchase warrants (the "**Flow Through Special Warrants**"), on a flow through basis, each entitling the holder thereof to acquire one Common Share of the Corporation, at no additional cost and (ii) the Corporation will prepare and file the Preliminary Prospectus, the Prospectus and all other documents necessary to qualify the distribution of the Common Shares upon exercise of the Special Warrants in the Filing Jurisdictions. The Flow Through Special Warrants have the material attributes described herein and in the "Details of the Offering" attached as Schedule "A" (the "**Offering**").

Subject to the terms and conditions hereof, the Agent agrees to act as, and the Corporation appoints the Agent as, the sole and exclusive Agent of the Corporation to offer the Flow Through Special Warrants for sale on the Closing Date in the Filing Jurisdictions on a private placement basis, at the price of \$1.70 per Flow Through Special Warrant and to use their best efforts to secure subscriptions therefor, provided that the Agent shall not be under any obligation to purchase any of the Flow Through Special Warrants. The Agent shall be entitled in connection with the sale of the Flow Through Special Warrants to retain as sub-agents other registered securities dealers and may receive (for delivery to the Corporation at the Closing Time) subscriptions for Flow Through Special Warrants from such other registered securities dealers. The fee payable to such sub-agents shall be for the account of the Agent.

In consideration for their services hereunder, including the ancillary service of acting as financial advisors to the Corporation, advising on the terms and conditions of the distribution to the public and assisting in the preparation and finalization of the Preliminary Prospectus and Prospectus, the Agent shall be

entitled to the fee provided for in paragraph 10, which fee shall be payable from the general corporate funds of the Corporation at the time specified in paragraph 10. For greater certainty, the services provided by the Agent in connection herewith will not be subject to Goods and Services Tax provided for in the *Excise Tax Act* (Canada) and taxable supplies will be incidental to the exempt financial services provided. The Agent is also entitled to the Agent's Warrant provided for in paragraph 10.

The following are the terms and conditions of this Agreement:

1. Definitions

In this Agreement:

- (a) "**Act**" means the *Income Tax Act* (Canada), together with any and all regulations promulgated thereunder, as amended from time to time;
- (b) "**Agent's counsel**" means Stikeman Elliott LLP, or such other legal counsel as the Agent, with the consent of the Corporation, may appoint;
- (c) "**Agent's Option**" shall have the meaning ascribed thereto in paragraph 10 of this Agreement;
- (d) "**Agent's Warrant**" shall have the meaning ascribed thereto in paragraph 10 of this Agreement;
- (e) "**Applicable Securities Laws**" includes all applicable securities, corporate and other laws, rules, regulations, notices and policies a;
- (f) "**Business Day**" means a day which is not Saturday, Sunday or a legal holiday in the City of Calgary, in the Province of Alberta;
- (g) "**Canadian Exploration Expense**" or "**CEE**" means expenses described within any of paragraphs (a) or (d) of the definition of "Canadian exploration expense" in subsection 66.1(6) of the Act or which would be included in paragraph (h) of that definition if the reference therein to "paragraphs (a) to (d) and (f) to (g.1)" were read as "paragraphs (a) and (d)", excluding amounts which are prescribed to constitute "Canadian exploration and development overhead expense" under the Act, the amount of any assistance described in paragraph 66(12.6)(a) of the Act, any expense described in paragraph 66(12.6)(b.1) of the Act and any expenses deemed to be CEE pursuant to subsection 66.1(9) of the Act;
- (h) "**CCRA**" means the Canada Customs and Revenue Agency and any equivalent provincial taxation authority;

- (i) **"Closing Date"** means December 22, 2003, or such other date as the Agent and the Corporation may agree in writing but, in any event, not later than December 30, 2003;
- (j) **"Closing Time"** means 11:30 a.m. (Calgary time), or such other time, on the Closing Date, as the Agent and the Corporation may agree in writing;
- (k) **"Commitment Amount"** means the amount equal to \$1.70 multiplied by the aggregate number of Flow Through Special Warrants sold pursuant to the Subscription Agreements;
- (l) **"Common Shares"** shall have the meaning ascribed thereto in the first paragraph of this Agreement;
- (m) **"Corporation"** means Twoco Petroleum Ltd.;
- (n) **"Corporation's counsel"** means Gowling Lafleur Henderson LLP, or such other legal counsel as the Corporation, with the consent of the Agent, may appoint;
- (o) **"Environmental Laws"** shall have the meaning ascribed thereto in paragraph 7(aa) of this Agreement;
- (p) **"Exchange"** means TSX Venture Exchange Inc.;
- (q) **"Expenditure Period"** means the period commencing on the Closing Date and ending on the earlier of:
 - (i) the date on which the Commitment Amount has been fully expended in accordance with the terms of the Subscription Agreements; and
 - (ii) December 31, 2004;
- (r) **"Expiry Date"** shall have the meaning ascribed thereto in paragraph 2 of this Agreement;
- (s) **"Filing Jurisdictions"** means each of the provinces of British Columbia and Alberta;
- (t) **"Financial Statements"** means, the audited financial statements of the Corporation for the year ended December 30, 2002;
- (u) **"Flow Through Special Warrants"** shall have the meaning ascribed thereto in the first paragraph of this Agreement;

- (v) **“Indemnified Persons”** means the Agent, any agents of the Agent and the directors, officers, employees and shareholders of the Agent;
- (w) **“Predator”** means Predator Resources Ltd., a private company incorporated in Alberta that is a wholly owned subsidiary of the Corporation;
- (x) **“Preliminary Prospectus”** means the preliminary prospectus in respect of the distribution of the Common Shares upon exercise of the Flow Through Special Warrants;
- (y) **“Prelude”** means Prelude Oil & Gas Inc., a private company incorporated in Alberta that is a wholly owned subsidiary of the Corporation;
- (z) **“Principal Business Corporation”** means a “principal-business corporation” as defined in subsection 66(15) of the Act;
- (aa) **“Prospectus”** means the final prospectus and any amendments thereto in respect of the distribution of the Common Shares upon exercise of the Flow Through Special Warrants;
- (bb) **“Public Record”** means all information filed by or on behalf of the Corporation with the Securities Commissions, including without limitation, the Preliminary Prospectus and the Prospectus and any other information filed with any Securities Commission in compliance, or intended compliance, with any Applicable Securities Laws;
- (cc) **“Qualifying Canadian Development Expense”** or **“Qualifying CDE”** means expenses described within any of paragraphs (a) or (b) of the definition of Canadian development expense in subsection 66.2(5) of the Act or which would be included in paragraph (f) of that definition if the reference therein to “any of paragraphs (a) to (e)” were read as “paragraphs (a) and (b)”, excluding amounts which are prescribed to constitute “Canadian exploration and development overhead expense” under the Act and the amount of any assistance described in paragraphs 66(12.601)(c) and 66(12.62)(a) of the Act and expenses described in paragraph 66(12.62)(b.1) of the Act, which expenses will be renounced to Subscribers as CEE pursuant to subsection 66(12.601) of the Act;
- (dd) **“Qualifying Expenditures”** means expenses that are Qualifying CDE or CEE at the date they are incurred;

- (ee) “**Securities Commissions**” means the securities commissions or similar regulatory authorities in each of the Filing Jurisdictions;
- (ff) “**Special Warrant Indenture**” means the special warrant indenture to be dated as of December 22, 2003 between the Corporation and the Trustee, as trustee, governing the terms and conditions of the Flow Through Special Warrants;
- (gg) “**Subscriber**” means any person who executes a Subscription Agreement which is accepted by the Corporation;
- (hh) “**Subscription Agreements**” means the agreements to be entered into between the Subscribers for Flow Through Special Warrants and the Corporation;
- (ii) “**subsidiary of the Corporation**” means a subsidiary in respect of the Corporation within the meaning of the *Business Corporations Act* (Alberta);
- (jj) “**Trustee**” means CIBC Mellon Trust Company; and

“**misrepresentation**”, “**material change**” and “**material fact**” shall have the meanings ascribed thereto under the Applicable Securities Laws of the Filing Jurisdictions; “**distribution**” means “**distribution**” or “**distribution to the public**”, as the case may be, as defined under the Applicable Securities Laws of the Filing Jurisdictions; and “**distribute**” has a corresponding meaning.

The division of this Agreement into sections, subsections, paragraphs and other subdivisions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. Unless something in the subject matter or context is inconsistent therewith, references herein to sections, subsections, paragraphs and other subdivisions are to sections, subsections, paragraphs and other subdivisions of this Agreement.

Unless otherwise expressly provided, all amounts expressed herein in terms of money refer to lawful currency of Canada and all payment to be made hereunder shall be made in such currency.

If any provision of this Agreement shall be adjusted by a competent authority to be invalid or for any reason unenforceable, such invalidity or unenforceability shall not affect the validity, enforceability or operation of any other provision herein.

The following are the schedules attached to this Agreement, which schedules are deemed to be a part hereof and are hereby incorporated by reference herein:

Schedule "A"	-	Details of the Offering
Schedule "B"	-	Form of Agent's Warrant Certificate

2. Nature of Transaction

This offer is made by the Agent on a "best efforts" basis and the Agent will endeavour prior to the Closing Date to arrange for subscribers (sometimes collectively referred to herein as the "**Subscribers**") for the Flow Through Special Warrants in the Filing Jurisdictions; provided, however, that the Agent shall have no obligation to purchase any of the Flow Through Special Warrants as principal.

Each Subscriber shall purchase the Flow Through Special Warrants under a private placement exemption in the Applicable Securities Laws. The Agents will notify the Corporation with respect to the identity of any such Subscribers as soon as practicable and with a view to leaving sufficient time to allow the Corporation to secure compliance with all relevant regulatory requirements of the Filing Jurisdictions relating to the sale of the Flow Through Special Warrants. The Corporation undertakes to file or cause to be filed all forms or undertakings required to be filed by the Corporation and to pay all filing fees, if any, in connection with the purchase and sale of the Flow Through Special Warrants and the issuance of the Common Shares issuable upon the exercise of the Flow Through Special Warrants.

Subject to the provisions below, each Flow Through Special Warrant entitles the holder thereof to acquire (for no additional consideration), upon the exercise thereof, one Common Share.

Subject to the provisions of Schedule "A" hereto and the Special Warrant Indenture, each Flow Through Special Warrant will be exercisable at any time on or before 4:30 p.m. (Calgary time), on the date (the "**Expiry Date**") which is the earlier of: (i) the fifth Business Day after the date on which a receipt for the Prospectus is issued by the Securities Commissions; and (ii) one year after the Corporation becomes a reporting issuer in the Filing Jurisdictions. Subject to the provisions of Schedule "A" and the Special Warrant Indenture, upon the Expiry Date, all issued and outstanding Flow Through Special Warrants shall be deemed exercised in accordance with the provisions of the Special Warrant Indenture.

The Flow Through Special Warrants shall be issued pursuant to, and the exercise thereof shall be governed by, the provisions of the Special Warrant Indenture to be entered into between the Corporation and the Trustee, such Special Warrant Indenture to be in a form satisfactory to the Corporation and the Agent, acting reasonably. The terms and conditions of the Special Warrant Indenture shall be consistent herewith and satisfactory to the Agent and its counsel, acting reasonably.

