

April 2, 2004

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

Attention: Mr. Wayne Malinowski

Dear Sirs:

Re: Public Offering of Units of Twoco Petroleums Ltd.

First Associates Investments Inc. (the "**Agent**") understands that Twoco Petroleums Ltd. (the "**Corporation**"), proposes to issue and sell a minimum of 1,765,000 units (the "**Units**") for aggregate proceeds of \$3,000,500 (the "**Minimum Offering**") and a maximum of 3,530,000 units for aggregate proceeds of \$6,001,000 (the "**Maximum Offering**"), each Unit consisting of one common share ("**Common Share**") and one-half of one share purchase warrant ("**Warrant**") of the Corporation. Each whole Warrant will entitle the holder thereof to purchase one Common Share at a price of \$1.95 at any time for a period of 12 months from the date of issuance.

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 Units for sale to the public, on a best efforts basis, in the Filing Jurisdictions (as herein defined) on the Closing Date (as herein defined) at the price of \$1.70 per Unit and the Corporation agrees to issue the Units so purchased in accordance with the terms and conditions of this agreement ("**Agreement**"); provided that the Agent shall not be under any obligation to purchase any of the Units. The Agent shall be entitled in connection with the offer and sale of the Units to retain as sub-agents other registered securities dealers. The fee payable to such sub-agents shall be for the account of the Agent.

In consideration of the agreement of the Agent to distribute the Units and of the services rendered and to be rendered by the Agent in connection therewith, including (i) assisting in the preparation of the Prospectuses (as herein defined) and the other documents relating to the distribution of the Units, (ii) forming and managing selling or other groups for the distribution of the Units, and (iii) effecting the distribution of the Units to the public, directly and through other registered dealers and brokers, the Corporation agrees to pay the Agent's Commission and issue the Agent's Compensation Option (as herein defined) to the Agent as provided herein.

1. Definitions

In this Agreement:

- (a) **“Agent’s Commission”** shall have the meaning ascribed thereto in paragraph 2 of this Agreement;
- (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 Compensation Option”** means a non-transferable option entitling the Agent to acquire that number of Common Shares equal to 10% of the number of Units sold pursuant to the Offering at an exercise price of \$1.70 per share for a period of twelve months from the date of issuance;
- (d) **“Applicable Securities Laws”** includes all applicable securities, corporate and other laws, rules, regulations, notices and policies in the Filing Jurisdictions;
- (e) **“ASC”** means the Alberta Securities Commission;
- (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) **“Closing Date”** means the date upon which the closing of the issuance and sale of the Units occurs as herein contemplated, or such other date as the Agent and the Corporation may agree in writing and shall not be later than the last day of the Offering Period;
- (h) **“Closing Time”** means 2:00 p.m. (Calgary time), or such other time, on the Closing Date, as the Agent and the Corporation may agree in writing;
- (i) **“Common Shares”** means common shares in the capital of the Corporation;
- (j) **“Corporation”** means Twoco Petroleums Ltd.;
- (k) **“Corporation’s Auditors”** means Deloitte & Touche LLP, chartered accountants, Calgary, Alberta;
- (l) **“Corporation’s counsel”** means Gowling Lafleur Henderson LLP, or such other legal counsel as the Corporation, with the consent of the Agent, may appoint;

- (m) “**Environmental Laws**” shall have the meaning ascribed thereto in subparagraph 8(b)(xxxiv)(A) of this Agreement;
- (n) “**Exchange**” means the TSX Venture Exchange Inc.;
- (o) “**Filing Jurisdictions**” means each of the provinces of British Columbia, Alberta and Ontario;
- (p) “**Financial Statements**” means the audited financial statements of the Corporation for the periods ended December 30, 2003 and December 30, 2002;
- (q) “**Indemnified Persons**” means the Agent, any agents of the Agent and the directors, officers and employees of the Agent;
- (r) “**Material Agreements**” means, each of the agreements and other documents and instruments listed under the heading “Material Contracts” in the Prospectus;
- (s) “**Maximum Offering**” shall have the meaning ascribed thereto in the first page of this Agreement;
- (t) “**Minimum Offering**” shall have the meaning ascribed thereto in the first page of this Agreement;
- (u) “**Offering**” means the offering of the Units at \$1.70 per Unit;
- (v) “**Offering Period**” means a period of 90 days after the date of the receipt of the Prospectus issued by the Securities Commissions or such later date as may be agreed to by the Corporation and the Agent and is consented to by persons or companies who subscribed within said 90 day period;
- (w) “**Preliminary Prospectus**” means the preliminary prospectus of the Corporation dated February 27, 2004 and any amendments thereto, in respect of the distribution of the Units and the Agent’s Compensation Option in the Filing Jurisdictions;
- (x) “**President’s List**” means insiders of the Corporation, related parties of insiders and certain other persons agreed to by the Corporation and the Agent who subscribe for up to a maximum of \$1,500,000 of the Units subscribed for and issued pursuant to this Agreement;
- (y) “**Prospectus**” means the (final) prospectus of the Corporation and any amendments thereto in respect of the distribution of the Units and the Agent’s Compensation Option;

- (z) “**Prospectuses**” means, collectively, the Preliminary Prospectus and the Prospectus;
- (aa) “**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 or any ancillary material, information, evidence, return, report, application, statement or document which may be filed by or on behalf of the Corporation with the Securities Commissions in compliance or intended compliance with the Applicable Securities Laws;
- (bb) “**Qualified Securities**” means collectively, the Common Shares comprising a portion of the Units, the Warrants comprising a portion of the Units and the Agent’s Compensation Option;
- (cc) “**Securities Commissions**” means the securities commissions or similar regulatory authorities in each of the Filing Jurisdictions;
- (dd) “**Selling Dealer Group**” means the dealers and brokers other than the Agent who participate in the offer and sale of the Units pursuant to this Agreement;
- (ee) “**subsidiary of the Corporation**” means a subsidiary in respect of the Corporation within the meaning of the *Business Corporations Act* (Alberta);
- (ff) “**Supplementary Material**” means, collectively, any amendment to the Prospectus, any amended or supplemental Prospectus or any ancillary material, information, evidence, return, report, application, statement or document which may be filed by or on behalf of the Corporation with the Securities Commissions in compliance or intended compliance with the Applicable Securities Laws;
- (gg) “**Tax Act**” means the *Income Tax Act* (Canada) together with any and all regulations promulgated thereunder, as amended from time to time;
- (hh) “**Trustee**” means CIBC Mellon Trust Company in its capacity as trustee under the Warrant Indenture;
- (ii) “**Underlying Shares**” means the Common Shares issuable upon exercise of the Warrants and the Common Shares issuable upon exercise of the Agent’s Compensation Option;
- (jj) “**Unit**” means a unit of the Corporation comprised of one Common Share and one-half Warrant;

- (kk) **“Warrant”** means a Common Share purchase warrant of the Corporation, each full Warrant entitling the holder thereof to purchase one Common Share at a price of \$1.95 for a period of twelve months from the date of issuance;
- (ll) **“Warrant Indenture”** means the warrant indenture to be dated as of the Closing Date between the Corporation and the Trustee, governing the terms and conditions of the Warrants; 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.

Schedule “A” - Form of Agent’s Compensation Option.

2. Agent’s Commission and Agent’s Compensation Option

In consideration for its services hereunder, the Corporation agrees to pay to the Agent a commission (the **“Agent’s Commission”**) at the Closing time as follows: (a) a cash commission equal to 7.5% of the aggregate gross proceeds raised under the Offering (excluding those proceeds raised under the Offering from persons on the President’s List); and (b) a cash commission equal to 4.5% of the aggregate gross proceeds raised under the Offering from persons on the President’s List.

The Agent’s Commission may, at the sole option of the Agent, be deducted from the aggregate gross proceeds of the sale of the Units and withheld for the account of the Agent. In the event that Canada Customs and Revenue Agency determines that Goods and Services Tax provided for in the *Excise Tax Act* (Canada) is payable on the Agent’s

Commission, the Corporation agrees to pay the amount of Goods and Services Tax forthwith upon the request of the Agent. The Corporation also agrees to pay the Agent's expenses as set forth in paragraph 12.

Additionally, the Corporation agrees to grant the Agent the Agent's Compensation Option. The form of the Agent's Compensation Option will be substantially in the form attached as Schedule "A".

3. Warrants

The Warrants will be duly and validly created and issued pursuant to the terms of the Warrant Indenture. Each whole Warrant shall entitle the holder thereof to acquire one Common Share commencing on the Closing Date at a cost of \$1.95 per Common Share expiring 12 months after issuance.

Any Warrants not exercised prior to 4:30 p.m. (Calgary time) 12 months after issuance shall expire and be of no force and effect.

The Warrant Indenture shall be in such form and contain such terms as are agreed to by the Corporation, the Trustee and the Agent.

4. Qualification for Sale

The Corporation shall:

- (a) not later than March 1, 2004, have:
 - (i) prepared and filed the Preliminary Prospectus and other documents required under the Applicable Securities Laws with the Securities Commissions and designated the ASC as the principal regulator; and
 - (ii) obtained a preliminary MRRS decision document from the ASC, evidencing that a receipt has been issued for the Preliminary Prospectus in each Filing Jurisdiction;
- (b) forthwith after any comments with respect to the Preliminary Prospectus have been received from the Securities Commissions, but not later than April 7, 2004 (or such later date as may be agreed to in writing by the Corporation and the Agent), have:
 - (i) prepared and filed the Prospectus and other documents required under the Applicable Securities Laws with the Securities Commissions; and

- (ii) obtained a final MRRS decision document from the ASC, evidencing that a receipt has been issued for the Prospectus in each Filing Jurisdiction, or otherwise obtained a receipt for the Prospectus from each of the Securities Commissions;

and otherwise fulfilled all legal requirements to enable the Units to be offered and sold to the public in each of the Filing Jurisdictions through the Agent or any other investment dealer or broker registered in the applicable Filing Jurisdiction and who complies with the relevant provisions of the Applicable Securities Laws;

- (c) until the completion of the distribution of the Units, promptly take all additional steps and proceedings that from time to time may be required under the Applicable Securities Laws in each Filing Jurisdiction to continue to qualify the Units for distribution or, in the event that the Units have, for any reason, ceased to so qualify, to again qualify the Units for distribution;
- (d) prior to the filing of the Prospectuses and, during the period of distribution of the Units, prior to the filing with any Securities Commissions of any Supplementary Material, have allowed the Agent and the Agent's counsel to participate fully in the preparation of, and to approve the form of, such documents and to have reviewed any documents incorporated by reference therein;
- (e) during the period from the date hereof until completion of the distribution of the Units, allow the Agent to conduct all due diligence which it may reasonably require in order to fulfil its obligations as agent and in order to enable the Agent responsibly to execute the certificates required to be executed by it in the Prospectuses or in any Supplementary Material; and
- (f) take or cause to be taken all such other steps and proceedings, including fulfilling all legal, regulatory and other requirements, as required under Applicable Securities Laws to qualify the Units for distribution to the public in the Filing Jurisdictions.