3. Corporation's Covenants as to Creation and Qualification

The Corporation agrees:

- (a) that prior to the Closing Time and during the period from the effective date hereof until completion of the distribution of the Flow Through Special Warrants, the Corporation shall allow the Agent the opportunity to conduct required due diligence and to obtain, acting reasonably, satisfactory results therefrom and in particular, the Corporation shall allow the Agent and the Agent's counsel to conduct all due diligence which the Agent may reasonably require in order to confirm the Public Record is accurate, complete and current in all material respects and to fulfill the Agent's obligations as a registrant and, in this regard, without limiting the scope of the due diligence inquiries the Agent may conduct, the Corporation shall make available its directors and senior management and shall use its reasonable best efforts to make available its auditor and independent engineers to answer any questions which the Agent may have, including the participation of such persons in one or more due diligence sessions to be held prior to Closing Date (the "**Due Diligence Session**"); the Agent shall distribute a list of written questions to be answered in advance of such Due Diligence Session and the Corporation shall provide written responses to such questions and shall use its reasonable best efforts to have its auditors and independent engineers provide written responses to such questions in advance of the Due Diligence Session;
- (b) it will duly, punctually and faithfully perform all the obligations to be performed by it under the Special Warrant Indenture and the Subscription Agreements;
- (c) it will deliver to the Agent as many copies of the Subscription Agreements as the Agent may reasonably request and such delivery shall constitute the Corporation's authorization of the Agent to use the Documents in connection with the offering of the Special Warrants for sale in the Filing Jurisdictions;
- (d) it will take all such steps as may reasonably be necessary to enable the Flow Through Special Warrants to be offered for sale and sold on a private placement basis in the Filing Jurisdictions through the Agent by way of the exemptions set forth in Applicable Securities Laws of the Filing Jurisdictions;
- (e) to keep proper books, records and accounts of all Qualifying Expenditures and all transactions affecting the Commitment Amount

and the Qualifying Expenditures, and upon reasonable notice, to make such books, records and accounts available for inspection and audit by or on behalf of the Subscriber and if reasonably required to provide assistance to the Subscriber should a dispute arise between the Subscriber and the CCRA with respect to Qualifying Expenditures;

- (f) it will incur, during the Expenditure Period, Qualifying Expenditures in such amount as enables the Corporation to renounce to the Subscriber in accordance with the Act, Qualifying Expenditures in an amount equal to the Commitment Amount effective on or before December 31, 2003;
- (g) to renounce (in accordance with the Act and the Subscription Agreements) to the Subscriber, effective on or before December 31, 2003, Qualifying Expenditures incurred during the Expenditure Period in an amount equal to the Commitment Amount and the Corporation shall indemnify the Subscriber as to, and pay in settlement thereof to the Subscriber, an amount equal to the amount of any tax payable or that may become payable under the Act (and any corresponding provincial legislation) by the Subscriber as a consequence of any failure to so renounce;
- (h) to renounce the Qualifying CDE incurred hereunder only in accordance with subsection 66(12.601) of the Act;
- (i) it will deliver to each Subscriber at the Subscribers address set forth in the applicable Subscription Agreement, not later than March 31, 2004, a statement setting forth the aggregate amounts of Qualifying Expenditures renounced to the Subscriber;
- (j) all Qualifying Expenditures renounced to the Subscriber pursuant to the Subscription Agreement will be Qualifying Expenditures incurred by the Corporation that, but for the renunciation to the Subscriber, the Corporation would be entitled to deduct in computing its income for the purposes of Part I of the Act;
- (k) it will not reduce the amount renounced to the Subscriber pursuant to subsections 66(12.6) and 66(12.601) of the Act and, in the event the Minister of National Revenue reduces the amount renounced to the Subscriber pursuant to subsection 66(12.73) of the Act, the Corporation shall indemnify the Subscriber as to, and pay in settlement thereof to the Subscriber, an amount equal to the amount of any tax payable, or that will become payable, under the Act (and under any corresponding

provincial legislation) by the Subscriber as a consequence of such reduction;

- (l) it will maintain its status as a Principal Business Corporation until the earlier of January 1, 2005 and the date the Corporation has incurred and renounced to the Subscribers Qualifying Expenditures equal to the Commitment Amount;
- (m) it will file in a timely manner all forms required under the Act as are necessary to effectively renounce Qualifying Expenditures equal to the Commitment Amount to the Subscriber effective on or before December 31, 2003, and to provide the Subscriber with a copy of all such forms on a timely basis and, in particular, to file with the Canada Customs and Revenue Agency the form prescribed by subsection 66(12.68) of the Act together with a copy of the Subscription Agreement and any "selling instruments" contemplated by such subsection within the time prescribed by the Act;
- (n) it will not be subject to the provisions of subsection 66(12.67) of the Act in a manner that impairs its ability to renounce Qualifying Expenditures to the Subscriber in an amount equal to the Commitment Amount;
- (o) that other than as described in the Subscription Agreements, neither the Corporation nor any corporation "associated" (as defined in the Act) with the Corporation is party to any other agreement for the issuance of flow-through shares for which the required expenditures have not been incurred;
- (p) that the Corporation will refrain from entering into transactions, taking deductions or making any tax elections or designations which would otherwise reduce its cumulative Qualifying Expenditures to an extent which would preclude a renunciation of Qualifying Expenditures under the Subscription Agreements in an amount equal to the Commitment Amount effective on or before December 31, 2003 or which could result in the Corporation or the CCRA reducing the Qualifying Expenditures renounced to the Subscriber;
- (q) it will ensure that, to the extent Qualifying Expenditures that are renounced under the Subscription Agreements pursuant to subsection 66(12.601) of the Act are incurred in a particular calendar year, those expenditures shall not, when combined with all other expenditures incurred during that calendar year by the Corporation and all corporations with which the Corporation is associated (for purposes of

the Act) and renounced pursuant to subsection 66(12.601) of the Act, exceed \$1,000,000.00;

- (r) if it is required under the Act to reduce Qualifying Expenditures previously renounced to the Subscriber, the Corporation shall make such reduction pro rata by number of flow through shares issued or to be issued pursuant to flow-through share agreements of even date with the Subscription Agreements provided that the Corporation shall not reduce Qualifying Expenditures renounced under the Subscription Agreements until it has first reduced to the extent possible expenditures renounced pursuant to flow-through share agreements dated after the date of the Subscription Agreements;
- (s) the Corporation will incur Qualifying Expenditures with respect to the Subscription Agreements and all other flow-through shares agreements of even date pro rata by number of Flow-Through Special Warrants issued or to be issued pursuant thereto before incurring expenditures pursuant to any flow-through share agreements dated after the date of the Subscription Agreements; and
- (t) in the event the CCRA determines that the Corporation cannot renounce to Subscribers Qualifying Expenditures equal to 100% of the Commitment Amount, it shall renounce such lesser amount as is permitted by the CCRA and, to the extent the Corporation has incurred expenses which are capable of renunciation, but which are not Qualifying Expenditures, the Corporation shall, if agreed to by the Subscriber, renounce such expenses to the Subscriber, without any prejudice to any other rights the Subscriber may have under the Subscription Agreement;
- (u) prior to the filing of the Preliminary Prospectus and thereafter and prior to the filing of the Prospectus, it will allow the Agent to participate fully in the preparation of the Preliminary Prospectus and Prospectus and such other documents as may be required under Applicable Securities Laws in the Filing Jurisdictions in which holders of Flow Through Special Warrants are resident to qualify the distribution of the Common Shares for distribution in such Filing Jurisdictions and allow the Agent to conduct all due diligence which the Agent may reasonably require in order to confirm the Public Record is accurate and current in all material respects and to fulfil the Agent's obligations as registrants and to enable the Agent to responsibly execute the certificate in the Preliminary Prospectus or the Prospectus required to be executed by the Agent;

- (v) to file the Preliminary Prospectus, and all such other documents as may be required under Applicable Securities Laws of the Filing Jurisdictions, with the Securities Commissions and obtain a receipt therefor from each thereof in which holders of Flow Through Special Warrants are resident as soon as reasonably possible, but in any event to use its reasonable best efforts to ensure such receipt is obtained not later than 120 days after the Closing Date;
- (w) to use its reasonable best efforts to file the Prospectus, and all such other documents as may be required under Applicable Securities Laws of the Filing Jurisdictions, with the Securities Commissions and obtain a receipt therefor from each thereof as soon as reasonably possible, but in any event to use its reasonable best efforts to ensure such receipt is obtained not later than 120 days after the Closing Date and to take all other steps as may be necessary to qualify the distribution of the Common Shares upon exercise of the Flow Through Special Warrants in each of the Filing Jurisdictions in which holders of the Flow Through Special Warrants are resident in order for the holders of the Flow Through Special Warrants (save and except for holders who are or become "control persons" as defined under the Applicable Securities Laws of the Filing Jurisdictions) to be able to trade the Common Shares acquired upon the exercise of the Flow Through Special Warrants at any time in any or all of the Filing Jurisdictions in which holders of the Flow Through Special Warrants are resident without the requirement of filing a prospectus or utilizing or seeking an exemption from such requirement under Applicable Securities Laws of the Filing Jurisdictions, provided that the Corporation's obligation to use its reasonable best efforts to file the Prospectus hereunder and obtain such receipts shall continue in the event that the Corporation fails to obtain a receipt therefor from each of such Securities Commissions by the time specified above until the Expiry Date;
- (x) after the filing of the Prospectus and until the conclusion of the distribution of the Common Shares, to take or cause to be taken all additional steps as may be from time to time necessary to maintain the qualification of, or if the qualification shall cease for any reason to, requalify the distribution of the Common Shares in each of the Filing Jurisdictions in which holders of the Flow Through Special Warrants are resident in order for the holders of the Flow Through Special Warrants to be able to trade the Common Shares acquired upon exercise of the Flow Through Special Warrants at any time in any or all of the Filing Jurisdictions in which holders of the Flow Through

Special Warrants are resident without the requirement of filing a prospectus or utilizing or seeking an exemption from such requirement under Applicable Securities Laws of the Filing Jurisdictions except from holdings of a “control person” as defined under such laws;

- (y) that, during the period commencing with the date hereof and ending on the conclusion of the distribution of the Common Shares upon exercise of the Flow Through Special Warrants, the Preliminary Prospectus and the Prospectus will fully comply with the requirements of Applicable Securities Laws of the Filing Jurisdictions in which holders of the Flow Through Special Warrants are resident and will provide full, true and plain disclosure of all material facts relating to the Corporation, the Flow Through Special Warrants and the Common Shares issuable upon exercise of the Flow Through Special Warrants and will not contain any misrepresentation; provided that the Corporation does not covenant with respect to information or statements contained in such documents relating solely to the Agent and furnished to the Corporation by the Agent expressly for inclusion in such documents or omissions from such documents relating solely to the Agent and the foregoing covenant shall not be considered to be contravened as a consequence of any material change occurring after the date hereof or the occurrence of any event or state of facts after the date hereof if, in each such case, the Corporation complies with subparagraphs 4(a), (b), and (d); and
- (z) not to withdraw the Preliminary Prospectus or the Prospectus from any of the Filing Jurisdictions in which holders of the Flow Through Special Warrants are resident without the prior written consent of the Agent, such consent not to be unreasonably withheld.