5. Delivery of Prospectus and Related Documents

The Corporation shall deliver or cause to be delivered without charge to the Agent and the Agent's counsel the documents set out below at the respective times indicated:

- (a) prior to or contemporaneously, as nearly as practicable, with the filing with the Securities Commissions of each of the Preliminary Prospectus

and the Prospectus, copies of the Preliminary Prospectus and the Prospectus, signed as required by the Applicable Securities Laws;

- (b) as soon as they are available, copies of any Supplementary Material, as required, signed as required by the Applicable Securities Laws;
- (c) prior to the filing of the Prospectus with the Securities Commissions, a "comfort letter" from the Corporation's auditors, dated the date of the Prospectus, addressed to the Agent and satisfactory in form and substance to the Agent and the Agent's counsel, to the effect that they have carried out certain procedures performed for the purposes of comparing certain specified financial information and percentages appearing in the Prospectus and the documents incorporated therein by reference with indicated amounts in the financial statements or accounting records of the Corporation and have found such information and percentages to be in agreement, which comfort letter shall be based on the Corporation's auditors review having a cut-off date of not more than two Business Days prior to the date of the Prospectus; and
- (d) opinions and comfort letters similar to the foregoing with respect to any Supplementary Material and any other relevant document at the time the same is presented to the Agent for its signature or, if the Agent's signature is not required, at the time the same is filed. All such letters shall be in form and substance acceptable to the Agent and the Agent's counsel, acting reasonably.

The deliveries referred to in subparagraphs 5(a) and (b) shall also constitute the Corporation's consent to the use by the Agent and other members of the Selling Dealer Group of the Prospectus and any Supplementary Material in connection with the offering and sale of the Units.

6. Commercial Copies

The Corporation shall, as soon as possible but in any event not later than noon (local time at the place of delivery) on the second Business Day following the date of the filing of the Prospectus, as the case may be, with the Securities Commissions and no later than noon (local time) on the second Business Day after the execution of any Supplementary Material in connection with the Prospectuses cause to be delivered to the Agent, without charge, commercial copies of the Prospectus or such Supplementary Material in such numbers and in such cities as the Agent may reasonably request by oral or written instructions to the Corporation or the printer thereof given no later than the time when the Corporation authorizes the printing of the commercial copies of such documents.

7. Material Change

The Corporation agrees:

- (a) that during the period from the date hereof until completion of the distribution of the Units, it will promptly inform the Agent, in writing, with full particulars of:
 - (i) any material change (actual, anticipated or threatened) in or affecting the business, operations, capital, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of operations of the Corporation;
 - (ii) any change in any material fact contained or referred to in the Preliminary Prospectus, the Prospectus or any Supplementary Material; and
 - (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, the Prospectus or any Supplementary Material untrue, false or misleading in any material respect;
 - (B) result in a misrepresentation in the Preliminary Prospectus, the Prospectus or any Supplementary Material; or
 - (C) result in the Preliminary Prospectus, the Prospectus or any Supplementary Material not complying in any material respect with the Applicable Securities Laws;

provided that if the Corporation is uncertain as to whether a material change, change, occurrence or event of the nature referred to in this paragraph 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 Agents as to whether the occurrence is of such nature.

- (b) that during the period from the date hereof until completion of the distribution of the Units, it will promptly inform the Agent, in writing, with 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 similar regulatory authority, the Exchange or 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; or

- (iii) the receipt by the Corporation of any communication from any 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 Units.
- (c) it will promptly comply to the reasonable satisfaction of the Agents and the Agent's counsel with Applicable Securities Laws with respect to any material change, change, occurrence or event of the nature referred to in subparagraphs 7(a) or (b) above and the Corporation will prepare and file promptly at the Agent's request any amendment to the Prospectus or Supplementary Material as may be required under Applicable Securities Laws; provided that the Corporation shall have allowed the Agent and the Agent's counsel to participate fully in the preparation of any Supplementary Material, and conduct all due diligence investigations which the Agent may reasonably require in order to fulfill its obligations as agent and in order to enable the Agent responsibly to execute the certificate required to be executed by it in, or in connection with, any Supplementary Material, such approval not to be unreasonably withheld and to be provided in a timely manner.
- (d) it will promptly deliver to the Agent and the Agent's counsel a copy of each Supplementary Material as filed with the Securities Commissions, and of opinions and letters with respect to each such Supplementary Material substantially similar to those referred to in paragraph 5 above.
- (e) that during the period from the date hereof until completion of the distribution of the Units, it will promptly provide to the Agent, for review by the Agent and the Agent's counsel, prior to filing or issuance:
- (i) any financial statement of the Corporation;
 - (ii) any proposed document, including without limitation any new annual information form, material change report, interim report, or information circular, intended to be filed as part of the Public Record; and
 - (iii) any press release of the Corporation.

8. Representations and Warranties of the Corporation

The Corporation agrees that:

- (a) each delivery of the Preliminary Prospectus, the Prospectus or any Supplementary Material pursuant to paragraph 5 above shall constitute a representation and warranty to the Agent by the Corporation (and the Corporation hereby acknowledges that the Agent is relying on such representations and warranties in entering into this Agreement) that:
 - (i) the Preliminary Prospectus, the Prospectus or any Supplementary Material, as applicable, as the case may be:
 - (A) are at the respective dates of such documents, true and correct in all material respects;
 - (B) contain no misrepresentation; and
 - (C) contain full, true and plain disclosure of all material facts relating to the Corporation and the Offering;

(other than any information or statement relating solely to the Agent and furnished to the Corporation by the Agent expressly for inclusion in the Preliminary Prospectus or Prospectus);
 - (ii) the Preliminary Prospectus, the Prospectus, or any Supplementary Material, as applicable, complies in all material respects with the Applicable Securities Laws; and
 - (iii) except as is disclosed in the Public Record, there has been no intervening material change (actual, proposed or prospective, whether financial or otherwise), from the date of the Preliminary Prospectus, the Prospectus and any Supplementary Material to the time of delivery thereof, in the business, operations, capital, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of operations of the Corporation.
- (b) in addition to the representations and warranties contained in subparagraph (a) hereof, it represents and warrants to the Agent and acknowledges that the Agent is relying upon such representations and warranties in entering into this Agreement, that:
 - (i) the Corporation has been duly incorporated and organized and is validly existing under the laws of the Province of Alberta 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 and administer its assets and properties;

- (ii) 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;
- (iii) the Corporation does not have any subsidiaries within the meaning of the *Business Corporations Act* (Alberta);
- (iv) the Corporation does not own any material amount of securities in any body corporate or have an ownership interest in any unincorporated entity;
- (v) the Corporation has full corporate power and authority to enter into this Agreement and the Warrant Indenture and the Agent's Compensation Option, and to perform its obligations set out herein and therein (including, without limitation, to issue the Common Shares comprising a portion of the Units, to issue the Common Shares upon the exercise of the Warrants and to issue the Common Shares upon the exercise of the Agent's Compensation Option), and this Agreement, the Agent's Compensation Option and the Warrant Indenture will on the Closing Date and delivered by the Corporation and this Agreement, the Agent's Compensation Option and the 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:
 - (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 indemnify and contribution hereunder may be limited under applicable law;
- (vi) at the Closing Date and thereafter, as the case may be:

- (A) the Common Shares to be issued on such date will be duly and validly created, issued, sold and delivered and will be issued as fully paid and non-assessable shares of the Corporation;
 - (B) the Warrants to be issued on such date will be duly and validly created, issued, sold and delivered; and
 - (C) the Underlying Shares will be duly and validly authorized for issuance upon the exercise of the Warrants or Agent's Compensation Option and will, upon such exercise in accordance with the Warrant Indenture, in the case of the Warrants, or the agreement constituting the Agent's Compensation Option in the case of the Agent's Compensation Option, be issued as fully paid and non-assessable Common Shares;
- (vii) 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 Agent's Compensation Option and the Warrant Indenture 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 or its properties or assets;
- (viii) (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 disclosed by the Prospectuses); 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 since December 30, 2003 except as disclosed in the Prospectuses; and since December 30, 2003 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 disclosed in the Prospectuses;

- (ix) except as disclosed in the Prospectuses, the Corporation is in compliance with all its obligations, covenants and terms contained in any banking or financing agreements which it is a party to;
- (x) other than the Agent, no person holds any right of first refusal over any securities offerings or financings by the Corporation which have not been waived in writing by such persons;
- (xi) 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 required to be disclosed by generally accepted accounting principles in Canada, and include all adjustments necessary for a fair presentation;
- (xii) the financial statements of Prelude Oil & Gas Inc. and Predator Resources Ltd. contained in the Prospectuses 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 positions and conditions of such companies as at the dates thereof and the results of the operations for the periods then ended and reflect all liabilities (absolute, accrued, contingent or otherwise) as at the dates thereof required to be disclosed by generally accepted accounting principles in Canada, and include all adjustments necessary for a fair presentation;
- (xiii) the pro-forma financial statements, including the notes thereto, of the Corporation contained in the Prospectuses have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied, have been prepared and presented in accordance with Applicable Securities Laws, and include all adjustments necessary for a fair presentation;

- (xiv) no authorization, approval or consent of any court or governmental authority or agency is required to be obtained by the Corporation in connection with the sale and delivery of the Units hereunder, except such as may be required under the Applicable Securities Laws and by the rules of the Exchange;
- (xv) except as disclosed in the Prospectuses there are no actions, suits, proceedings or inquiries pending or threatened against or affecting the Corporation 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 its assets or the Corporation's obligations hereunder or under the Material Agreements or which affects or may affect the distribution of the Units 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;
- (xvi) other than as disclosed in the Prospectuses, 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;
- (xvii) other than as disclosed in the Prospectuses, 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;
- (xviii) other than as disclosed in the Prospectuses, 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;
- (xix) other than as disclosed in the Prospectuses, 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;