4. Corporation’s Covenants as to Changes

The Corporation agrees that:

- (a) during the period commencing with the date hereof and ending on the conclusion of the distribution of the Common Shares upon exercise of the Flow Through Special Warrants, the Corporation will promptly inform the Agent of the full particulars of:
 - (i) any material change (actual, anticipated or threatened) in the assets, liabilities (absolute, accrued, contingent or otherwise), obligations, business, operations, capital or condition (financial or otherwise) of the Corporation or its subsidiaries (taken as a

whole) or the assets of the Corporation or its subsidiaries (taken as a whole);

- (ii) any change in any material fact contained or referred to in the Preliminary Prospectus or the Prospectus;
- (iii) the occurrence of a material fact or event which, in any such case, is, or may be, of such a nature as to:
 - (A) render the Preliminary Prospectus or the Prospectus untrue, false or misleading in a material respect;
 - (B) result in a misrepresentation in the Preliminary Prospectus or the Prospectus; or
 - (C) result in the Preliminary Prospectus or the Prospectus not complying with Applicable Securities Laws of the Filing Jurisdictions; or
- (iv) the discovery by the Corporation of any misrepresentation in the Preliminary Prospectus, Prospectus or any part of the Public Record;

provided that if there may be any reasonable doubt as to whether a material change, change in any material fact, occurrence or event of the nature referred to in this subparagraph has occurred, the Corporation shall promptly inform the Agent of the full particulars of the occurrence giving rise to the uncertainty and shall consult with the Agent as to whether the occurrence is of such nature;

- (b) during the period commencing with the date hereof and ending on the conclusion of the distribution of the Common Shares issuable upon the exercise of the Flow Through Special Warrants, the Corporation will promptly inform the Agent of the full particulars of:
 - (i) any request of any Securities Commission for any amendment to the Preliminary Prospectus, the Prospectus or any other part of the Public Record or for any additional information;
 - (ii) the issuance by any Securities Commission or other securities commission or similar regulatory authority, the Exchange or by any other competent authority of any order to cease or suspend trading of any securities of the Corporation or of the institution or threat of institution of any proceedings for that purpose; and

- (iii) the receipt by the Corporation of any communication from any Securities Commission or other securities commission or similar regulatory authority, the Exchange or any other competent authority relating to the Preliminary Prospectus, the Prospectus, any other part of the Public Record or the distribution of the Common Shares issuable upon the exercise of the Flow Through Special Warrants;
- (c) the Corporation will promptly comply to the reasonable satisfaction of the Agent and the Agent's counsel with Applicable Securities Laws of the Filing Jurisdictions with respect to any material change, change, occurrence or event of the nature referred to in subparagraph (a) above and the Corporation will prepare and file promptly at the Agent's request, acting reasonably, any amendment to the Prospectus which in the Agent's opinion, acting reasonably, may be necessary or advisable in connection therewith; and the Corporation shall consult with the Agent with respect to the form and content of any amendment to the Preliminary Prospectus or the Prospectus proposed to be filed by the Corporation and shall not file any such amendment without the prior review and approval thereof by the Agent, acting reasonably; and
- (d) in the event of any amendment to the Preliminary Prospectus or the Prospectus, the Corporation shall deliver to the Agent:
 - (i) a comfort letter of the auditors of the Corporation, with respect to the contents of such amendment, similar to that referred to in subparagraph 5(a);
 - (ii) legal opinions of the Corporation's counsel, in form and substance reasonably satisfactory to the Agent with respect to such matters as the Agent may reasonably request relating to such amendment's compliance with Applicable Securities Laws of the Filing Jurisdictions, including opinions of the nature referred to in subparagraph 8(a)(vii); and
 - (iii) as soon as practicable, as many copies of the amendment as the Agent may reasonably request, such delivery to constitute a delivery referred to in subparagraph 5(b) and thereby be subject to the representation and warranty and the authority therein referred to.

5. Corporation's Other Covenants

The Corporation agrees:

- (a) to deliver to the Agent:
 - (i) on the date of the Preliminary Prospectus, a draft comfort letter of the auditors of the Corporation; and
 - (ii) on the date of the Prospectus, a comfort letter of the auditors of the Corporation (dated not more than two business days prior to the date of the Prospectus), in each case, addressed to the Agent, in form and substance satisfactory to the Agent acting reasonably relating to the verification of the financial information and accounting data contained in the Preliminary Prospectus or Prospectus, as the case may be, and matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, to a date not more than two business days prior to the date of such letter;
- (b) to deliver to the Agent, as soon as practicable after the issuance of receipts therefor by the Securities Commissions, signed copies of the Preliminary Prospectus or the Prospectus, as the case may be, and as many commercial copies of the Prospectus as the Agent may reasonably request and any of such deliveries shall constitute a representation and warranty by the Corporation that the Preliminary Prospectus or Prospectus, as the case may be, (except statements relating solely to the Agent and furnished to the Corporation by the Agent expressly for inclusion in such documents or omissions from such documents relating solely to the Agent), contains full, true and plain disclosure of all material facts relating to the Corporation, the Flow Through Special Warrants and the Common Shares and does not contain any misrepresentation and shall constitute the Corporation's authorization of the Agent and other registrants to use the Preliminary Prospectus or Prospectus, as the case may be, in the Filing Jurisdictions;
- (c) to send written notice to each holder of the Flow Through Special Warrants advising of the issuance of a receipt for the Prospectus by the Securities Commissions and the date on which the Flow Through Special Warrants expire, together with a copy of the Prospectus, such notice to be sent by courier or prepaid registered mail to each holder of the Flow Through Special Warrants at the address of each such holder appearing in the register of the Flow Through Special Warrants

maintained pursuant to the Special Warrant Indenture within three business days after the latest date on which a receipt is issued by a Securities Commission;

- (d) except as contemplated herein, the Corporation will not, from the date hereof until 120 days following the Closing Date, offer, or announce the offering of, or enter into or make any agreement or understanding, or announce the making or entry into of any agreement or understanding, to issue, sell or exchange any securities without the prior written consent of the Agent, not to be unreasonably withheld, except (i) as contemplated in the "Details of the Offering" attached as Schedule "A", (ii) pursuant to the Corporation's stock option plan, (iii) pursuant to the issuance of Common Shares upon exercise of convertible debentures issued and outstanding as of December 1, 2003, or (iv) pursuant to an acquisition of a company involving the issuance of securities in which the Corporation controls the new entity (in the event of the issuance of securities pursuant to an acquisition, the securities offered will not be at a price that is lower than \$1.70 per Common Share); and
- (e) upon completion of the IPO Closing Date (as defined in Schedule "A" to this Agreement), to grant to the Agent the right of first refusal to provide its services, based upon industry standard terms, to lead any future "Canadian only Offering" or "Canadian tranche of U.S. Offering", for a period of 12 months from the IPO Closing Date.

6. Agent's Covenants

The Agent covenants and agrees with the Corporation that it will:

- (a) conduct activities in connection with the proposed offer and sale of the Flow Through Special Warrants and distribution of the Common Shares issuable upon the exercise of the Flow Through Special Warrants in compliance with all Applicable Securities Laws in the Filing Jurisdictions and, without limitation, agrees that it will not make available to prospective purchasers of the Flow Through Special Warrants any document or material which would constitute an offering memorandum as defined under Applicable Securities Laws of the Filing Jurisdictions;
- (b) not solicit subscriptions for Flow Through Special Warrants or Common Shares, trade in Flow Through Special Warrants and Common Shares or otherwise do any act in furtherance of a trade of Flow Through Special Warrants, or Common Shares outside of the

Filing Jurisdictions except in compliance with the applicable laws thereof;

- (c) obtain from each Subscriber an executed Subscription Agreement and all applicable undertakings, questionnaires and other forms required under Applicable Securities Laws of the Filing Jurisdictions and supplied to the Agent by the Corporation for completion in connection with subscriptions for Flow Through Special Warrants;
- (d) upon the Corporation obtaining the necessary receipt therefor from the Securities Commissions, forthwith deliver one copy of the Prospectus (together with any supplementary material required to be provided to the Subscribers) to each of the Subscribers;
- (e) not advertise the proposed offering or sale of the Flow Through Special Warrants in printed media of general and regular paid circulation, or on the radio or television; and
- (f) not solicit subscriptions for the Flow Through Special Warrants except in accordance with the terms and conditions of this Agreement.

7. Representations and Warranties of the Corporation

The Corporation represents and warrants to the Agent, and acknowledges that the Agent is relying upon such representations and warranties, that:

- (a) the Corporation has been duly incorporated and organized and is validly existing under the laws of the jurisdiction of its incorporation and has all requisite corporate authority and power to carry on its business, as now conducted and as presently proposed to be conducted by it, and to own its assets;
- (b) the Corporation is qualified to carry on business under the laws of each jurisdiction in which it carries on a material portion of its business, being the Province of Alberta;
- (c) other than Prelude and Predator, the Corporation does not have any subsidiaries within the meaning of the *Business Corporations Act* (Alberta);
- (d) other than Prelude and Predator, the Corporation does not own any material amount of securities in any body corporate or have an ownership interest in any unincorporated entity;
- (e) the Corporation has full corporate power and authority to enter into this Agreement, the Subscription Agreements and the Special Warrant

Indenture, and to perform its obligations set out herein and therein (including, without limitation, to issue the Flow Through Special Warrants and to issue the Common Shares upon the exercise of the Flow Through Special Warrants), and this Agreement, the Subscription Agreements and the Special Warrant Indenture will on the Closing Date be, duly authorized, executed and delivered by the Corporation and this Agreement, the Subscription Agreements and the Special Warrant Indenture will on the Closing Date be, legal, valid and binding obligations of the Corporation enforceable against the Corporation in accordance with their respective terms subject to the general qualifications that:

- (i) enforceability may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally;
 - (ii) equitable remedies, including the remedies of specific performance and injunctive relief, are available only in the discretion of the applicable court;
 - (iii) the equitable or statutory powers of the courts in Canada having jurisdiction to stay proceedings before them and the execution of judgments; and
 - (iv) rights to indemnify and contribution hereunder may be limited under applicable law;
- (f) on the Closing Date: (i) the Flow Through Special Warrants will be duly and validly created, authorized and issued; and (ii) the Common Shares issuable upon the exercise of the Flow Through Special Warrants will be duly and validly authorized, allotted and reserved for issuance upon such exercise and will, upon the exercise of the Flow Through Special Warrants, in accordance with the terms of the Special Warrant Indenture, be fully paid and non-assessable;
- (g) the Corporation is not in default or breach of, and the execution and delivery of, and the performance of and compliance with the terms of, this Agreement, the Subscription Agreements and the Special Warrant Indenture by the Corporation or any of the transactions contemplated hereby or thereby, does not and will not result in any breach of, or constitute a default under, and does not and will not create a state of facts which, after notice or lapse of time or both, would result in a breach of or constitute a default under, any term or provision of the articles, by-laws or resolutions of shareholders or directors of the