- (xx) 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;
- (xxi) 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;
- (xxii) the Corporation does not have in place a shareholder rights protection plan;
- (xxiii) 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;
- (xxiv) other than as disclosed in the Prospectuses, 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;
- (xxv) 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 as disclosed in the Prospectuses;

- (xxvi) 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;
- (xxvii) the minute books of the Corporation are in all material respects true and correct and contain the minutes of all meetings and all the resolutions of directors and shareholders thereof;
- (xxviii) CIBC Mellon Trust Company, at its principal offices in the City of Calgary, in the Province of Alberta, is the duly appointed registrar and transfer agent for the Common Shares and the Trustee under the Warrant Indenture;
- (xxix) 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 in the Prospectuses, 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 in the Prospectuses;

- (xxx) each of the Material Agreements is a legal, valid and binding obligation of the respective parties thereto enforceable against such parties in accordance with its terms subject to the general qualifications that:
 - (A) enforceability may be limited by bankruptcy, insolvency or other laws affecting creditors' rights generally; and
 - (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 power of the courts in Canada having jurisdiction to stay proceedings before them and the execution of judgments;
 - (D) rights to indemnity and contribution hereunder may be limited under applicable law;
- (xxxii) the Corporation is in material compliance with the terms of such Material Agreements and the Corporation is not aware of any default or breach of a material nature under any of such Material Agreements by any other party thereto;
- (xxxiii) 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;
- (xxxiiii) 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;
- (xxxv) 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:
 - (A) 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**");

- (B) 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;
- (C) 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;
- (D) 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;
- (E) 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
- (F) 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;

- (xxxv) 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;
- (xxxvi) the Common Shares comprising a portion of the Units and the Underlying Shares have been conditionally approved for listing on the Exchange, subject to the fulfilment of the conditions set forth in the Exchange's conditional approval letter;
- (xxxvii) 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;
- (xxxviii) the Corporation has made available to AJM Petroleum Consultants ("AJM"), prior to the issuance of the report dated December 31, 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;
- (xxxix) although it does not warrant title:
 - (A) 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 Prospectuses 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

- (B) 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;
- (xl) except as disclosed in the Prospectuses or otherwise to the Agent, the Corporation is not a party to, or bound by:
- (A) any employment agreement, bonus, deferred compensation, pension, profit sharing, stock option, phantom stock plan, employee stock purchase plan, management, consulting or any other similar agreement or commitment;
 - (B) any agreement or commitment not entered into in the ordinary course of business which is currently material to the Corporation; and
 - (C) other than in the ordinary course of business, any agreement, arrangement with any person with whom the Corporation (or its present or former directors, officers and employees) does not deal at arm's length within the meaning of the Tax Act;
- (xli) 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;
- (xlii) the representations and warranties made by the Corporation in the Warrant Indenture are, or will be, true and correct as of the Closing Date; and
- (xliii) the Corporation shall use the net proceeds received by it from the sale of the Units pursuant to this Agreement in the manner specified in the Prospectus under the heading "Use of Proceeds".

9. Agent's Covenants

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

- (a) offer the Units for sale to the public, directly and through the Selling Dealer Group in compliance with Applicable Securities Laws and upon the terms and conditions set forth in the Prospectuses, any Supplementary Material and this Agreement. The Agent shall be obligated only to use its reasonable best efforts to find purchasers for the Units and obtain such subscriptions as are required in order to fulfill the minimum distribution requirements of the Exchange and shall be under no obligation to purchase any Units as principal. The Agent shall use its reasonable best efforts to complete and to cause the Selling Dealer Group to complete the distribution of all of the Units by the Closing Date or, if there is more than one Closing Date, the last of such Closing Dates. Notwithstanding the foregoing, the Agent will not be liable to the Corporation under this paragraph (a) with respect to a default by any member of the Selling Dealer Group under this paragraph (a) if the Agent is not itself also in default.
- (b) not solicit offers to purchase or sell the Units or otherwise conduct activities so as to require registration of the Units or the filing of a prospectus, registration statement or other notice or document with respect to the distribution of the Units under the laws of any jurisdiction other than the Filing Jurisdiction and will require each other Selling Dealer Group to agree with the Agent not to so solicit or sell. The Agent shall be entitled to assume that the Units are qualified for distribution in the Filing Jurisdictions where a receipt for the Prospectus has been obtained from the Securities Commissions following the filing of the Prospectus unless the Agent receives notice to the contrary from the Corporation or the Securities Commissions.
- (c) notify the Corporation when, in its opinion, it has ceased distribution of the Units and shall, as soon as practicable, provide the Corporation with a breakdown of the number of Units distributed in each of the Filing Jurisdictions where such breakdown is required for the purposes of calculating fees payable to the Securities Commissions.

10. Closing

The closing shall take place at the Closing Time at the offices of Gowling Lafleur Henderson LLP in Calgary, Alberta, or at such other time and place as may be agreed to in writing by the Corporation and the Agent. At the Closing Time, provided the Minimum Subscription is obtained, the Corporation shall deliver to the Agent:

- (a) a certificate or certificates representing the Common Shares and Warrants comprising the Units, registered in the name of the Agent or such other name as the Agent shall advise, against delivery to the Corporation by the Agent of payment by the Agent of the aggregate purchase price for such Units, payable by bank draft or certified cheque to Twoco Petroleum Ltd.;
- (b) subject to paragraph 2, a certified cheque or bank draft representing the Agent's Commissions;
- (c) a certified cheque or bank draft representing the reasonable fees and disbursements of the Agent's counsel; and
- (d) a certificate representing the Agent's Compensation Option registered in the name of the Agent.

The Corporation may not reject any proposed subscriber for Units unless the number of Units subscribed for exceeds the Maximum Offering to be sold under this Agreement, (in which case subscriptions shall, in consultation with the Agent, be rejected or reduced) or if the acceptance thereof would not be in compliance with Applicable Securities Laws or would be contrary to the provisions hereof.

11. Conditions Precedent

The following are conditions precedent to the obligations of the Agent hereunder which conditions the Corporation covenants to exercise all reasonable efforts to have fulfilled at or prior to the Closing Time and which conditions may be waived in writing in whole or in part by the Agent at any time. If any of the conditions are not met, the Agent may terminate its obligations under this Agreement without prejudice to any other remedies it may have. At the Closing Time:

- (a) the Minimum Offering shall have been obtained by the Agent;
- (b) the Agent shall have received a certificate of the Corporation, dated the Closing Date, signed on behalf of the Corporation by its President and Chief Executive Officer and Secretary or such other senior officers satisfactory to the Agent, certifying that:
 - (i) the Corporation has complied with and satisfied all covenants, terms and conditions of this Agreement on its part to be complied with or satisfied at or prior to the Closing Time;
 - (ii) the representations and warranties of the Corporation contained herein are true and correct as of the Closing Time with the same force and effect as if made at and as of the Closing Time;

- (iii) no event of nature referred to in Section 14(a), (b), (c) or (d) has occurred since the date of this Agreement or to the knowledge of such officers, is pending, contemplated or threatened;
- (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 and the consummation of the other transactions contemplated herein and therein; and
- (v) there has been no material adverse change (actual, anticipate, contemplated or threatened (of which such officers are aware), whether financial or otherwise) to such date in its business, affairs, operations, assets, liabilities (contingent or otherwise), capital or prospects of the Corporation from that disclosed in the Prospectuses or any Supplementary Material;

and the Agent shall have no knowledge to the contrary;

- (c) the Corporation shall have provided to the Agent evidence that the Common Shares comprising the Units and the Underlying Shares have been accepted for listing and will be posted for trading on the Exchange within 5 Business Days of the Closing Date or such other date as the Agent and Corporation may agree;
- (d) the Agent shall have received letters from the auditors of the Corporation updating the letter referred to in subparagraph 5(c) provided that such letters shall be based on a review by the auditors having a cut-off date not more than two Business Days prior to the Closing Date;
- (e) a legal opinion of the Corporation's Counsel, addressed to the Agent, and the Agent's counsel, in form and substance satisfactory to the Agent and its counsel, acting reasonably, with respect to such matters as the Agent may reasonably request relating to the offering of the Units including, without limitation, that:
 - (i) the Corporation has been incorporated and is subsisting under the laws of the jurisdiction of its incorporation and has all requisite corporate power and capacity to carry on its business as now conducted by it and to own its properties and assets and is qualified to carry on business under the laws of each jurisdiction in

which the nature of its business carried on by it in such jurisdiction makes such qualification necessary;

- (ii) the Corporation has full corporate power and capacity to issue the Common Shares, Warrants, Agent's Compensation Option and Underlying Shares and the distribution of such securities have been duly approved and authorized;
- (iii) the Common Shares issued on the Closing Date will be fully paid and non-assessable Common Shares in the capital of the Corporation;
- (iv) the Underlying Shares will be, when the Warrants and Agent's Compensation Option are exercised in accordance with their respective terms, fully paid and non-assessable Common Shares in the capital of the Corporation;
- (v) the Corporation has full corporate power and capacity to enter into this Agreement, the Warrant Indenture and an agreement pertaining to the Agent's Compensation Option, and to perform its obligations set out herein and therein, and this Agreement, the Warrant Indenture and an agreement pertaining to the Agent's Compensation Option have been 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 their respective terms subject to the usual qualifications including laws relating to creditors' rights generally and except that rights to indemnity and contribution may be limited by applicable law;
- (vi) the execution and delivery of this Agreement, the Warrant Indenture and an agreement pertaining to the Agent's Compensation Option and the fulfilment of the terms hereof and thereof by the Corporation, and the performance of and compliance with the terms of this Agreement, the Warrant Indenture and an agreement pertaining to the Agent's Compensation Option 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 and by-laws or resolutions of the directors and shareholders of the Corporation of which such counsel is aware, 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;