Corporation, or any indenture, mortgage, note, contract, agreement (written or oral), instrument, lease or other document to which the Corporation is a party or by which it is bound, or any law, judgment, decree, order, statute, rule or regulation applicable to the Corporation, which default or breach might reasonably be expected to materially adversely affect the business, operations, capital or condition (financial or otherwise) of the Corporation (taken as a whole) or its properties or assets;

- (h) (other than as has been publicly and generally disclosed) there has not been any material adverse change in the capital, assets, liabilities (absolute, accrued, contingent or otherwise) of the Corporation from the position set forth in the Financial Statements (other than as has been publicly and generally disclosed); there has not been any material adverse change in the business, operations, capital or condition (financial or otherwise) or results of the operations of the Corporation and its subsidiaries (taken as a whole), since December 31, 2002; and since December 30, 2002 there have been no material facts, transactions, events or occurrences which, to the knowledge of the Corporation, could materially adversely affect the capital, assets, liabilities (absolute, accrued, contingent or otherwise), business, operations or condition (financial or otherwise) or results of the operations of the Corporation which have not been publicly and generally disclosed or disclosed in writing to the Agent;
- (i) the Financial Statements fairly present, in all material respects and to the best of the Corporation's knowledge in accordance with generally accepted accounting principles in Canada consistently applied, the financial position and condition of the Corporation as at the date thereof and the results of the operations of the Corporation for the periods then ended and reflect all liabilities (absolute, accrued, contingent or otherwise) of the Corporation as at the date thereof;
- (j) except as disclosed to the Agent there are no actions, suits, proceedings or inquiries pending or threatened against or affecting the Corporation or any of its subsidiaries at law or in equity or before or by any federal, provincial, municipal or other governmental department, commission, board, bureau, agency or instrumentality which in any way materially adversely affects, or may in any way materially adversely affect, the business, operations, capital or condition (financial or otherwise) of the Corporation and its subsidiaries (taken as a whole) or its assets (on a consolidated basis) or which affects or may affect the distribution of the Flow Through Special Warrants or the distribution of Common Shares issuable upon the exercise of the Flow Through Special

Warrants and the Corporation is not aware of any existing ground on which such action, suit, proceeding or inquiry might be commenced with any reasonable likelihood of success;

- (k) other than as disclosed at the Due Diligence Session or otherwise to the Agent, the Corporation is not a party to or bound by any agreement of guarantee, indemnification (other than an indemnification of directors and officers in accordance with the bylaws of the Corporation and/or applicable laws) or any other like commitment of the obligations, liabilities (contingent or otherwise) of indebtedness of any other person;
- (l) other than as disclosed at the Due Diligence Session or otherwise to the Agent, the Corporation does not have any loans or other indebtedness outstanding which have been made to or from any of its shareholders, officers, directors or employees or any other person not dealing at arm's length with the Corporation that are currently outstanding;
- (m) other than as disclosed at the Due Diligence Session or otherwise to the Agent, no officer, director, employee or any other person not dealing at arm's length with the Corporation or, to the knowledge of the Corporation, any associate or affiliate of any such person, owns, has or is entitled to any royalty, net profits interest, carried interest or any other encumbrances or claims of any nature whatsoever which are based on production from the Corporation's properties or assets or any revenue or rights attributed thereto;
- (n) other than as disclosed at the Due Diligence Session or otherwise to the Agent, none of the directors or senior officers of the Corporation, or any "associate" or "affiliate" of any of the foregoing persons or companies (as such terms are defined in the *Securities Act* (Alberta)), has or has had any material interest, direct or indirect, in any continuing or existing material transaction or has any material interest, direct or indirect, in any proposed material transaction which is material to or will materially affect the Corporation;
- (o) the information and statements set forth in the Public Record, as it relates to the Corporation, were true, correct, and complete and did not contain any misrepresentation, as of the date of such information or statement, and no material change has occurred in relation to the Corporation which is not disclosed in the Public Record, and the Corporation has not filed any confidential material change reports which are still maintained on a confidential basis;

- (p) the authorized capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of preferred shares, of which there are 6,648,156 Common Shares, issued and outstanding, all of which shares are validly issued, fully paid and non-assessable;
- (q) the Corporation does not have in place a shareholder rights protection plan;
- (r) the Corporation is not a party to any unanimous shareholders agreement and to its knowledge, none of its shareholders is a party to any unanimous shareholders agreement, pooling agreement, voting trust or other similar type of arrangements in respect of outstanding securities of the Corporation;
- (s) other than as disclosed in the Public Record, no event of material default under any agreement or instrument pursuant to which indebtedness of the Corporation has been issued, has occurred, and no event which with the giving of notice or the passage of time or both would constitute an event of material default under any such agreement or instrument has occurred and is continuing;
- (t) no person, firm, corporation or other entity holds any securities convertible or exchangeable into shares of the Corporation or has any agreement, warrant, option, right or privilege being or capable of becoming an agreement, warrant, option or right for the purchase or other acquisition of any unissued securities of the Corporation except pursuant hereto and except for 610,000 Common Shares subject to stock options previously granted to employees and directors of the Corporation and 1,200,000 Common Shares subject to conversion rights attaching to presently issued and outstanding convertible debentures;
- (u) with such exceptions as are not material to the Corporation, the Corporation has duly and on a timely basis filed all tax returns required to be filed by it, has paid all taxes due and payable by it and has paid all assessments and re-assessments and all other taxes, governmental charges, penalties, interest and other fines due and payable by it and which are claimed by any governmental authority to be due and owing and adequate provision has been made for taxes payable for any completed fiscal period for which tax returns are not yet required and there are no agreements, waivers, or other arrangements providing for an extension of time with respect to the filing of any tax return or payment of any tax, governmental charge or

deficiency by the Corporation and there are no actions, suits, proceedings, investigations or claims threatened or pending against the Corporation in respect of taxes, governmental charges or assessments or any matters under discussion with any governmental authority relating to taxes, governmental charges or assessments asserted by any such authority;

- (v) the minute books of the Corporation as provided to the Agent's counsel are true and correct and contain the minutes of all meetings and all the resolutions of directors and shareholders thereof;
- (w) CIBC Mellon Trust Company has been duly appointed trustee under the Special Warrant Indenture at its principal offices in the City of Calgary;
- (x) the Corporation has conducted and is conducting its business in compliance in all material respects with all applicable laws, rules and regulations and, in particular, all applicable licensing and environmental legislation, regulations or by-laws or other lawful requirement of any governmental or regulatory bodies applicable to the Corporation of each jurisdiction in which it carries on business and holds all licences, registrations and qualifications in all jurisdictions in which it carries on business which are necessary or desirable to carry on the business of the Corporation, as now conducted and as presently proposed to be conducted, and all such licenses, registrations or qualifications are valid and existing and in good standing and none of such licenses, registrations or qualifications contains any burdensome term, provision, condition or limitation which has or is likely to have any material adverse effect on the business of the Corporation as now conducted or as proposed to be conducted;
- (y) the Corporation is not presently aware of any legislation, regulation, by-law or lawful requirement presently in force or proposed to be brought into force by any governmental or regulatory authority which the Corporation anticipates it will be unable to comply with without materially adversely affecting the business carried on by the Corporation;
- (z) any and all operations of the Corporation and, to the best of the Corporation's knowledge, any and all operations by third parties, on or in respect of the assets and properties of the Corporation, have been conducted in accordance with good oilfield practices;

- (aa) except to the extent that any violation or other matter referred to in this subparagraph does not have a material adverse effect on the Corporation as a whole:
- (i) the Corporation is not in violation of any applicable federal, provincial, municipal or local laws, regulations, orders, government decrees or ordinances with respect to environmental, health or safety matters (collectively, "**Environmental Laws**");
 - (ii) to the best of its knowledge, information and belief, after due inquiry, the Corporation has operated its business at all times and has received, handled, used, stored, treated, shipped and disposed of all contaminants without violation of Environmental Laws;
 - (iii) to the best of its knowledge, information and belief, after due inquiry, there have been no spills, releases, deposits or discharges of hazardous or toxic substances, contaminants or wastes into the earth, air or into any body of water or any municipal or other sewer or drain water systems by the Corporation that have not been remedied;
 - (iv) no orders, directions or notices have been issued and remain outstanding pursuant to any Environmental Laws relating to the business or assets of the Corporation;
 - (v) the Corporation has not failed to report to the proper federal, provincial, municipal or other political subdivision, government, department, commission, board, bureau, agency or instrumentality, domestic or foreign, the occurrence of any event which is required to be so reported by any Environmental Law; and
 - (vi) the Corporation holds all licenses, permits and approvals required under any Environmental Laws in connection with the operation of its business and the ownership and use of its assets, all such licenses, permits and approvals are in full force and effect, and except for (A) notifications and conditions of general application to assets or (B) reclamation obligations under the *Environmental Protection and Enhancement Act* (Alberta), the Corporation has not received any notification pursuant to any Environmental Laws that any work, repairs, constructions or capital expenditures are required to be made by it as a condition

of continued compliance with any Environmental Laws, or any license, permit or approval issued pursuant thereto, or that any license, permit or approval referred to above is about to be reviewed, made subject to limitation or conditions, revoked, withdrawn or terminated;

- (bb) no Securities Commission, other securities commission or similar regulatory authority, the Exchange or other exchange in Canada or the United States has issued any order which is currently outstanding preventing or suspending trading in any securities of the Corporation, no such proceeding is, to the knowledge of the Corporation, pending, contemplated or threatened and the Corporation is not in default of any requirement of Applicable Securities Laws of the Filing Jurisdictions;
- (cc) to the knowledge of the Corporation after due inquiry, no insider of the Corporation has a present intention to sell any securities of the Corporation;
- (dd) the Corporation has no current plan to issue, and except as previously disclosed, has not issued, any other Common Shares, or other securities of the Corporation on a flow through basis which would require the Corporation to renounce expenditures to subscribers in 2003 or in subsequent years;
- (ee) the Corporation has made available to AJM Petroleum Consultants ("AJM"), prior to the issuance of the report dated November 1, 2003, with respect to certain of the Corporation's oil and natural gas assets (the "**Report**"), for the purpose of preparing the Report, all information requested by AJM, which information did not contain any material misrepresentation. The Corporation has no knowledge of a material adverse change in any information provided to AJM since the date that such information was so provided. The Corporation believes that the Report reasonably presents the quantity of oil and gas resources of the Corporation based upon information available at the time the Reports were prepared;
- (ff) although it does not warrant title:
 - (i) the Corporation does not have reason to believe that the Corporation does not have title to or the irrevocable right to produce and sell its petroleum, natural gas and related hydrocarbons (for the purposes of this clause, the foregoing are referred to as the "**Interests**") and does represent and warrant

that the Interests are free and clear of adverse claims created by, through or under the Corporation, except as disclosed in the Public Record or those arising in the ordinary course of business, which are not material in the aggregate, and, to the knowledge of the Corporation after due inquiry, the Corporation holds its Interests under valid and subsisting leases, licenses, permits, concessions, concession agreements, contracts, subleases, reservations or other agreements; and

- (ii) the Corporation is not aware of any defects, failures or impairments in the title of the Corporation to its oil and gas properties, whether or not an action, suit, proceeding or inquiry is pending or threatened and whether or not discovered by any third party, which in aggregate could have a material adverse affect on the Interests;
- (gg) except as a result of any agreement to which the Corporation is not a party or of which it has no knowledge, the Flow Through Special Warrants upon issuance thereof pursuant to the provisions of the Subscription Agreements, will be "flow-through shares" as defined in subsection 66(15) of the Act and will not constitute "prescribed shares" for the purpose of Regulation 6202.1 included in the Regulations to the Act;
- (hh) the Corporation is a Principal Business Corporation;
- (ii) the Corporation has not incurred any obligation or liability, contingent or otherwise, for brokerage fees, finder's fees, agent's commission or other forms of compensation with respect to the transactions contemplated herein for which the Corporation will have any liability or obligation except as provided herein; and
- (jj) the representations and warranties made by the Corporation in the Special Warrant Indenture and Subscription Agreements are, or will be, true and correct as of the Closing Date.