- (vii) the form and terms of the definitive certificates representing the Common Shares, the Warrants and the Agent's Compensation Option have been approved and adopted by the directors of the Corporation and comply with all legal requirements relating thereto;
- (viii) all Applicable Securities Laws of the Filing Jurisdictions and all corporate and other laws applicable to the Corporation in connection with the creation, offering issuance and sale of the Common Shares, the Warrants, the Agent's Compensation Option and the Underlying Shares have been complied with, assuming distribution by registrants who comply with the relevant provisions of Applicable Security Laws in the Filing Jurisdictions;
- (ix) the Corporation and the attributes of the Units conform in all material respects with the description thereof contained in the Prospectuses;
- (x) the Corporation has the necessary power and authority to execute and deliver the Prospectuses and all necessary action has been taken by the Corporation to authorize the execution and delivery by it of the Prospectuses and the filing thereof, as the case may be, in each of the Filing Jurisdictions in accordance with Applicable Securities Laws;
- (xi) the Common Shares comprising the Units and the Underlying Shares are conditionally listed and, upon notification to the Exchange of the issuance and sale thereof, will be posted for trading on the Exchange;
- (xii) CIBC Mellon Trust Company, at its principal office in Calgary has been duly appointed and the Trustee under the Warrant Indenture and the transfer agent and registrar for the Common Shares;

and additionally, relating to

- (xiii) the authorized and issued capital of the Corporation; and

- (xiv) the qualification of the distribution of the Units (including any securities comprising a portion of the Units or the Underlying Shares, as the case may be);

and as to all other legal matters, including compliance with the Applicable Security Laws, in any way connected with the creation, issuance, sale and delivery of the Units, the Common Shares comprising a portion of the Units, the Warrants, the Agent's Compensation Option and the Underlying Shares as the Agent's counsel may reasonably request.

It is understood that the Corporation's counsel may rely on the opinions of local counsel acceptable to them on certificates of officers of the Corporation and the auditors of the Corporation as to relevant matters of fact. It is further understood that the Agent's counsel may rely on the opinion of the Corporation's counsel as to matters which specifically relate to the Corporation and the Offering, including the creation, offering, issuance and sale of the Units, the Common Shares comprising a portion of the Units, the Warrants, the Agent's Compensation Option and the Underlying Shares; and

- (f) the Corporation shall have provided to the Agent such other certificates and documents as the Agent may request, acting reasonably.

12. Expenses

Whether or not the transactions contemplated herein shall be completed, all costs and expenses of or incidental to the distribution of the Units shall be borne by the Corporation, including, without limitation, all costs and expenses of or incidental to the distribution of the Units, and the preparation, filing and reproduction of the Preliminary Prospectus and the Prospectus and any Supplementary Material if necessary, 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 the transactions contemplated by this Agreement.

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 expenses of Agent's counsel. Total legal fees and expenses of Agent's counsel for the offering of the Units and the private placement completed by the Corporation on December 22, 2003 shall not exceed \$25,000 without prior written approval of the Corporation.

13. Waiver

The Agent may, without liability, 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.

14. Termination Events

The Agent may, without liability, 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 Units or any securities comprising the Units or the distribution of the Agent's Option 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 Units, or any securities comprising the Units, or any of them;
- (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 or the state of the financial markets is such that in the opinion of the Agent the Units 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 7(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 Units or any securities comprising the Units or any of them;

- (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 Units, or any securities comprising the Units, or any of them;
- (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 Warrant Indenture or the agreement pertaining to the Agent's Option; or
- (g) the state of the financial or commodity markets is such that the Units cannot, in the opinion of the Agent, be successfully marketed.

15. Continuation of Termination Right

The Agent may exercise any or all of the rights provided for in paragraphs 11, 13 or 14 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 Units 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 11, 13 or 14 if such waiver or estoppel is in writing and specifically waives or estops such exercise or reliance.

16. 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 12, 17, 18, 19 and 20. The rights of the Agent to terminate its obligations hereunder are in addition to, and without prejudice to, any other remedies it may have.

17. 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

Units, the termination of this Agreement and the distribution of the Units pursuant to the Prospectus and shall continue in full force and effect for the benefit of the Agent for a period of one year from the date hereof.

18. 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 Units), 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 Preliminary Prospectuses, the Prospectus, any Supplementary Material or in any other document or material filed or delivered in respect of the distribution of the Units (other than any information or statement relating solely to the Agent and furnished to the Corporation by the Agent expressly for inclusion in the Preliminary Prospectus, the Prospectus or any Supplementary Material) 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 Preliminary Prospectus, the Prospectus or any Supplementary Material) in the Preliminary Prospectus, the Prospectus or any Supplementary Material;
- (c) any prohibition or restriction of trading in the securities of the Corporation or any prohibition or restriction affecting the distribution of Units 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 18(b);
- (d) 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 of the Common Shares (including the Common Shares comprising a portion of the Units and the Underlying Shares) or distribution of the Units;

- (e) any breach of, default under or non-compliance by the Corporation with any requirements of the Applicable Securities Laws or the by-laws, rules or regulations of the Exchange in connection with the distribution of the Units or any representation, warranty, term or condition of this Agreement, or in any certificate or other document delivered by or on behalf of the Corporation hereunder or pursuant hereto; or
- (f) the exercise by any purchaser of the Units of any contractual or statutory right of rescission in connection with the purchase of the Units;

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 negligence, fraud or wilful misconduct of the Indemnified Party claiming indemnity, this indemnity shall not apply.

The rights of indemnity contained in this paragraph 18 shall not apply if the Corporation has complied with the provisions of paragraphs 4 and 5 and the person asserting any claim contemplated by this paragraph 18 was not provided with a copy of the Prospectus or any Supplementary Material 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 Prospectuses or Supplementary Material 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 documents and furnished to the Corporation by the Agent expressly for inclusion in such documents; or (ii) any failure by the Agent to provide to prospective purchasers of the Units 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.

19. Notice of Indemnity Claim

If any claim contemplated by paragraph 18 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 18, 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 18 and 19 and the Agent agrees to accept such trust and to hold and enforce such covenants on behalf of such persons.

20. 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 Units), 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 Units; 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, the Prospectus or any Supplementary Material, 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 18 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 18.

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 Units), 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 20 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 20 shall be limited to the amount of commission payable to the Agent pursuant to paragraph 2.

21. Subsequent Issuance or Offering of Securities

Except as contemplated herein, the Corporation agrees it 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) pursuant to the Corporation's stock option plan, (ii) pursuant to the issuance of Common Shares upon exercise of convertible debentures issued and outstanding as of December 30, 2003, (iii) pursuant to the issuance of Common Shares upon exercise of flow through special warrants issued and outstanding as of December 30, 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).

Provided that the Offering contemplated hereby is completed, the Agent is hereby granted the right based upon industry standard terms, to lead any future Canadian only offering or Canadian tranche of a United States brokered equity offering, for a period of twelve months from the Closing Date. The Corporation will notify the Agent of the terms of any further brokered equity financing that it requires or proposes to obtain during the 12 months following the Closing Date and the Agent will have the right to lead any such financing on the same terms. This right must be exercised by the Agent within 15 days following the receipt of notice from the Corporation by notifying the Corporation that it will provide such financing on the same terms set out in the notice. If the Agent fails to give notice within the 15 days that it will provide such financing upon the same terms set out in the notice, the Corporation will then be free to make other arrangements to obtain financing from another source on the same terms or

on terms no less favourable to the Corporation. This right will not terminate if, on receipt of any notice from the Corporation under this paragraph 21, the Agent fails to exercise the right.

22. 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 with confirmation of transmission 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 (provided there is a confirmation of transmission).

23. 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.

24. 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.

25. 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.

26. Time of the Essence

Time shall be of the essence of this Agreement.

27. 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.

28. 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.

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: (signed) "Randy Bergh"

Randy Bergh

ACCEPTED AND AGREED to as of
the 2nd day of April, 2004.

TWOCO PETROLEUMS LTD.

Per: (signed) "Wayne Malinowski"

Wayne Malinowski

SCHEDULE "A"

AGENT'S COMPENSATION OPTION AGREEMENT

THIS AGREEMENT is made as of the ● day of ●, 2004

BETWEEN:

TWOCO PETROLEUMS LTD., a corporation incorporated under the laws of the Province of Alberta, with an office in the City of Calgary, in the Province of Alberta

(the "**Corporation**")

AND

FIRST ASSOCIATES INVESTMENTS INC., a corporation incorporated under the laws of the Province of Ontario, with an office in the City of Calgary, in the Province of Alberta

(the "**Agent**")

WHEREAS the Corporation has agreed pursuant to an agency agreement between the Corporation and the Agent dated the ● day of April, 2004 (the "**Agency Agreement**"), to grant to the Agent an option to acquire, subject to adjustment, up to ● common shares in the capital of the Corporation ("**Common Shares**") as a part of its remuneration for services performed under the Agency Agreement;

NOW THEREFORE in consideration of the premises, mutual covenants and agreements herein and therein contained, this Agreement witnesses that and it is understood and agreed by and between the parties hereto as follows:

1. Grant of Option

Subject to the provisions hereinafter contained, the Corporation hereby grants to the Agent an irrevocable and non-transferable option (the "**Agent's Compensation Option**") to acquire up to ● Common Shares, which Agent's Compensation Option is exercisable in whole or in part at any time during the Term (as hereinafter defined), at an exercise price of \$1.70 per Common Share (the "**Exercise Price**").

2. Term of Option

Notwithstanding any other provision of this Agreement, the Agent's Compensation Option is exercisable at any time during the period commencing on

●, 2004 and expiring at 4:30 p.m. (Calgary time) on ●, 2005 (the “Term”), after which time all rights granted hereunder shall terminate.

3. Manner of Exercise

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

4. Notice of Exercise of Option and Payment

The Agent’s Compensation 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.

5. 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 5 as the “Registry Date”). The Agent shall have full rights as a shareholder with respect to Common Shares acquired pursuant to the Agent’s Compensation 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.

6. No Transfer of Option

The Agent’s Compensation Option shall not be assignable or transferable.

7. No Fractional Common Shares

No fractional Common Shares will be issued on exercise of this Agent's Compensation Option nor any compensation made for such fractional Common Shares, if any.

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 Compensation Option, 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 Compensation 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 Compensation 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 Compensation Option (assuming in each case receipt by the Corporation of the applicable Exercise Price therefor), upon issuance, shall 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 Compensation 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. Time of the Essence

Time shall be of the essence of this Agreement.

12. 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.

13. Governing Law

This Agreement and the Agent's Compensation 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 have hereunto executed and delivered this Agreement as of the day and year first above written.

TWOCO PETROLEUMS LTD.

Per: _____

FIRST ASSOCIATES INVESTMENTS INC.

Per: _____

EXHIBIT 1

Election to Exercise Agent's Compensation Option

The undersigned hereby irrevocably elects to exercise the Agent's Compensation Option of Twoco Petroleum 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 or bank draft 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: _____