8. Conditions

The obligations of the Agent hereunder shall be conditional upon the Agent receiving on the Closing Date:

- (a) legal opinions of the Corporation's counsel addressed to the Agent, the Subscribers and the Agent's counsel in form and substance reasonably satisfactory to the Agent, with respect to such matters as the Agent may reasonably request relating to the offering, issuance and sale of

the Flow Through Special Warrants and the distribution of Common Shares upon exercise of the Flow Through Special Warrants, including, without limitation, that:

- (i) the Corporation has been duly incorporated and is validly subsisting under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to carry on its business as now conducted by it and to own its assets and is qualified to carry on business under the laws of each jurisdiction in which it carries on a material portion of its business;
- (ii) the Corporation has full corporate power and authority to enter into this Agreement, the Subscription Agreements, the Special Warrant Indenture and the Agent's Warrant, and to perform its obligations set out herein and therein, and this Agreement has been and the Subscription Agreements, the Special Warrant Indenture and the Agent's Warrant will on the Closing Date, be duly authorized, executed and delivered by the Corporation and constitute legal, valid and binding obligations of the Corporation enforceable against the Corporation in accordance with its respective terms, subject to the general qualifications that:
 - (A) enforceability may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally;
 - (B) equitable remedies, including the remedies of specific performance and injunctive relief, are available only in the discretion of the applicable court;
 - (C) the equitable or statutory powers of the courts in Canada having jurisdiction to stay proceedings before them and the execution of judgments; and
 - (D) rights to indemnity and contribution hereunder may be limited under applicable law;
- (iii) the execution and delivery of this Agreement, the Subscription Agreements, the Special Warrant Indenture and the Agent's Warrant, and the fulfilment of the terms hereof or thereof by the Corporation, and the performance of and compliance with the terms of this Agreement, the Subscription Agreements, the

Special Warrant Indenture and the Agent's Warrant by the Corporation do not and will not result in a breach of, or constitute a default under, and do not and will not create a state of facts which, after notice or lapse of time or both, will result in a breach of or constitute a default under, any applicable laws or any term or provision of the articles, by-laws or resolutions of the shareholders or directors of the Corporation, or any indenture, contract, agreement (written or oral), instrument, lease or other document to which the Corporation is a party or by which it is bound on the Closing Date, of which such counsel is aware, which might reasonably be expected to materially adversely affect the business, operations, capital or condition (financial or otherwise) of the Corporation or its assets;

- (iv) the form and terms of the certificates representing the Common Shares have been approved and adopted by the directors of the Corporation and comply with all legal requirements relating thereto; the Flow Through Special Warrants and the Agent's Warrant have been duly and validly authorized, issued, executed and delivered by the Corporation and in the case of the Flow Through Special Warrants, duly certified and delivered by the Trustee and both the Agent's Warrant and the Flow Through Special Warrants constitute legal, valid and binding obligations of the Corporation enforceable in accordance with their terms. The holders of the Flow Through Special Warrants are entitled to the benefits of the Special Warrant Indenture, subject to the usual qualifications including those relating to creditors' rights generally; and the form and terms of the definitive certificates representing the Flow Through Special Warrants have been approved and adopted by the directors of the Corporation and comply with the terms and conditions of the Special Warrant Indenture and all legal requirements relating thereto;
- (v) the Common Shares issuable upon the exercise of the Flow Through Special Warrants and the Agent's Option have been reserved and allotted for issuance and when issued in accordance with the terms of the Special Warrant Indenture and the Agent's Option, as the case may be, will be validly issued as fully paid and non-assessable shares;
- (vi) in reliance upon a certificate of an officer of the Corporation, the Flow-Through Special Warrants are flow-through shares as defined in subsection 66(15) of the Act and will not constitute

“prescribed shares” for purposes of Regulation 6202.1 of the Regulations of the Act;

- (vii) all Applicable Securities Laws of the Filing Jurisdictions and other laws applicable to the Corporation in connection with the creation, offering, issuance and sale of the Flow Through Special Warrants have been complied with;

and additionally, relating to:

- (viii) the qualification of the distribution of Common Shares upon the exercise of the Flow Through Special Warrants;
- (ix) the first trade in Common Shares received upon exercise of the Flow Through Special Warrants;
- (x) the authorized and issued capital of the Corporation;

and as to all other legal matters, including compliance with Applicable Securities Laws of the Filing Jurisdictions, in any way connected with the offering, issuance, sale and delivery of the Flow Through Special Warrants and the distribution of Common Shares upon exercise of the Flow Through Special Warrants as the Agent may reasonably request. It is understood that the Corporation’s counsel may rely on the opinions of local counsel acceptable to them as to matters governed by the laws of jurisdictions other than the jurisdiction of residence of such counsel or Canada and on certificates of officers of the Corporation, the transfer agent of the Common Shares (if any) and the auditors of the Corporation as to relevant matters of fact;

- (b) a certificate of the Corporation dated the Closing Date, addressed to the Agent and signed on the Corporation’s behalf by its Chief Executive Officer or such other officer or director of the Corporation satisfactory to the Agent, acting reasonably, certifying that:
 - (i) the Corporation has complied with and satisfied all terms and conditions of this Agreement on its part to be complied with or satisfied at or prior to the Closing Time other than those which have been waived by the Agent;
 - (ii) the representations and warranties of the Corporation set forth in this Agreement are true and correct at the Closing Time, as if made at such time;

- (iii) to the knowledge of such officer, having made reasonable enquiry, no event of a nature referred to in subparagraphs 13(a), (b), (c) or (d) has occurred since the date of this Agreement or to the knowledge of such officer is pending, contemplated or threatened; and
- (iv) the Corporation has made and/or obtained, on or prior to the Closing Time, all necessary filings, approvals, consents and acceptances of applicable regulatory authorities and under any applicable agreement or document to which the Corporation is a party or by which it is bound in respect of the execution and delivery of this agreement, the offering and sale of the Flow Through Special Warrants and the consummation of the other transactions contemplated hereby;

and the Agent shall have no knowledge to the contrary; and

- (c) executed copies of the Special Warrant Indenture and the Subscription Agreements, each in form and substance reasonably satisfactory to the Agent and the Agent's counsel;

and conditional upon the Agent and Agent's counsel having completed due diligence satisfactory to them in order to confirm that the Public Record is true and correct in all material respects.

The foregoing conditions are for the sole benefit of the Agent and may be waived in whole or in part by the Agent at any time and without limitation, the Agent shall have the right, on behalf of potential subscribers, to withdraw all Subscription Agreements delivered and not previously withdrawn or rescinded by such persons. If any of the foregoing conditions are not met, the Agent may terminate its obligations under this Agreement without prejudice to any other remedies it may have.

9. Closing

The issue and sale of the Flow Through Special Warrants shall be completed at the Closing Time at the offices of the Corporation's counsel in Calgary, Alberta or at such other place as the Corporation and the Agent may agree. Subject to the conditions set forth in paragraph 8, the Agent, on the Closing Date, shall deliver:

- (a) to the Corporation all completed Subscription Agreements, originally executed and all other documents attached to the Subscription Agreements, as applicable; and

- (b) to the Corporation a certified cheque or bank draft payable to the Corporation at par in Calgary in an amount equal to the aggregate of all subscriptions delivered to and accepted by the Corporation;

against delivery by the Corporation:

- (c) of definitive certificates representing, in the aggregate, all of the Flow Through Special Warrants subscribed for registered in the name of the Agent or such name or names as the Agent shall direct the Corporation in writing not less than one Business Day prior to the Closing Date;
- (d) to the Agent of a certified cheque or bank draft payable to the Agent at par in Calgary in an amount equal to the fee as calculated in paragraph 10 and the Agent's Warrant; and
- (e) of such further documentation as may be contemplated by this agreement or that may reasonably be requested by Agent's counsel.

Except where the Corporation is aware of a material misrepresentation in a Subscription Agreement, the Corporation may not reject any properly completed Subscription Agreement of a subscriber resident in a Filing Jurisdiction, unless the number of Flow Through Special Warrants subscribed for pursuant to all Subscription Agreements tendered by the Agent exceeds the maximum number of Flow Through Special Warrants to be sold under this agreement, in which case Subscription Agreements representing the over-allotment shall in consultation with the Agent be rejected.

10. Fees and Agent's Warrant

In consideration for its services hereunder, the Corporation agrees to pay to the Agent at the Closing Time a fee equal to 7.5% of the aggregate proceeds of the Flow Through Special Warrants subscribed for (including any Flow Through Special Warrants purchased by the Agent as principals, if any) and for which the subscription is accepted by the Corporation.

Additionally, the Agent shall receive from the Corporation a warrant (the "**Agent's Warrant**") entitling the Agent, at no additional cost, to receive, on exercise or deemed exercise, an option (the "**Agent's Option**") exercisable by the Agent to purchase that number of Common Shares equal to 10% of the number of Flow Through Special Warrants issued, at an exercise price of \$1.70 per share expiring one year after the Closing Date. It is agreed that the Corporation will use its reasonable best efforts to qualify the distribution of the Agent's Option in the Prospectus. The form of certificate representing the Agent's Warrant will be substantially in the form as attached as Schedule "B".

11. Expenses

Whether or not the transactions contemplated herein shall be completed, all costs and expenses of or incidental to the distribution of the Flow Through Special Warrants and the distribution of Common Shares upon the exercise of the Flow Through Special Warrants shall be borne by the Corporation, including, without limitation, all costs and expenses of or incidental to the private placement of the Flow Through Special Warrants, and the preparation, filing and reproduction of the Preliminary Prospectus and the Prospectus, the fees and expenses of the Corporation's counsel, the fees and expenses of the Corporation's auditors, the reasonable fees and disbursements of the Agent's counsel and all other costs and expenses relating to this transaction.

It is acknowledged by the Agent that the Corporation has paid the sum of \$31,400 to the Agent, representing \$20,000 plus Goods and Services Tax for the Agent's due diligence administrative fee and \$10,000 as a retainer for the legal fees and expense of Agent's counsel. Total legal fees and expenses of Agent's counsel for the Offering and the initial public offering described in Schedule "A" hereto shall not exceed \$25,000 without prior written approval of the Corporation.

12. Waiver

The Agent may waive in whole or in part any breach of, default under or non-compliance with any representation, warranty, term or condition hereof, or extend the time for compliance therewith, without prejudice to any of its rights in respect of any other representation, warranty, term or condition hereof or any other breach of, default under or non-compliance with any other representation, warranty, term or condition hereof, provided that any such waiver or extension shall be binding on the Agent only if the same is in writing.

13. Termination Events

The Agent may terminate its obligations hereunder, by written notice to the Corporation, in the event that after the date hereof and at or prior to the Closing Time:

- (a) any order to cease or suspend trading in any securities of the Corporation, or prohibiting or restricting the distribution of the Flow Through Special Warrants or the distribution of Common Shares issuable upon the exercise of the Flow Through Special Warrants is made, or proceedings are announced or commenced for the making of any such order, by any securities commission, or similar regulatory authority, the Exchange or by any other competent authority, and has not been rescinded, revoked or withdrawn;
- (b) any inquiry, investigation (whether formal or informal) or other proceeding in relation to the Corporation or any of its directors or

senior officers is announced or commenced by any securities commission or similar regulatory authority, the Exchange or by any other competent authority, or there is any change of law or the interpretation or administration thereof, if, in the opinion of the Agent, acting reasonably, the announcement or commencement thereof or change, as the case may be, materially adversely affects the trading or distribution of the Flow Through Special Warrants or the trading or distribution of Common Shares upon exercise of the Flow Through Special Warrants;

- (c) there should develop, occur or come into effect or existence any event, action, state, condition or major financial occurrence of national or international consequence or any law or regulation which, in the opinion of the Agent, acting reasonably, materially adversely affects, or involves, or will materially adversely affect or involve, the financial markets or the business, operations or affairs of the Corporation and its subsidiaries (taken as a whole) or the state of the financial markets is such that in the opinion of the Agent the Flow Through Special Warrants cannot be successfully marketed;
- (d) there should occur any material change, change of a material fact, occurrence or event of the nature referred to in subparagraph 4(a) which, in the opinion of the Agent, acting reasonably, would be expected to have a material adverse effect on the market price or value of the Flow Through Special Warrants or the Common Shares;
- (e) as a result of investigations after the date hereof, the Agent determines that there exists any fact or circumstance not generally disclosed to the public by the Corporation, at the date hereof, which would have, in the opinion of the Agent, acting reasonably, a material adverse effect on the market price or value of the Flow Through Special Warrants or the Common Shares;
- (f) the Corporation shall be in breach of, default under or non-compliance with any material representation, warranty, term or condition of this Agreement, the Special Warrant Indenture or the Subscription Agreements; or
- (g) the state of the financial or commodity markets is such that the Flow Through Special Warrants and the Common Shares issuable upon the exercise thereof cannot, in the opinion of the Agent, be successfully marketed.

14. Continuation of Termination Right

The Agent may exercise any or all of the rights provided for in paragraphs 8, 12 or 13 notwithstanding any other material change, event or state of facts and notwithstanding any act or thing taken or done by the Agent or any inaction by the Agent, whether before or after the occurrence of any material change, event or state of facts including, without limitation, any act of the Agent related to the offering or continued offering of the Flow Through Special Warrants for sale and any act taken by the Agent in connection with any amendment to the Preliminary Prospectus or Prospectus (including the execution of any amendment) and the Agent shall only be considered to have waived or be estopped from exercising or relying upon any of its rights under or pursuant to paragraphs 8, 12 or 13 if such waiver or estoppel is in writing and specifically waives or estops such exercise or reliance.

15. Exercise of Termination Right

Any termination pursuant to the terms of this Agreement shall be effected by notice in writing delivered to the Corporation, provided that no termination shall discharge or otherwise affect any obligation of the Corporation under paragraphs 11, 17, 18 and 19. The rights of the Agent to terminate its obligations hereunder are in addition to, and without prejudice to, any other remedies it may have.

16. Survival

It is understood that all representations, warranties, terms and conditions herein or contained in certificates or documents submitted pursuant to or in connection with the transactions contemplated herein shall survive the payment by the Agent for the Flow Through Special Warrants, the termination of this Agreement and the distribution of the Common Shares pursuant to the Prospectus and shall continue in full force and effect for the benefit of the Agent, the Subscribers and the Corporation for a period of two years from the date hereof.

17. Indemnity

The Corporation shall indemnify and save each of the Indemnified Persons, harmless against and from all liabilities, claims, demands, losses (other than losses of profit in connection with the distribution of the Flow Through Special Warrants), costs, damages and expenses to which any of the Indemnified Persons may be subject or which any of the Indemnified Persons may suffer or incur, whether under the provisions of any statute or otherwise, in any way caused by, or arising directly or indirectly from or in consequence of:

- (a) any information or statement contained in the Subscription Agreements or the Public Record (other than any information or statement relating solely to the Agent and furnished to the Corporation by the Agent expressly for inclusion in the Subscription

Agreements or the Public Record) which is or is alleged to be untrue or any omission or alleged omission to provide any information or state any fact the omission of which makes or is alleged to make any such information or statement untrue or misleading in light of the circumstances in which it was made;

- (b) any misrepresentation or alleged misrepresentation (except a misrepresentation which is based upon information relating solely to the Agent and furnished to the Corporation by the Agent expressly for inclusion in the Subscription Agreements or the Public Record) in the Subscription Agreements or the Public Record;
- (c) any misrepresentation or alleged misrepresentation contained in any of the responses provided to the Agent by the Corporation or its directors, officers or employees in the Due Diligence Session;
- (d) any prohibition or restriction of trading in the securities of the Corporation or any prohibition or restriction affecting the distribution of the Flow Through Special Warrants or the Common Shares upon exercise of the Flow Through Special Warrants imposed by any competent authority if such prohibition or restriction is based on any misrepresentation or alleged misrepresentation of a kind referred to in subparagraph 17(b);
- (e) any order made or any inquiry, investigation (whether formal or informal) or other proceeding commenced or threatened by any one or more competent authorities (not based upon the activities or the alleged activities of any of the Agent or its banking or selling group members, if any) relating to or materially affecting the trading or distribution of the Flow Through Special Warrants or the Common Shares issuable upon the exercise of the Flow Through Special Warrants;
- (f) any breach of, default under or non-compliance by the Corporation with any representation, warranty, term or condition of this Agreement, the Subscription Agreements or any requirement of Applicable Securities Laws of the Filing Jurisdictions; or
- (g) the exercise by any purchaser of the Flow Through Special Warrants of any contractual or statutory right of rescission in connection with the purchase of the Flow Through Special Warrants;

provided that, in the event and to the extent that a court of competent jurisdiction in a final judgment from which no appeal can be made or a regulatory authority in a

final ruling from which no appeal can be made shall determine that the liabilities, claims, demands, losses, costs, damages or expenses resulted from the gross negligence, fraud or wilful misconduct of the Indemnified Party claiming indemnity, this indemnity shall not apply.

The rights of indemnity contained in this paragraph 17 shall not apply if the Corporation has complied with the provisions of paragraphs 3 and 4 and the person asserting any claim contemplated by this paragraph 17 was not provided with a copy of the Prospectus or any amendment to the Prospectus or other document which corrects any misrepresentation or alleged misrepresentation which is the basis of such claim and which was required, under Applicable Securities Laws of the Filing Jurisdictions, to be delivered to such person by the Agent.

The Corporation hereby waives its right to recover contribution from the Agent with respect to any liability of the Corporation by reason of or arising out of any misrepresentation in the Public Record provided, however, that such waiver shall not apply in respect of liability caused or incurred by reason of or arising out of: (i) any misrepresentation which is based upon information relating solely to the Agent contained in such document and furnished to the Corporation by the Agent expressly for inclusion in such document; or (ii) any failure by the Agent to provide to prospective purchasers of the Flow Through Special Warrants any document which the Corporation is required to provide to such prospective purchasers and which the Corporation has provided to the Agent to forward to such prospective purchasers.

The Corporation agrees that in case any legal proceedings or investigation shall be brought against or initiated against the Corporation by any governmental commission, regulatory authority, exchange, court or other authority and an Indemnified Person or other representative of any of the Agent shall be required to testify or respond to procedures designed to discover information regarding, in connection with or relating to the performance of professional services rendered to the Corporation by the Agent, the Corporation shall pay the Agent the reasonable costs (which shall include, but are not limited to, the fees and expenses of legal counsel, an amount to reimburse the Agent for the time spent by their personnel in connection therewith at their normal per diem rate and reasonable out of pocket expenses) in connection therewith.

18. Notice of Indemnity Claim

If any claim contemplated by paragraph 17 shall be asserted against any of the Indemnified Persons in respect of which indemnification is or might reasonably be considered to be provided for in such paragraph, such Indemnified Person shall notify the Corporation as soon as possible of the nature of such claim and the Corporation shall be entitled (but not required) to assume the defence of any suit

brought to enforce such claim, provided however, that the defence shall be through legal counsel selected by the Corporation and acceptable to the Indemnified Person acting reasonably and that no admission of liability or settlement may be made by the Corporation or the Indemnified Person without the prior written consent of the other, such consent not to be unreasonably withheld. The Indemnified Person shall have the right to retain its own counsel in any proceeding relating to a claim contemplated by paragraph 17, but the fees and expenses of such Indemnified Person's counsel shall be their own expense unless:

- (a) the Indemnified Person has been advised in writing by counsel that there may be a material legal defence available to the Indemnified Person which is different from or additional to a defence available to the Corporation or that a conflict of interest exists which makes representation by counsel chosen by the Corporation not advisable (in which case the Corporation shall not have the right to assume the defence of such proceedings on the Indemnified Person's behalf);
- (b) the Corporation shall not have taken the defence of such proceedings and employed counsel within ten days after notice of commencement of such proceedings; or
- (c) the employment of such counsel has been authorized by the Corporation in connection with the defence of such proceeding;

in which event, the fees and expenses of such Indemnified Person's counsel (on a solicitor and client basis) shall be paid by the Corporation; provided that the Corporation shall not be obligated to pay fees and expenses of more than one separate legal firm for all Indemnified Persons, as a group.

It is the intention of the Corporation to constitute the Agent as trustee for the Indemnified Persons for the purposes of paragraphs 17 and 18 and the Agent agrees to accept such trust and to hold and enforce such covenants on behalf of such persons.

19. Right of Contribution

In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in this Agreement is due in accordance with its terms but is (in whole or in part), for any reason, held by a court to be unavailable from the Corporation on ground of policy or otherwise, each of the Corporation and the party or parties seeking indemnification shall contribute to the aggregate liabilities, claims, demands, losses (other than losses of profit in connection with the distribution of the Flow Through Special Warrants), costs, damages and expenses (or claims, actions, suits or proceedings in respect thereof) to which they may be subject or which they may suffer or incur:

- (a) in such proportion as is appropriate to reflect the relative benefit received by the Corporation on the one hand and by the Agent on the other hand from the offering of the Flow Through Special Warrants; or
- (b) if the allocation provided by subparagraph (a) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in subparagraph (a) above but also to reflect the relative fault of the party or parties seeking indemnity, on the one hand, and the parties from whom indemnity is sought, on the other hand, in connection with the statement, omission, misrepresentation or alleged misrepresentation, order, inquiry, investigation or other matter or thing which resulted in such liabilities, claims, demands, losses, costs, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Corporation, on the one hand, and the Agent, on the other hand, shall be deemed to be in the same proportion that the total proceeds of the offering received by the Corporation (net of fees but before deducting expenses) bear to the fees received by the Agent. In the case of liability arising out of the Preliminary Prospectus or the Prospectus, the relative fault of the Corporation, on the one hand, and of the Agent, on the other hand, shall be determined by reference, among other things, to whether the statement, omission, misrepresentation or alleged misrepresentation, order, inquiry, investigation or other matter or thing referred to in paragraph 17 which resulted in such liabilities, claims, demands, losses, costs, damages or expenses relates to information supplied or which ought to have been supplied by, or steps or actions taken or done on behalf of or which ought to have been taken or done on behalf of, the Corporation or the Agent, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement, omission, misrepresentation or alleged misrepresentation, order, inquiry, investigation or other matter or thing referred to in paragraph 17.

The amount paid or payable by an Indemnified Person as a result of liabilities, claims, demands, losses (other than losses of profit in connection with the distribution of the Special Warrants), costs, damages and expenses (or claims, actions, suits or proceedings in respect thereof) referred to above shall, without limitation, include any legal or other expenses reasonably incurred by the Indemnified Person in connection with investigating or defending such liabilities, claims, demands, losses, costs, damages and expenses (or claims, actions, suits or proceedings in respect thereof), whether or not resulting in any action, suit, proceeding or claim.

The Corporation agrees that it would not be just and equitable if contributions pursuant to this Agreement were determined by pro rata allocation or

by any other method of allocation which does not take into account the equitable considerations referred to in the immediately preceding paragraphs. The rights to contribution provided in this paragraph 19 shall be in addition to, and without prejudice to, any other right to contribution which the Agent may have.

Any liability of the Agent under this paragraph 19 shall be limited to the amount of fees payable to the Agent pursuant to paragraph 10.

20. Notices

Any notice or other communication to be given hereunder shall, in the case of notice to be given to the Corporation, be addressed to:

Twoco Petroleums Ltd.
1050, 1122 - 4th Street S.W.
Calgary, Alberta T2R 1M1

Attention: Wayne Malinowski
Telecopy No.: (403) 237-6048

and a copy to:

Gowling Lafleur Henderson LLP
Suite 1400, 700 2nd Street S.W.
Calgary, Alberta T2P 4K5

Attention: Peter Soby
Telecopy No.: (403) 263-9193

and, in the case of notice to be given to the Agent, be addressed to:

First Associates Investments Inc.
2200, 440 - 2nd Street S.W.
Calgary, Alberta T2P 5E9

Attention: Ali Rawji
Telecopy No: (403) 269-7870

and a copy to:

Stikeman Elliott LLP
4300, 888 - 3rd Street S.W.
Calgary, Alberta T2P 5C5

Attention: Stuart M. Olley
Telecopy No.: (403) 266-9034

or to such other address as the party may designate by notice given to the others. Each communication shall be personally delivered to the addressee or sent by facsimile transmission to the addressee, and:

- (a) a communication which is personally delivered shall, if delivered before 4:30 p.m. (Calgary time) on a Business Day, be deemed to be given and received on that day and, in any other case be deemed to be given and received on the first Business Day following the day on which it is delivered; and
- (b) a communication which is sent by facsimile transmission shall, if sent on a Business Day before 4:30 p.m. (Calgary time), be deemed to be given and received on that day and, in any other case, be deemed to be given and received on the first Business Day following the day on which it is sent.

21. Trust

It is the intention of the Corporation to constitute the Agent as trustee for the Subscribers in respect of the benefit of the representations, warranties and covenants of the Corporation set forth in this Agreement.

22. Relationship Between the Corporation and the Agent

The Corporation: (i) acknowledges and agrees that the Agent has certain statutory obligations as a registrant under the Applicable Securities Laws of the Filing Jurisdictions and has fiduciary relationships with its clients; and (ii) consents to the Agent acting hereunder while continuing to act for its clients. To the extent that the Agent's statutory obligations as a registrant under Applicable Securities Laws of the Filing Jurisdictions or fiduciary relationships with its clients conflicts with its obligations to the Corporation hereunder, the Agent shall be entitled to fulfil its statutory obligations as a registrant under Applicable Securities Laws of the Filing Jurisdictions and its fiduciary duties to its clients. Nothing in this Agreement shall be interpreted to prevent the Agent from fulfilling its statutory obligations as a registrant under Applicable Securities Laws of the Filing Jurisdictions or to act as a fiduciary of its clients.

23. Severance

If one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein.

24. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein and the Corporation and the Agent each irrevocably attorn to the jurisdiction of the courts of the Province of Alberta.

25. Time of the Essence

Time shall be of the essence of this Agreement.

26. Counterpart Execution

This Agreement may be executed in one or more counterparts each of which so executed shall constitute an original and all of which together shall constitute one and the same agreement.

27. Entire Agreement

It is understood that the terms and conditions of this Agreement supersede any previous verbal or written agreement between the Agent and the Corporation with respect to the issuance of securities by the Corporation of Flow Through Special Warrants, including the letter agreement dated December 1, 2003 as it relates to the issuance of Flow Through Special Warrants.

If the foregoing is in accordance with your understanding and is agreed to by you, please confirm your acceptance by signing the enclosed copies of this letter at the place indicated and by returning the same to the Agent's counsel.

**FIRST ASSOCIATES INVESTMENTS
INC.**

Per: "Heather Charron"

ACCEPTED AND AGREED to as of
the 22 day of December, 2003.

TWOCO PETROLEUMS LTD.

Per: "Wayne Malinoski"
Wayne Malinowski

SCHEDULE "A"
DETAILS OF THE OFFERING

SCHEDULE "B"

FORM OF AGENT'S WARRANT CERTIFICATE

AGENT'S WARRANT TO ACQUIRE AGENT'S OPTION
OF
TWOCO PETROLEUMS LTD.

THIS CERTIFIES that, for value received, **FIRST ASSOCIATES INVESTMENTS INC.** (the "Agent"), is the registered holder of a warrant (the "**Agent's Warrant**") of Twoco Petroleum Ltd. (the "**Corporation**") which entitles the holder for a period expiring one year from the Closing Date, subject to the terms and conditions set forth in this Certificate, to, at no cost, acquire from the Corporation, subject to adjustment, an option (the "**Agent's Option**"). The Agent's Option shall, subject to adjustment, entitle the holder thereof to acquire 117,650 Common Shares in the capital of the Corporation, at any time commencing on the Closing Date and continuing up to the Time of Expiry (as defined in the Agent's Option Agreement attached hereto as Appendix "A") on payment of \$1.70 per share (the "**Exercise Price**"). The Agent's Option shall be subject to the terms and conditions of the Agent's Option Agreement in the form attached as Appendix "A" hereto. The Agent may exercise the Agent's Warrants at any time after the date hereof until the Expiry Date by completing the Election to Exercise attached as Appendix "B" to this Certificate.

If not earlier exercised by the Agent, the Agent's Warrant will be deemed to be exercised without any action on the part of the Agent, at 4:30 p.m. (Calgary time) on the day (the "**Expiry Date**") which is the earlier of: (i) the fifth Business Day after the date on which a receipt for the Prospectus is issued by the Securities Commissions; or (ii) one year following the Closing Date.

1. Agency Agreement

This Certificate is issued to the Agent pursuant to an agency agreement dated December 22, 2003 (the "**Agency Agreement**") between the Corporation and the Agent. Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed thereto in the Agency Agreement.

2. Exercise of Agent's Warrant

- (a) **Exercise.** The Corporation shall, on the date of exercise of the Agent's Warrants (the "**Exercise Date**") (either by deemed exercise as described above, or by the Agent upon delivery to the Corporation of a properly completed and executed Election to Exercise, attached hereto as Appendix "B"), or within two (2) Business Days thereafter execute and issue to the Agent the Agent's Options.

- (b) **Notice of Adjustment.** Upon any adjustment of the number of Common Shares issuable upon the exercise of the Agent's Option in accordance with the Agent's Option Agreement, the Corporation shall give written notice thereof to the Agent, which notice shall state the Exercise Price and the number of Common Shares subject to the unexercised Agent's Option resulting from such adjustment (the "**Adjustment**"), and shall set forth in reasonable detail the method of calculation and the facts upon which such calculation is based. In the event that the Agent disagrees with the calculation of such Adjustment, upon the request of the Agent there shall be transmitted as soon as practicable to the Agent a statement of a firm of independent chartered accountants retained to audit the financial statements of the Corporation providing the method of calculation of the Adjustment, which method shall be binding on the Corporation and the Agent.
- (c) **Other Notices.** In case at any time:
- (i) the Corporation shall declare any dividend upon its Common Shares payable in Common Shares or other securities of the Corporation;
 - (ii) the Corporation shall offer for subscription pro rata to the holders of its Common Shares any additional shares of any class or other rights;
 - (iii) there shall be any capital reorganization or reclassification of the capital stock of the Corporation, or consolidation, amalgamation or merger (resulting in the exchange of all of the outstanding Common Shares for shares of another corporation) of the Corporation with, or sale of all or substantially all of its assets to, another corporation; or
 - (iv) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Corporation,

then, in any one or more of such cases, the Corporation shall give to the Agent: (A) at least 15 days' prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights or for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger, amalgamation, sale, dissolution, liquidation or winding-up; and (B) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, at least 15 days' prior written notice of the date when the same shall take place. Such notice in accordance with the foregoing clause

(A) shall also specify, in the case of any such dividend, distribution or subscription rights, the date on which the holders of Common Shares shall be entitled thereto, and such notice in accordance with the foregoing clause (B) shall also specify the date on which the holders of Common Shares shall be entitled to exchange their Common Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, amalgamation, sale, dissolution, liquidation or winding-up, as the case may be.

- (d) **Common Shares to be Reserved.** The Corporation will at all times keep available, and reserve if necessary under applicable law, out of its authorized Common Shares, solely for the purpose of issue upon the exercise of the Agent's Option, such number of Common Shares as shall then be issuable upon the exercise of the Agent's Option. The Corporation covenants and agrees that all Common Shares which shall be so issuable will, upon issuance, be duly authorized and issued as fully paid and non-assessable. The Corporation will take all such actions as may be reasonably necessary to ensure that all such Common Shares may be so issued without violation of any applicable requirements of any exchange upon which the Common Shares of the Corporation may be listed or in respect of which the Common Shares are qualified for unlisted trading privileges. The Corporation will take all such actions as are within its power to ensure that all such Common Shares may be so issued without violation of any applicable law.
- (e) **Qualification.** The Corporation will use its reasonable best efforts to promptly obtain a receipt for the Prospectus from the Securities Commissions in the Filing Jurisdictions as soon as possible in order to qualify the distribution of the Agent's Option to the maximum extent permitted by the Applicable Securities Laws in accordance with the Agency Agreement.

3. Replacement

Upon receipt of evidence satisfactory to the Corporation of the loss, theft, destruction or mutilation of this Certificate and, if requested by the Corporation, upon delivery of a bond of indemnity satisfactory to the Corporation (or, in the case of mutilation, upon surrender of this Certificate), the Corporation will issue to the Agent a replacement certificate (containing the same terms and conditions as this Certificate).

4. Governing Law

The laws of the Province of Alberta and the laws of Canada applicable therein shall govern the Agent's Warrant.

5. Successors

This Certificate shall enure to the benefit of and shall be binding upon the Agent and the Corporation and their respective successors.

6. Conflict

The Agent hereby acknowledges that upon any conflict between the terms of the Agency Agreement and the Certificate representing the Agent's Warrant, the terms of the Certificate representing the Agent's Warrant shall prevail.

IN WITNESS WHEREOF the Corporation has caused this Certificate to be signed by its duly authorized officers.

DATED as of December 22, 2003.

TWOCO PETROLEUMS LTD.

Per: _____

APPENDIX "A"
AGENT'S OPTION AGREEMENT

MEMORANDUM OF AGREEMENT made as of the __ day of _____
_____/ _____

BETWEEN:

TWOCO PETROLEUMS LTD., a corporation incorporated under the laws of Alberta (hereinafter referred to as the "**Corporation**")

OF THE FIRST PART

AND

FIRST ASSOCIATES INVESTMENTS INC., a body corporate (hereinafter referred to as the "**Agent**")

OF THE SECOND PART

WHEREAS pursuant to an agency agreement dated December 22, 2003 (the "**Agency Agreement**") between the Corporation and the Agent, the Agent acted in connection with the Corporation's offering of flow-through special warrants in the capital of the Corporation (the "**Special Warrants**"), each convertible, for no additional consideration, into one common share in the capital of the Corporation ("**Common Share**");

AND WHEREAS the Corporation has granted to the Agent pursuant to the Agency Agreement a warrant (the "**Agent's Warrant**") to acquire, without payment of any consideration, the Agent's Option (as hereinafter defined), entitling the Agent to acquire, subject to adjustment, 117,650 common shares in the capital of the Corporation ("**Common Shares**"), at any time commencing on the Effective Date (as hereinafter defined) and continuing until one year following the Closing Date (the "**Time of Expiry**") on payment of \$1.70 per Common Share (the "**Exercise Price**");

AND WHEREAS the Agent has exercised or has been deemed to have exercised the Agent's Warrant and the parties hereto wish to evidence the issuance of the Agent's Option pursuant to such exercise;

NOW THEREFORE in consideration of the mutual covenants herein contained, the sufficiency and receipt of which are hereby acknowledged, the parties hereto agree as follows:

1. Capitalized Terms.

Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed thereto in the Agency Agreement.

2. Option to Purchase.

As consideration for the Agent's due exercise or deemed exercise of the Agent's Warrant, the Corporation hereby issues to the Agent, without payment of any further consideration, an irrevocable and non-assignable option (the "**Agent's Option**") to acquire 117,650 Common Shares, which Agent's Option is exercisable in whole or in part at any time during the Term (as hereinafter defined) on payment of the Exercise Price upon the terms and conditions herein contained.

3. Term of Option.

Notwithstanding any other provision of this Agreement, the Agent's Option shall be exercisable at any time during the period commencing on December 22, 2003 (the "**Effective Date**") and expiring at the Time of Expiry (the "**Term**").

4. Manner of Exercise of Option.

The Agent may exercise the Agent's Option to purchase on a cumulative basis, to the extent hereinafter provided, all or any part of the Agent's Option, and such right shall be a continuing and cumulative one during the Term until all of the Agent's Option has been exercised.

5. Notice of Exercise of Option and Payment.

The Agent's Option shall be exercised in whole or in part upon providing notice in writing to the Corporation addressed to the President of the Corporation at such place as the Corporation's executive office may then be located (the "**Notice**"), in substantially the form of the Election to Exercise appended hereto as Exhibit 1 or in such other form as may be acceptable to the Corporation, together with a certified cheque or bank draft representing the Exercise Price for the applicable number of Common Shares purchased. The "**Exercise Date**" shall be the date the Corporation receives the Notice and the Exercise Price for the total number of Common Shares to be purchased.

6. Right of a Shareholder.

As promptly as possible and in any event within three (3) Business Days after receipt of the Notice and payment in full of the Exercise Price for the total number of Common Shares to be purchased, the Corporation shall cause the Agent, or such person as may be designated by the Agent, to be recorded in its register of shareholders as holder of the number of fully paid, non-assessable Common Shares so purchased (the date upon which the Agent is so recorded as registered holder being referred to in this paragraph 6 as the "**Registry Date**"). The Agent shall have full rights as a shareholder with respect to Common Shares acquired pursuant to the Agent's Option on or after the Registry Date, and no adjustment shall be made for dividends or other rights for which the record date is prior to the Registry Date. The Corporation agrees to issue share certificates in respect of all Common Shares so purchased as soon as possible after the Registry Date, and in any event within ten (10) Business Days thereafter.

7. No Transfer of Option.

The Agent's Option shall not be assignable or transferable.

8. Adjustment in Common Shares

If and whenever during the Term:

- (a) the outstanding Common Shares are subdivided or are consolidated into a greater or lesser number of Common Shares, respectively;
- (b) the Common Shares are reclassified, exchanged for or converted into other shares, securities or property;
- (c) a stock dividend has been declared and paid on the Common Shares;
- (d) there has been an amalgamation, merger, consolidation or other reorganization affecting the Corporation (resulting in an exchange of all of the outstanding Common Shares for shares of another corporation); or
- (e) there has been a transfer of all or substantially all of the undertaking or assets of the Corporation to another Corporation or entity,

(any of such events being referred to in this paragraph 8 as a "**Change**"), then the Agent, in exercising its Agent's Options, whether in whole or in part, after the effective date of the Change shall be entitled to receive and shall accept and the Corporation shall deliver upon such exercise in accordance with this Agreement, in lieu of the number of Common Shares deliverable prior to the effective date of the Change, the aggregate number and kinds of Common Shares or other securities or amount of property which the Agent would have been entitled to as a result of the Change if, on the effective date thereof, it had been the registered holder of the number of Common

Shares it would have received had it exercised the Agent's Option or relevant portion hereof immediately before the effective date of the Change. The adjustments provided for in this paragraph 8 shall be cumulative. The necessary adjustments shall be made in the application of the provisions of this Agreement with respect to the rights and options of the Agent after any Change to the end that the provisions hereof shall thereafter correspondingly apply, as nearly as may reasonably be, in relation to any Common Shares or other securities or property to which the Agent is entitled on the exercise of the Agent's Option granted hereunder. The Corporation shall, as soon as practicable after becoming aware of any Change, notify the Agent thereof and set forth in a supplement to this Agreement approved by the board of directors of the Corporation the adjustment resulting from such Change. In the event that the Agent shall disagree with an adjustment, the Corporation's auditors at the sole expense of the Corporation shall determine the adjustment conclusively.

9. Covenants of the Corporation.

The Corporation hereby represents and covenants that:

- (a) all Common Shares that may be issued upon the exercise of the Agent's Option (assuming, in each case, receipt by the Corporation of the applicable Exercise Price therefor), upon issuance, be validly issued and fully paid and non-assessable shares and, in each case free from any and all taxes, liens and charges relating to the issuance thereof; and
- (b) at all times during the Term, the Corporation shall have authorized and reserved for issuance a sufficient number of Common Shares to provide for the exercise of the Agent's rights hereunder.

10. Inability to Deliver Common Shares.

If for any reason, other than the failure or default of the Agent, the Corporation is unable to issue and deliver the Common Shares or other securities as contemplated herein to the Agent upon the proper exercise of the Agent of the Agent's Option evidenced hereby, the Corporation will use its reasonable best efforts to obtain such orders, rulings or other relief that will enable the Corporation to issue and deliver the Common Shares or other securities as contemplated herein to the Agent.

11. Termination of Agent's Warrant.

Upon exercise or deemed exercise of the Agent's Warrant as contemplated by the Certificate representing the Agent's Warrant, the parties acknowledge that all rights under the Agent's Warrant will be terminated effective as of the date of grant of the Agent's Option.

12. Time of the Essence.

Time shall be of the essence of this Agreement.

13. Successors and Assigns.

This Agreement shall enure to the benefit of and be binding upon the Corporation, its successors and assigns, the Agent and, subject as hereinbefore provided, its permitted successors and assigns.

14. Governing Law.

This Agreement and the Agent's Option granted hereunder shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein.

IN WITNESS WHEREOF the parties hereto duly executed this Agreement as of the day, month and year first above written.

TWOCO PETROLEUMS LTD.

Per: _____

FIRST ASSOCIATES INVESTMENTS INC.

Per: _____

EXHIBIT 1

Election to Exercise Agent's Option

The undersigned hereby irrevocably elects to exercise the Agent's Option of Twoco Petroleums Ltd. set out below for the number of Common Shares (or other property or securities subject thereto) as set forth below:

- (a) Number of Common Shares to be Acquired: _____
- (b) Exercise Price: \$ _____
- (c) Aggregate Purchase Price [(a) multiplied by (b)]: \$ _____

and hereby tenders a certified cheque, bank draft or cash for such aggregate purchase price, and hereby directs that certificates) evidencing such Common Shares be registered as indicated below.

DATED this _____ day of _____, _____.

FIRST ASSOCIATES INVESTMENTS INC.

Per: _____
Name:
Title:

Direction as to Registration

Name of Registered Holder:

Address of Registered Holder:

APPENDIX "B"

ELECTION TO EXERCISE AGENT'S WARRANT

The undersigned hereby irrevocably elects to exercise the Agent's Warrant of Twoco Petroleums Ltd. set out below for the number of Agent's Option (or other property or securities subject thereto) as set forth below:

(d) Number of Agent's Warrant to be Exercised: _____

(e) Number of Agent's Option to be Acquired: _____

and directs that the Agent's Option be registered and a certificate therefor to be issued as directed below.

DATED this _____ day of _____, _____.

FIRST ASSOCIATES INVESTMENTS INC.

Per: _____

Direction as to Registration

Name of Registered Holder:

Address of Registered
Holder:
