Underwriting Agreement

Effective as of February 15, 2011

Brownstone Energy Inc.
The Exchange Tower
Suite 2500, 130 King Street West
Toronto, Ontario
M5X 1A9

Attention: Mr. Sheldon Inwentash
Chairman and Chief Executive Officer

Dear Sir:

RE: Issue and Sale of Units

Jennings Capital Inc. ("**Jennings**") and Dundee Securities Ltd. (collectively with Jennings, the "**Co-Lead Underwriters**"), together with Clarus Securities Inc., Fraser Mackenzie Limited, PI Financial Corp. and All Group Financial Services Inc. (collectively, the "**Underwriters**") understand that Brownstone Energy Inc. (the "**Corporation**") proposes to issue and sell, on a private placement basis, up to 26,315,790 units of the Corporation (the "**Initial Units**") at a price of $0.95 per Initial Unit. Each Initial Unit shall consist of one common share of the Corporation (a "**Unit Share**") and one half of one common share purchase warrant (each whole warrant, a "**Warrant**"). Each Warrant shall entitle the holder thereof to purchase one Common Share (a "**Warrant Share**") at a price of $1.25 for a period of 18 months following the Closing Date (as defined herein). In addition, the Corporation shall have the right to accelerate the expiry date of the Warrants upon the dissemination of a press release (the "**Acceleration Notice**") any time following the date which is four months and one day following the Closing Date (as defined herein), provided that the closing price in respect of the Common Shares is at least $1.75 over a 20 consecutive day period following the date which is four months and one day following the Closing Date. If the Warrants are not exercised by the holder thereof within 30 days of the dissemination of the Acceleration Notice, the Warrants and all rights and privileges associated therewith shall terminate.

Subject to the terms and conditions hereof, the Underwriters agree to act as, and the Corporation appoints the Underwriters as, the sole and exclusive agents of the Corporation to offer the Initial Units for sale on the Closing Date in the Selling Jurisdictions on a private placement basis at a price of $0.95 per Initial Unit and to use their reasonable commercial efforts to secure subscriptions therefor, provided that, in the event that less than 26,315,790 Initial Units are sold by the Underwriters as agents, the Underwriters hereby severally and not jointly, agree to purchase the Initial Units from the Corporation in the respective percentages, and on the terms, provided for in Sections 8.1 and 8.2 and the Corporation hereby agrees to issue and sell to the Underwriters, subject to Section 8.1, at the Closing Time (as defined herein), at a price of $0.95 per Initial Unit, that number of Initial Units that, together with such Initial Units sold by the Underwriters as agents, aggregates 26,315,790 Initial Units.

In addition, subject to the terms and conditions hereof, the Corporation hereby grants to the Underwriters an option (the "**Underwriters' Option**"), exercisable in full or in part on or before

the Closing Date, to sell on a reasonable commercial efforts basis, up to an additional 3,947,368 Units (the "**Additional Units**") at a price of $0.95 per Additional Unit for additional aggregate gross proceeds of up to $3,749,999.60, provided that the Underwriters shall be under no obligation to purchase such Additional Units as principal. The Underwriters' Option may be exercised by the Underwriters in full or in part by the Co-Lead Underwriters delivering to the Corporation a written notice of exercise (the "**Underwriters' Notice**") not later than 9:00 a.m. (Toronto time) on the date immediately prior to the Closing Date, which notice shall specify the number of Additional Units to be sold by the Underwriters at the Closing Time. Upon Jennings furnishing the Underwriters' Notice, the Corporation will be committed to issue and sell in accordance with and subject to the provisions of this Agreement, the number of Additional Units specified in the Underwriters' Notice.

The Initial Units, together with any Additional Units that are issued upon exercise of the Underwriters' Option, are referred to herein as the "**Offered Units**". Any reference to Unit Shares, Warrants and Warrant Shares contained herein includes, where the context requires, Unit Shares, Warrants and Warrant Shares issuable pursuant to the exercise of the Underwriters' Option.

The Offered Units will be issued and sold pursuant to exemptions under Applicable Securities Laws (as defined herein) in the Selling Jurisdictions (as defined herein), in accordance with the provisions hereof. The Underwriters, acting through their U.S. Affiliates (as defined herein), may offer and sell the Offered Units in the United States to either Qualified Institutional Buyers (as defined herein) in accordance with Rule 144A (as defined herein), or to a U.S. Accredited Investors (as defined herein) in accordance with Rule 506 of Regulation D (as defined herein), and in each case in accordance with the provisions of Schedule "A" hereto. With respect to Offered Units to be sold in the United States to Qualified Institutional Buyers in compliance with Rule 144A under the U.S. Securities Act (as defined herein), the Underwriters, or their U.S. Affiliates, shall purchase such Offered Units from the Corporation for resale in compliance with Rule 144A. With respect to Offered Units to be sold in the United States to U.S. Accredited Investors in accordance with Rule 506 of Regulation D under the U.S. Securities Act, although this Agreement is presented on behalf of the Underwriters as purchasers of the Offered Units, all Offered Units sold to persons in the United States, if any, in accordance with Rule 506 of Regulation D under the U.S. Securities Act shall be sold directly to such persons as substituted purchasers ("**Substituted Purchasers**") by the Corporation in accordance with Schedule "A" hereto. To the extent that U.S. Accredited Investors purchase Offered Units as Substituted Purchasers on the Closing Date in accordance with Rule 506 of Regulation D under the U.S. Securities Act, the obligations of the Underwriters to purchase Offered Units shall be reduced by the number of Offered Units purchased from the Corporation by such Substituted Purchasers; provided, however, that the fee payable to the Underwriters pursuant to this Agreement shall be payable in respect of any purchases of Offered Units made in accordance with Rule 506 of Regulation D under the U.S. Securities Act by Substituted Purchasers.

The Underwriters shall be entitled in connection with the offering and sale of the Offered Units to retain as sub-agents other registered securities dealers and may receive (for delivery to the Corporation at the Closing Time) subscriptions for Offered Units from subscribers from other registered dealers. The fees payable to such sub-agents shall be for the account of the Underwriters.

In consideration for their services hereunder, the Underwriters shall be entitled to the fee provided for in Section 8.4, which fee shall be payable in accordance with Section 8.4 hereof.

For greater certainty, the services provided by the Underwriters in connection herewith will not be subject to Goods and Services Tax provided for in the *Excise Tax Act* (Canada) and taxable supplies will be incidental to the exempt financial services provided. However, in the event that any governmental authority determines that the Goods and Services Tax provided for in the *Excise Tax Act* (Canada) is exigible on the fees payable to the Underwriters as provided for in Section 8.4 hereof, the Corporation agrees to pay the amount of Goods and Services Tax forthwith upon the request of the Underwriters and hereby indemnifies and saves harmless the Underwriters in respect of such Goods and Services Tax and any penalties, fines, claims, costs, expenses or other losses in relation thereto.

ARTICLE 1
INTERPRETATION

The following are the further terms and conditions of this Agreement:

1.1 **Definitions**:

In this Agreement:

(a) "**Agreement**" means this Underwriting Agreement, including all exhibits, schedules and all amendments or restatements, as permitted;

(b) "**Applicable Securities Laws**" includes, without limitation, all applicable securities, corporate and other laws, rules, regulations, instruments, notices, blanket orders, decision documents, statements, circulars, procedures and policies including, without limitation, the policies and by-laws of the Exchange;

(c) "**Auditors**" means Ernst & Young LLP, in its capacity as auditors of the Corporation;

(d) "**Business Day**" means a day which is not Saturday, Sunday or a legal holiday in the City of Toronto, Ontario;

(e) "**Closing Date**" means March 9, 2011 or such other date as the Underwriters and the Corporation may agree;

(f) "**Closing Time**" means 10:00 a.m. (Toronto time) or such other time, on the Closing Date, as the Underwriters and the Corporation may agree;

(g) "**Common Shares**" means common shares in the capital of the Corporation as constituted on the date hereof;

(h) "**Computershare**" means Computershare Trust Company of Canada;

(i) "**Corporation's counsel**" means Cassels Brock & Blackwell LLP, or such other legal counsel as the Corporation, with the consent of the Underwriters, may appoint;

(j) "**Documents**" means, collectively:

(i) the management proxy circular of the Corporation dated October 25, 2010 relating to the annual general and special meeting of shareholders of the Corporation held on November 25, 2010;

(ii) the Financial Statements;

(iii) the material change reports of the Corporation subsequent to December 31, 2009; and

(iv) the press releases of the Corporation subsequent to December 31, 2009;

(k) "**Due Diligence Session**" has the meaning ascribed thereto in Section 3.1;

(l) "**Exchange**" means the TSX Venture Exchange;

(m) "**Financial Statements**" means, collectively, (i) the unaudited consolidated interim comparative financial statements of the Corporation as at and for the six months ended December 31, 2010 and 2009, and (ii) the audited consolidated comparative financial statements of the Corporation as at and for the years ended June 30, 2010 and 2009, together with the report of the Corporation's auditors thereon and the notes thereto including, in each instance, management's discussion and analysis of the Corporation's financial condition and results of operations related thereto;

(n) "**Loan**" means the loan in the principal amount of $3.0 million provided to the Corporation by 2256629 Ontario Ltd., pursuant to the Loan Documents;

(o) "**Loan Documents**" means the loan agreement dated October 7, 2010 between the Corporation and 2256629 Ontario Ltd. in respect of the Loan, and the ancillary documents referenced therein entered into by the parties thereto, copies of all of which have been provided to the Underwriters;

(p) "**Offering**" means the offering of the Offered Units contemplated herein;

(q) "**Public Record**" means all information filed by or on behalf of the Corporation with the Securities Commissions and accessible on the System for Electronic Document Analysis and Retrieval at www.sedar.com, including without limitation, the Documents and any information filed with any Securities Commission in compliance, or intended compliance, with any Applicable Securities Laws;

(r) "**Responses**" means the written responses delivered by the President, Chief Executive Officer, Chief Financial Officer and other directors and officers of the Corporation at the Due Diligence Session;

(s) "**Securities Commissions**" means, collectively, the securities commissions or similar regulatory authorities in each of the Selling Jurisdictions in Canada and "**Securities Commission**" means any of them;

(t) "**Selling Dealer Group**" means the dealers and brokers, other than the Underwriters and their U.S. Affiliates, who participate in the offer and sale of the Offered Units pursuant to this Agreement;

(u) "**Selling Jurisdictions**" means the provinces of British Columbia, Alberta and Ontario, and to the extent permitted by this Agreement, offshore and the United States;

(v) "**Subscriber**" means any person who executes a Subscription Agreement which is accepted by the Corporation;

(w) "**Subscription Agreements**" means the agreements to be entered into between the Subscribers and the Corporation providing for the purchase by the Subscribers of the Offered Units;

(x) "**subsidiary**" has the meaning ascribed thereto in the *Business Corporations Act* (Ontario);

(y) "**Swaps**" means any transaction which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option, forward sale, exchange traded futures contract or any other similar transaction (including any option with respect to any of these transactions or any combination of these transactions);

(z) "**Underwriters' Counsel**" means McCarthy Tétrault LLP, or such other legal counsel as the Underwriters, with the consent of the Corporation, may appoint;

(aa) "**United States**" means the United States of America, its territories and possessions, any State of the Common United States, and the District of Columbia;

(bb) "**U.S. Affiliates**" means a United States broker-dealer affiliate of an Underwriter, duly registered as a broker-dealer under the U.S. Exchange Act and all applicable state securities laws;

(cc) "**Warrant Indenture**" means the warrant indenture dated as of the Closing Date between the Corporation and Computershare, as warrant agent, providing for the creation and issuance of the Warrants; and

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

ARTICLE 2
OFFERING OF THE UNITS

2.1 The Corporation represents, warrants, covenants and agrees that the representations and warranties of the Corporation set forth in the Subscription Agreements are, or will be, true and correct as of the time they were or will be made and that the Corporation will fully comply with the covenants and agreements of the Corporation set forth therein.

2.2 The Corporation agrees that the Unit Shares will, at the Closing Time, be duly and validly created and, upon receipt of full payment therefor, issued as fully paid and non-assessable common shares of the Corporation and upon the due exercise of the Warrants in accordance with the provisions thereof, the Warrant Shares will be validly issued as fully paid and non assessable Common Shares.

2.3 The Underwriters covenant and agree that the subscription funds received from the issuance of the Offered Units will, subject to the terms and conditions of this Agreement and the Subscription Agreements, be released to the Corporation at the Closing Time.

2.4 The Underwriters agree to obtain and to deliver to the Corporation at or prior to the Closing Time duly completed Subscription Agreements and such other documents specifically referred to in the Subscription Agreements or as are required under Applicable Securities Laws and supplied to the Underwriters by the Corporation for completion in connection with the distribution of the Offered Units, all of which have been executed by each of the Subscribers of the Offered Units, including Underwriters purchasing pursuant to Section 8.4.

2.5 The Underwriters acknowledge and agree that the Corporation shall be entitled to allocate 15% of the Offered Units to certain Subscribers identified by the Corporation (the "**President's List Orders**").

ARTICLE 3
DUE DILIGENCE REVIEW

3.1 Prior to the Closing Time and during the period from the effective date hereof until the Closing Date, the Corporation shall allow the Underwriters the opportunity to conduct required due diligence and to obtain, acting reasonably, satisfactory results therefrom and in particular, the Corporation shall allow the Underwriters and Underwriters' Counsel to conduct all due diligence which the Underwriters may reasonably require in order to confirm the Public Record is accurate, complete and current in all material respects and to fulfill the Underwriters' obligations as registrants and, in this regard, without limiting the scope of the due diligence inquiries the Underwriters may conduct, the Corporation shall make available its senior management and shall use its reasonable commercial efforts to make available its Auditors and independent engineers, if any, to answer any questions which the Underwriters may have and to participate in one or more due diligence sessions to be held prior to the Closing Date (all of such sessions referred to as the "**Due Diligence Session**"). At least 48 hours prior to the Due Diligence Session, the Underwriters shall distribute a list of written questions to be answered in advance of such Due Diligence Session and the Corporation shall provide written responses to such questions and shall use its reasonable commercial efforts to have its Auditors and independent engineers provide written responses to such questions in advance of the Due Diligence Session.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES

4.1 The Corporation represents and warrants to the Underwriters and acknowledges that the Underwriters are relying upon such representations and warranties, that:

(a) the Corporation and each of its subsidiaries have been duly incorporated and organized and is validly subsisting under the laws of the jurisdiction of its incorporation and has all requisite corporate capacity, authority and power to carry on its business, as now conducted and as presently proposed to be conducted by it, and to own, lease and operate its properties and assets;

(b) other than Brownstone Ventures (U.S.) Inc., 2121197 Ontario Ltd., Brownstone Comercializadora de Petrolio Ltda., Brownstone Ventures (Barbados) Inc. and

Brownbarb (Israel) Inc., the Corporation has no subsidiaries and is not affiliated with, nor is it a holding corporation of any other body corporate nor is the Corporation a partner in any partnership;

(c) the Corporation is the registered and beneficial owner of 100% of the outstanding shares of Brownstone Ventures (U.S.) Inc., 2121197 Ontario Ltd., Brownstone Comercializadora de Petrolio Ltda. and Brownstone Ventures (Barbados) Inc. and Brownstone Ventures (Barbados) Inc. is the registered and beneficial owner of 100% of the outstanding shares of Brownbarb (Israel) Inc. and no person, firm, corporation or other entity holds any securities convertible or exchangeable into securities of any subsidiaries of the Corporation or now has any agreement, warrant, option, right or privilege (whether pre-emptive or contractual) being or capable of becoming an agreement for the purchase, subscription or issuance of any unissued shares, securities (including convertible securities) or warrants of any of the subsidiaries of the Corporation;

(d) of the jurisdictions in which the Corporation currently holds oil and gas interests, the only jurisdictions in which the Corporation carries on a material portion of its business, or proposes to carry on a material portion of its business in the foreseeable future, are Canada, Colombia and Israel;

(e) the Corporation and each of its subsidiaries 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 and each of its subsidiaries of each jurisdiction in which the Corporation and each of its subsidiaries carries on business and the Corporation and each of its subsidiaries holds all material licences, registrations and qualifications in all jurisdictions in which the Corporation and each of its subsidiaries carries on business which are necessary or desirable to carry on the business of the Corporation and each of its subsidiaries, as now conducted and as presently proposed to be conducted except where the failure to so conduct its business or to hold such licences, registrations or qualifications would not have a material adverse effect on the Corporation and its subsidiaries (taken as a whole) and all such licenses, registrations and 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 and its subsidiaries (taken as a whole) as now conducted or as presently proposed to be conducted;

(f) the Corporation has full corporate power and authority to issue the Offered Units and, upon receipt of full payment therefor at the Closing Date, the Offered Units will be duly and validly authorized and the Unit Shares will be validly issued as fully paid and non assessable Common Shares, and upon the due exercise of the Warrants in accordance with the provisions thereof, the Warrant Shares will be validly issued as fully paid and non assessable Common Shares;

(g) upon the due exercise of the Warrants in accordance with the provisions thereof, the Warrant Shares shall have the attributes corresponding in all material respects to the

description thereof set forth in this Agreement, the Subscription Agreements and the Warrant Indenture;

(h) neither the Corporation nor any of its subsidiaries is in default or breach of, and the execution and delivery of, and the performance of and compliance with the terms of this Agreement, the Subscription Agreements or the Warrant Indenture or any of the transactions contemplated hereby or thereby by the Corporation do not and will not result in any 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 constating documents or resolutions of the directors or shareholders of the Corporation or any of its subsidiaries, or any mortgage, note, indenture, contract, agreement (written or oral), instrument, lease or other document to which the Corporation or any of its subsidiaries is a party or by which it is bound on the Closing Date, or any judgment, decree, order, statute, rule or regulation applicable to the Corporation or any of its subsidiaries, which default or breach might reasonably be expected to have a material adverse affect on the business, operations, capital or condition (financial or otherwise) or property or assets of the Corporation and its subsidiaries (taken as a whole) or would impair the ability of the Corporation to consummate the transactions contemplated hereby or thereby or to duly observe and perform any of its covenants or obligations contained in this Agreement, the Subscription Agreements or the Warrant Indenture;

(i) the Corporation has full corporate power and authority to enter into this Agreement, the Subscription Agreements and the Warrant Indenture and to perform its obligations set out herein and therein, and this Agreement, the Subscription Agreements and the Warrant Indenture will be at the Closing Time duly authorized, executed and delivered by the Corporation, and this Agreement, the Subscription Agreements and the Warrant Indenture are a legal, valid and binding obligation of the Corporation enforceable against the Corporation in accordance with its terms, subject to the general qualifications that:

    (i) enforceability may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting creditors' rights;

    (ii) equitable remedies, including the remedies of specific performance and injunctive relief, are available only in the discretion of the applicable court;

    (iii) the equitable or statutory powers of the courts in Canada to stay proceedings before them and the execution of judgments;

    (iv) rights to indemnity, contribution and waiver hereunder may be limited or unavailable under applicable law;

    (v) the applicable laws regarding limitations of actions;

    (vi) the enforceability of provisions which purport to sever any provision which is prohibited or unenforceable under applicable law without affecting the enforceability or validity of the remainder of such document would be determined only in the discretion of the court;

(vii) the enforceability of the provisions exculpating a party from liability or duty otherwise owed by it to another and certain remedial terms and waivers of equitable defences provided for in such agreement or other document may be limited under applicable law;

(viii) the requirement of a court that the discretionary powers expressed to be conferred on any party to such agreement, indenture or other document be exercised reasonably and in good faith notwithstanding any provisions to the contrary and the possibility that such court may decline to accept as conclusive factual or legal determinations described as conclusive therein; and

(ix) the fact that costs of and incidental to all proceedings authorized to be taken in court are in the discretion of the court and that the court has full power to determine by whom and to what extent such costs shall be paid;

(j) there has not been any reportable event (within the meaning of Section 4.11 of National Instrument 51-102 – *Continuous Disclosure Obligations*) with the Auditors;

(k) there has not been any material change in the assets, liabilities or obligations (absolute, contingent or otherwise) of the Corporation on a consolidated basis from the position set forth in the Financial Statements and there has not been any adverse material change in the business, operations, capital or condition (financial or otherwise) or results of the operations of the Corporation on a consolidated basis since December 31, 2010; and since that date, other than as a result of changes in commodity prices, there have been no material facts, transactions, events or occurrences which 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 on a consolidated basis which have not been disclosed in the Public Record;

(l) the Financial Statements contain no misrepresentation and fairly present, in accordance with generally accepted accounting principles in Canada, consistently applied, the financial position and condition of the Corporation on a consolidated basis at the dates thereof and the results of the operations of the Corporation on a consolidated basis for the periods then ended and reflect all assets, liabilities and obligations (absolute, accrued, contingent or otherwise) of the Corporation on a consolidated basis as at the dates thereof which are required to be disclosed in accordance with generally accepted accounting principles;

(m) the books of account and other records of the Corporation and its subsidiaries, whether of a financial or accounting nature or otherwise, have been maintained in accordance with prudent business practices;

(n) there are no actions, suits, proceedings or inquiries pending, nor to the Corporation's information and belief, after due inquiry, contemplated or threatened against or affecting the Corporation or any of its subsidiaries, at law or in equity or before or by any federal, provincial, municipal or other governmental department, commission, board, bureau, agency or instrumentality which in any way materially adversely affects, or may in any way materially adversely affect, the assets, properties, business, operations or condition (financial or otherwise) of the Corporation or any of its subsidiaries or which affects or

may affect the distribution of the Offered Units and the Corporation is not aware of any existing ground on which such action, proceeding or inquiry might be commenced with any reasonable likelihood of success;

(o) except as disclosed in the Public Record, 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 by-laws of the Corporation and applicable law and other rights of indemnification granted under registrar and transfer agency agreements, agency or underwriting agreements, confidentiality agreements, to the Corporation's bankers, to subscribers of flow-through shares or pursuant to operating or similar agreements in the ordinary course of business) or any other like commitment of the obligations, liabilities (contingent or otherwise) or indebtedness of any other person;

(p) the Corporation is not a party to or bound by or, to the Corporation's knowledge, affected by any commitment, agreement or document containing any covenant which expressly limits the freedom of the Corporation to compete in any line of business, transfer or move any of its assets or operations or which materially adversely affects the business practices, operations or condition of the Corporation on a consolidated basis;

(q) 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;

(r) the information and statements set forth in the Public Record as at the date hereof, as they relate to the Corporation or any of its subsidiaries, are true, correct, and complete and do not contain any misrepresentation, as of the respective dates of such information or statements, and no material change has occurred in relation to the Corporation or any of its subsidiaries which is not disclosed in the Public Record;

(s) the authorized capital of the Corporation consists of an unlimited number of Common Shares, of which, as at February 15, 2011, 91,168,239 Common Shares are outstanding as validly issued and fully paid and non-assessable shares of the Corporation;

(t) other than: (i) options to purchase an aggregate of 8,548,400 Common Shares held by directors, officers, employees and consultants of the Corporation; and (ii) common share purchase warrants to purchase an aggregate of 16,790,488 Common Shares as at February 15, 2011, no person, firm, corporation or other entity holds any securities convertible or exchangeable into securities of the Corporation or now has any agreement, warrant, option, right or privilege (whether pre-emptive or contractual) being or capable of becoming an agreement for the purchase, subscription or issuance of any unissued shares, securities (including convertible securities) or warrants of the Corporation;

(u) except as disclosed in the Public Record, neither the Corporation nor any of its subsidiaries have incurred, assumed or suffered any liability (absolute, accrued, contingent or otherwise) or entered into any transaction which is or may reasonably be expected to be material to the Corporation or any of its subsidiaries which are not in the ordinary course of business;

(v) the Corporation's joint venture partner, Dejour Enterprises Ltd., has made available to Gustavson Associates LLC ("**Gustavson**") prior to the issuance of its report dated August 10, 2010 and effective June 30, 2010 (the "**Gustavson Report**"), for the purposes of preparing the Gustavson Report, all information requested by Gustavson which information, to the Corporation's knowledge, did not contain any material misrepresentation at the time such information was provided. The Corporation has no knowledge of a material adverse change in any information provided to Gustavson since the date that such information was so provided. The Corporation believes that the Gustavson Report complies with the requirements of National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* and believes that the Gustavson Report reasonably presents the quantity and pre-tax present worth values of estimated oil and gas reserves attributable to the properties evaluated in the Gustavson Report as at the effective date thereof based upon information available at the time such reserves information was prepared, and the assumptions as to commodity prices and costs contained therein and the Corporation believes that at the date of such report it did not overstate the aggregate quantity of such reserves;

(w) the material properties and assets of the Corporation and each of its subsidiaries are free and clear of all mortgages, pledges, liens, charges and encumbrances, other than those encumbrances that are standard in the international oil and gas industry, except pursuant to the Loan Documents, or which do not and will not have a material adverse effect on the ownership or operation of assets and properties of the Corporation or any of its subsidiaries ("**Permitted Encumbrances**"), and other than Permitted Encumbrances, neither the Corporation nor any of its subsidiaries has taken any action, refrained from taking any action or permitted any action to be taken whereby any person has acquired or may acquire an interest in or to the material properties or assets of the Corporation or any of its subsidiaries, nor has the Corporation or any of its subsidiaries taken any action, refrained from taking any action or permitted any action to be taken that may adversely affect or defeat title to any of the material properties or assets of the Corporations or any of its subsidiaries;

(x) although it does not warrant title, 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 to the best of its knowledge, information and belief, after due inquiry, free and clear of adverse claims created by, through or under the Corporation, except those arising in the ordinary course of business, 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 except where the failure to so hold the Interest would not have a material adverse effect upon the Corporation and its subsidiaries (taken as a whole);

(y) the Corporation is not aware of any defects, failures or impairments in title of the Corporation or any of its subsidiaries to the crude oil, natural gas liquids and natural gas properties, whether or not an action, suit proceeding or inquiry is pending or threatened or whether or not discovered by any third party, which in the aggregate could have a material adverse effect on: (a) the quantity and pre-tax present worth values of crude oil, natural gas liquids and natural gas reserves or resources of the Corporation or any of its

subsidiaries; (b) the production volumes of the Corporation or any of its subsidiaries; or (c) the cash flow of the Corporation or any of its subsidiaries;

(z) other than employment contracts between each of the Corporation and the Chief Executive Officer, Chief Financial Officer and President of the Corporation, copies of which have been provided to the Underwriters, neither the Corporation nor any of its subsidiaries are a party to any material contracts of employment which may not be terminated on one month's notice or which provide for payments occurring on a change of control of the Corporation;

(aa) the Corporation does not have in place a shareholder rights protection plan;

(bb) none of the directors, officers or employees of the Corporation, any person who owns, directly or indirectly, more than 10% of any class of securities of the Corporation, or any associate or affiliate (each as defined in the *Securities Act* (Ontario)) of any of the foregoing, had or has any material interest, direct or indirect, in any material transaction or any proposed material transaction with the Corporation which, as the case may be, materially affects, is material to or will materially affect the Corporation;

(cc) the definitive form of certificates for the Common Shares have been, and the definitive form of certificates for the Warrants will on the Closing Date be, duly approved and adopted by the Corporation and comply with all legal requirements relating thereto;

(dd) the Corporation and each of its subsidiaries has duly and on a timely basis filed all tax returns required to be filed by it and 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 or any of its subsidiaries and, to the best of the Corporation's knowledge, after due inquiry, there are no actions, suits, proceedings, investigations or claims threatened or pending against the Corporation or any of its subsidiaries 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;

(ee) the Corporation has established reserves that are adequate for the payment of all taxes not yet due and payable and there are no liens, mortgages, charges, pledges, encumbrances or other security interests for taxes on the assets or properties of any of the Corporation or its subsidiaries, except for taxes not yet due;

(ff) all filings made by the Corporation and each of its subsidiaries under which the Corporation or any of its subsidiaries has received or is entitled to government incentives have been made in accordance, in all material respects, with all applicable legislation and contain no misrepresentations of material fact or omit to state any material fact which could cause any amount previously paid to the Corporation or any of its subsidiaries or previously accrued on the accounts thereof to be recovered or disallowed;

(gg) as at the date hereof, the Corporation is not aware of any material contingent tax liability of the Corporation or any grounds which will prompt a reassessment;

(hh) the issued and outstanding Common Shares are listed and posted for trading on the Exchange, and the Corporation is in compliance with the by-laws, rules and regulations of the Exchange in all material respects;

(ii) the minute books of the Corporation and each of its subsidiaries contain true and correct copies of all constating documents of the Corporation and each of its subsidiaries and contain copies of the minutes of all meetings and all the resolutions of directors, shareholders and partners, as the case may be, thereof as at the date hereof;

(jj) the Corporation is a "reporting issuer" or equivalent status in the Provinces of Alberta, British Columbia, Nova Scotia, Ontario, Quebec and Saskatchewan within the meaning of the Applicable Securities Laws in such provinces and is not in material default of any requirement in relation thereto;

(kk) Computershare, at its principal office in the City of Toronto, Ontario, is the duly appointed registrar and transfer agent of the Corporation with respect to its Common Shares;

(ll) any and all operations of the Corporation and each of its subsidiaries, 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 and its subsidiaries, have been conducted in accordance with good oil and gas industry practice and in material compliance with applicable laws, rules, regulations, orders and directions of government and other competent authorities except where the failure to so conduct the operations would not have a material adverse effect on the Corporation and its subsidiaries (taken as a whole);

(mm) except as otherwise provided for in this Agreement or disclosed in writing to the Underwriters, the Corporation has not incurred any obligation or liability, contingent or otherwise, for brokerage fees, finder's fees, agent's commission or other similar forms of compensation with respect to the transactions contemplated herein;

(nn) no officer, director, employee or any other person not dealing at arm's length with the Corporation or any of its subsidiaries or any "associate" or "affiliate" (as such terms are defined in the *Securities Act* (Ontario)) 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 properties or assets of the Corporation or any of its subsidiaries or any revenue or rights attributed thereto;

(oo) the Corporation is insured against such losses and risks and in such amounts as are prudent and customary in the businesses in which it is engaged; all policies of insurance insuring the Corporation or its businesses, assets, employees, officers and directors are in full force and effect, except where the failure to be in full force and effect would not have a material adverse effect on the business, operations, capital or condition (financial or otherwise) of the Corporation and its subsidiaries or their assets in each case taken as a whole;

(pp) 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 and its subsidiaries as a whole, each of the Corporation and its subsidiaries:

(i) is not in violation of any applicable federal, provincial, municipal or local laws, regulations, orders, government decrees or ordinances with respect to environmental, health or safety matters (collectively, "**Environmental Laws**");

(ii) has operated its business at all times and has received, handled, used, stored, treated, shipped and disposed of all contaminants without violation of Environmental Laws;

(iii) have had no spills, releases, deposits or discharges of hazardous or toxic substances, contaminants or wastes into the earth, air or into any body of water or any municipal or other sewer or drain water systems by the Corporation that have not been remedied;

(iv) has not been subject to any orders, directions or notices that have been issued and remain outstanding pursuant to any Environmental Laws relating to the business or assets of the Corporation or any of its subsidiaries;

(v) 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;

(vi) 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, neither the Corporation nor any of its subsidiaries has 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 limitations or conditions, revoked, withdrawn or terminated; and

(vii) (including, if applicable, any predecessor companies thereof) have not received any notice of, or been prosecuted for an offence alleging, material non-compliance with any Environmental Laws, and neither the Corporation nor any of its subsidiaries (including, if applicable, any predecessor companies) has settled any allegation of material non-compliance short of prosecution;

(qq) other than this Agreement, the Warrant Indenture or the Loan Documents, there are no material contracts or agreements which contain, create or may create any material obligation to the Corporation or any of its subsidiaries or from which they derive or could derive any material benefit or which are required by the Corporation or any of its subsidiaries to carry on its business as now conducted by it or as is now proposed to be carried on by it other than contracts entered into in the ordinary course. For the purposes of this representation and warranty, a contract that provides for expenditures

by the Corporation or any of its subsidiaries for an aggregate of more than $100,000 during the next 12 month period, other than in the ordinary course of business, shall be deemed to give rise to a material obligation, and a contract pursuant to which the Corporation or any of its subsidiaries can derive revenue of more than $100,000 during the next 12 month period, other than in the ordinary course, shall be deemed to give rise to a material benefit;

(rr) the Corporation currently has no Swaps outstanding;

(ss) there is no restriction upon or impediment to the declaration of dividends by the directors of the Corporation or payment of dividends by the Corporation to the holders of the Common Shares in the constating documents of the Corporation, or in any agreement, mortgage, note, debenture, indenture or other instrument or document to which the Corporation is a party;

(tt) neither the Corporation nor, to its knowledge, any 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;

(uu) none of the Securities Commissions, the Exchange nor any other securities commission, stock exchange, or similar regulatory authority has issued any order preventing or suspending trading of 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 material requirement of Applicable Securities Laws;

(vv) to the knowledge of the Corporation, no insider of the Corporation has a present intention to sell any securities of the Corporation held by it, other than transfers by an insider to affiliates of such insider, or transfers effected for the purposes of estate planning and internal reorganizations of holding companies of the insider;

(ww) at the Closing Date, the Unit Shares and Warrants will be duly and validly created, authorized, allotted and reserved for issuance and, in the case of the Warrant Shares, upon exercise of the Warrants in accordance with the terms of the Warrant Indenture, respectively, will be issued as fully paid and non-assessable Common Shares and Warrants in the capital of the Corporation, respectively;

(xx) the Corporation has taken or will take prior to the Closing Date all such steps as may be necessary to comply with such requirements of Applicable Securities Laws such that the Offered Units may, in accordance with Applicable Securities Laws, be offered for sale and sold on a private placement basis to the public in the Selling Jurisdictions through the Underwriters or any other investment dealers or brokers registered in the applicable Selling Jurisdictions and complying with Applicable Securities Laws by way of the exemptions to the prospectus requirements;

(yy) except as otherwise disclosed in writing to the Underwriters, the Corporation is in material compliance with the filing and certification requirements of each of National Instrument 51-102 – *Continuous Disclosure Obligations* and National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*; and

(zz) the Responses shall be true in all material respects as at the time such responses are given and such Responses taken as a whole shall not omit any fact or information

necessary to make any of the responses not misleading in light of the circumstances in which such Responses were made. Where the Responses reflect the opinion or view of the Corporation or its officers (including, Responses or portions of such Responses, which are forward looking or otherwise relate to projections, forecasts or estimates of future performance or results (operating, financial or otherwise)) ("**Forward-looking Statements**"), such opinions or views are subject to the qualifications and provisions set forth in the Responses and will be honestly held and believed to be reasonable at the time they are given; provided however, it shall not constitute a breach of this paragraph solely if the actual results vary or differ from those contained in Forward-looking Statements.

4.2 The Underwriters, severally and not jointly, covenant and agree with the Corporation that they will:

(a) conduct their activities in connection with the proposed offer and sale of the Offered Units in compliance with this Agreement and all Applicable Securities Laws in the Selling Jurisdictions and cause a similar covenant to be contained in any agreement entered into with each member of any Selling Dealer Group established in connection with the distribution of the Offered Units;

(b) not solicit offers or subscriptions for Offered Units, trade in the Offered Units or otherwise do any act in furtherance of a trade of the Offered Units outside of the Selling Jurisdictions except in any other jurisdiction as may be agreed to by the Corporation and in compliance with the applicable laws thereof and provided that the Underwriters may so solicit, trade or act within such jurisdiction only if such solicitation, trade or act is in compliance with Applicable Securities Laws in such jurisdiction and does not: (i) obligate the Corporation to take any action to qualify or register any of its securities or any trade of any of its securities (including the distribution of the Offered Units, the Common Shares, the Warrant Shares); (ii) obligate the Corporation to establish or maintain any office or director or officer in such jurisdiction; or (iii) subject the Corporation to any reporting or other requirement in such jurisdiction;

(c) obtain from each Subscriber an executed Subscription Agreement and all applicable undertakings, questionnaires and other forms required under Applicable Securities Laws of the Selling Jurisdictions or requirements of the Exchange and supplied to the Underwriters by the Corporation for completion in connection with the distribution of the Offered Units; and

(d) not advertise the proposed offering or sale of the Offered Units in printed media of general and regular paid circulation (or other printed public notice), radio, television or telecommunications, including electronic display, nor provide or make available to prospective purchasers of Offered Units any document or material which would constitute or require the Corporation to prepare an offering memorandum, registration statement or prospectus as defined under Applicable Securities Laws in the Selling Jurisdictions.

ARTICLE 5
COVENANTS

5.1 The Corporation further covenants and agrees as follows:

(a) it will use its reasonable commercial efforts to obtain, prior to the Closing Time, all necessary approvals of the Exchange required for the issuance of the Offered Units and the listing and posting of the Unit Shares and the Warrant Shares for trading on the Exchange and shall comply with all requirements of the Exchange including the filing of all necessary documentation in accordance with the requirements of the Exchange;

(b) during the period commencing with the date hereof and ending on the completion of the distribution of the Offered Units by the Corporation, it will promptly provide to the Underwriters, for review by the Underwriters and the Underwriters' Counsel, prior to filing or issuance of the same, any proposed public disclosure document, including without limitation, any financial statements of the Corporation, report to shareholders, information circular or any press release or material change report, subject to the Corporation's obligations under Applicable Securities Laws to make timely disclosure of material information, and the Underwriters agree to keep such information confidential until it is disseminated into the marketplace, and any press release issued by the Corporation concerning the Offering shall be marked, at the top of the press release, as follows: "NOT FOR DISTRIBUTION TO U.S. NEWSWIRE SERVICES OR FOR DISSEMINATION IN THE UNITED STATES" and also contain the legend prescribed by Rule 135e under the U.S. Securities Act;

(c) if necessary and with the prior written consent of the Underwriters, it will notify the Exchange and request that the trading of the Common Shares on the Exchange be halted;

(d) during the period commencing with the date hereof and ending on the completion of the distribution of the Offered Units by the Corporation, the Corporation will promptly inform the Underwriters of the full particulars of:

  (i) any material change (actual, anticipated or threatened) in the business, operations, capital or condition (financial or otherwise) of the Corporation or its properties or assets;

  (ii) any change in any material fact contained or referred to in the Public Record; or

  (iii) the occurrence or discovery of a material fact or event, which, in any such case, is, or may be, of such a nature as to: (A) render any portion of the Public Record untrue, false or misleading in any material respect; (B) result in a misrepresentation in the Public Record; or (C) result in the Public Record not complying with the Applicable Securities Laws in a material respect; or

provided that if the Corporation is uncertain as to whether a material change, change, occurrence or event of the nature referred to in this subparagraph has occurred, the Corporation shall promptly inform the Underwriters of the full particulars of the occurrence giving rise to the uncertainty and shall consult with the Underwriters as to whether the occurrence is of such a nature;

(e) during the period commencing with the date hereof and ending on the completion of the distribution of the Offered Units by the Corporation, the Corporation will promptly inform the Underwriters of:

(i) any request of any Securities Commission or other securities commission or similar regulatory authority, the Exchange, or any other competent authority for any amendment to any part of the Public Record or for any additional information which may be material to the distribution of the Offered Units or the Warrant Shares;

(ii) the receipt by the Corporation of any communication from any Securities Commission or other securities commission or similar regulatory authority, the Exchange, or any other competent authority relating to any part of the Public Record or the distribution of the Offered Units or the Warrant Shares; and

(iii) the issuance by any Securities Commission or other 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;

(f) the Corporation will promptly, and in any event within any applicable time limitation, comply to the reasonable satisfaction of the Underwriters and the Underwriters' Counsel, with Applicable Securities Laws with respect to any material change, change, occurrence or event of the nature referred to in subsections 5.1(d) and 5.1(e), above which occurs prior to the Closing Time and the Corporation will take such steps, which in the Underwriters' opinion, acting reasonably, may be necessary or advisable to comply with Applicable Securities Laws;

(g) the Corporation will not, from the date hereof until that date that is 120 days following the Closing Date, directly or indirectly, sell, or offer to sell, 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 Common Shares or securities exchangeable or convertible into Common Shares, without the prior written consent of the Co-Lead Underwriters, not to be unreasonably withheld, provided that notwithstanding the foregoing the Corporation may: (i) grant stock options under the Corporation's existing employee stock option plan (not in excess of the number of options allowable under the rules of the Exchange); and (ii) issue Common Shares to the holders thereof or to the holders of other stock options or other convertible securities or instruments of the Corporation existing at the date hereof;

(h) as soon as reasonably possible, and in any event by the Closing Date, the Corporation shall take all such steps as may reasonably be necessary to enable the Offered Units to be offered for sale and sold on a private placement basis to Subscribers in the Selling Jurisdictions through the Underwriters or any other investment dealers or brokers registered in any of the Selling Jurisdictions by way of the exemptions set forth in Applicable Securities Laws of each of the Selling Jurisdictions;

(i) the Corporation shall use its reasonable commercial efforts to maintain its status as a reporting issuer not in default of any Applicable Securities Laws in the provinces of

British Columbia, Alberta, Saskatchewan, Ontario and Nova Scotia until at least December 31, 2011;

(j) the Corporation will duly, faithfully and punctually perform all the obligations to be performed by it and comply with its covenants and agreements hereunder and under the Subscription Agreements;

(k) that all representations and warranties in Section 4.1 hereof made by the Corporation to the Underwriters shall also be deemed to be made for the benefit of the Subscribers as if the Subscribers were also parties hereto (it being agreed that the Underwriters are acting for an on behalf of the Subscribers for this purpose); and

(l) the Corporation will use the proceeds from the issuance and sale of the Offered Units to fund the exploration and development of the Corporation's existing properties, the repayment of the Loan pursuant to the Loan Documents, for working capital and general corporate purposes.

ARTICLE 6
CONDITIONS OF CLOSING

6.1 The obligations of the Underwriters hereunder shall be conditional upon the Underwriters receiving at the Closing Time:

(a) a legal opinion of the Corporation's counsel addressed to the Underwriters and the Underwriters' Counsel, in form and substance reasonably satisfactory to the Underwriters and the Underwriters' Counsel, with respect to such matters as the Underwriters may reasonably request relating to the offering of the Offered Units, including, without limitation, that:

(i) the Corporation and each of its material subsidiaries has been duly incorporated or formed, as applicable, and is valid and subsisting under the laws of its applicable jurisdiction, as applicable, and validly extra-provincially registered under the laws of the Province of Ontario, if applicable, and has all requisite power and capacity to carry on its business as now conducted and to own its properties and assets;

(ii) the Corporation and each of its subsidiaries, if applicable, is duly registered and qualified to carry on business under the laws of each jurisdiction in which it carries on business;

(iii) the Corporation has full corporate power and authority to enter into this Agreement, the Subscription Agreements and the Warrant Indenture and to perform its obligations set out herein and therein, and this Agreement, the Subscription Agreements and the Warrant Indenture 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 terms, subject to general qualifications relating to laws relating to creditors' rights generally and except that rights to indemnity may be limited by applicable law;

(iv) the execution and delivery of this Agreement, the Subscription Agreements and the Warrant Indenture 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 Subscription Agreements and the Warrant Indenture 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 of the Provinces of British Columbia which are material to the Corporation or its operations, or any term or provision of the articles, by-laws or, of which counsel is aware, resolutions of the directors or shareholders of the Corporation, or of which counsel is aware, any mortgage, note, 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, or of which counsel is aware, any judgment, decree or order applicable to the Corporation of which counsel is aware, 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;

(v) the form and terms of the certificates representing the Common Shares and Warrants have been approved and adopted by the Corporation and the form of Certificate representing the Common Shares complies with the *Business Corporations Act* (British Columbia) and the policies of the Exchange relating thereto;

(vi) the Unit Shares will, when issued and upon the Corporation's receipt of the consideration therefor, be validly issued as fully paid and non-assessable common shares of the Corporation;

(vii) the Warrants have been validly created by the Corporation;

(viii) the Warrant Shares will, when issued and upon the Corporation's receipt of the consideration therefor, be validly issued as fully paid and non-assessable common shares of the Corporation;

(ix) the Corporation is a "reporting issuer" not on the list of defaulting issuers maintained under Applicable Securities Laws of the provinces of British Columbia, Alberta and Ontario to the extent such lists are available to confirm same;

(x) the offering, sale and issue of the Offered Units by the Corporation to Subscribers in the Selling Jurisdictions in Canada in accordance with and pursuant to the Subscription Agreements and the distribution of the Offered Units is exempt from the prospectus requirements of the Applicable Securities Laws in Canada, subject to the filing of required notices and assuming distribution by registrants who comply with the relevant provisions of Applicable Securities Laws;

(xi) notice of the issuance of the Unit Shares, Warrants and Warrant Shares has been accepted by the Exchange and the Unit Shares and Warrant Shares have

been conditionally approved for listing upon the Exchange subject to fulfillment of the conditions of the Exchange;

(xii) the first trade in the Unit Shares, Warrants and Warrant Shares will, pursuant to National Instrument 45-102 – *Resale of Securities*, not be subject to resale restrictions after four months following the distribution date in the Selling Jurisdictions, subject to the conditions prescribed therein;

(xiii) Computershare, at its principal office in Toronto, Ontario has been duly appointed as the transfer agent and registrar for the Common Shares and warrant agent for the Warrants;

and additionally, relating to the authorized and issued capital of the Corporation and as to all other legal matters related to the distribution of the Offered Units as the Underwriters or Underwriters' Counsel may reasonably request;

It is understood that the Corporation's counsel may rely on the opinions of local counsel acceptable to them as to matters governed by the laws of jurisdictions other than British Columbia and on certificates of officers of the Corporation and Computershare as to relevant matters of fact;

(b) if any Offered Units are sold in the United States, a legal opinion of the Corporation's special United States legal counsel, Hodgson Russ LLP, addressed to the Underwriters, in form and substance reasonably satisfactory to the Underwriters and the Underwriters' Counsel, to the effect that the offer and sale of the Offered Units in the United States will not be required to be registered under the U.S. Securities Act provided that such offers and sales are made in accordance with Schedule "A" to this Agreement;

(c) a certificate of the Corporation dated the Closing Date, addressed to the Underwriters and signed on the Corporation's behalf by its Chief Executive Officer and Chief Financial Officer with respect to such matters as the Underwriters or Underwriters' Counsel may reasonably request and additionally certifying that:

(i) the Corporation has complied with and satisfied all terms and conditions of this Agreement on its part to be complied with or satisfied at or prior to the Closing Time, except as waived by the Underwriters in writing;

(ii) the representations and warranties of the Corporation set forth in this Agreement are true and correct at the Closing Time, as if made at such time (other than for representations and warranties made as of a specified date which shall remain true and correct as of such date) and with respect to the representations and warranties contemplated by Section 4.1; and

(iii) no event of a nature referred to in subsection 9.1(a), 9.1(b) or 9.1(d) has occurred or to the knowledge of such officers is pending, contemplated or threatened (excluding in the case of subsections 9.1(b) and 9.1(d) the requirement of the Underwriters to make a determination as to whether or not any event or change has, in the Underwriters' opinion had or would have the effect specified therein);

and the Underwriters shall have no knowledge to the contrary;

(d) a duly executed copy of the Warrant Indenture, in form and substance satisfactory to the Underwriters and Underwriters' Counsel;

(e) definitive certificates representing, in the aggregate, all of the Unit Shares and Warrants issued at the Closing Time registered in such name or names as the Underwriters shall notify the Corporation in writing not less than 48 hours prior to the Closing Time to the Underwriters or such other parties in such locations as the Underwriters may direct and the Underwriters and the Corporation may agree upon;

(f) subject to clause (iii) below, if the Corporation determines to issue any Unit Shares or Warrants as book-entry only securities in accordance with the rules and procedures of The Canadian Depository for Securities Limited ("**CDS**"), then, as an alternative or in addition to the Corporation delivering to the Underwriters definitive certificates representing the Unit Shares or Warrants in the manner and at the times set forth in subsection 6.1(e):

(i) the Underwriters will provide a direction to CDS with respect to the crediting of Unit Shares or Warrants to the accounts of the participants of CDS as shall be designated by the Underwriters in writing in sufficient time prior to the Closing Date to permit such crediting;

(ii) the Corporation shall cause the Underwriters or the Underwriters' Counsel, to deliver to CDS, on behalf of the Underwriters, a fully registered global certificate for the Unit Shares or Warrants, registered in the name of "CDS & Co." as the nominee of CDS, to be held by CDS as book-entry only securities in accordance with the rules and procedures of CDS; and

(iii) notwithstanding anything to the contrary contained herein, the Unit Shares or Warrants offered and sold pursuant to Rule 506 of Regulation D under the U.S. Securities Act shall be represented by definitive certificates, and none of such Unit Shares or Warrants shall be issued as book-entry only securities.

(g) evidence satisfactory to the Underwriters and to the Underwriters' Counsel that all necessary approvals of the Exchange have been obtained for the issuance of the Unit Shares, Warrants and Warrant Shares and the listing of the Unit Shares and Warrant Shares, subject only to the filing of any documents and payment of applicable fees which may be required by the Exchange; and

(h) the Corporation shall have provided to the Underwriters such other documents and certificates as the Underwriters may request, acting reasonably, and as are customary in an offering of this nature.

ARTICLE 7
CLOSING

7.1 The closing of the issue and sale of the Offered Units shall be completed at the Closing Time at the offices of Corporation's counsel in Toronto, Ontario or at such other place as the Corporation and the Underwriters may agree. Subject to the conditions set forth in Article 6, the Underwriters, on the Closing Date, shall deliver to the Corporation:

(a) all completed Subscription Agreements (including any applicable documents specifically referred to in the Subscription Agreements), in form and substance reasonably satisfactory to the Corporation and the Corporation's Counsel;

(b) documentation required by the Exchange or the Securities Commissions and provided by the Corporation to the Underwriters for such purpose; and

(c) by way of certified cheque, bank draft, wire transfer or intrabank transfer with receipt confirmed by the Corporation, an amount equal to the gross proceeds from the sale of the Offered Units, net of the Underwriters' fee payable pursuant to Section 8.4 hereof (or effect payment in such other manner as the Corporation and the Underwriters may agree),

against delivery by the Corporation of the certificates referred to in subsection 6.1(e) or 6.1(f).

ARTICLE 8
ALLOTMENT, FEES AND EXPENSES

8.1 The Underwriters' obligations under this Agreement are separate and not joint and several in that:

(a) each of the Underwriters shall be obligated to purchase only the percentage of the total number of Initial Units (being 26,315,790 Initial Units) set forth opposite their names set forth in Section 8.2; and

(b) if any one or more of the Underwriters shall fail to purchase its applicable percentage of the Initial Units (being 26,315,790 Initial Units) at the Closing Time, then the other Underwriters shall have the right, but shall not be obligated, to purchase all of the percentage of the Initial Units which would otherwise have been purchased by such one or more of the Underwriters; the Underwriters exercising such right shall purchase such Initial Units pro rata to their respective percentages aforesaid or in such other proportions as they may otherwise agree. In the event such right is not exercised, the Underwriters which are not in default shall be entitled by written notice to the Corporation to terminate this Agreement without liability.

8.2 The Underwriter's obligations under this Agreement are separate and not joint and several in that each of the Underwriters shall be obligated to purchase only the percentage of the total number of Initial Units set opposite their names set forth in this Section 8.2.

The applicable percentage of the total number of the Initial Units which each of the Underwriters shall be separately obligated to purchase is as follows:

Jennings Capital Inc.	30.0%
Dundee Securities Ltd.	30.0%
Clarus Securities Inc.	20.0%
Fraser Mackenzie Ltd.	10.0%
PI Financial Corp.	5.0%
All Group Financial Services Inc.	5.0%

8.3 In connection with the distribution of the Offered Units, the Underwriters and members of their Selling Dealer Group (if any) may over-allot or effect transactions which stabilize or maintain the market price of the Offered Units at levels above those which might otherwise prevail in the open market, in compliance with Applicable Securities Laws. Those stabilizing transactions, if any, may be discontinued at any time.

8.4 In consideration for services of the Underwriters hereunder, the Corporation agrees to pay at the Closing Time: (i) by certified cheque or bank draft payable to Jennings, as co-lead underwriter, for and on behalf of the Underwriters, a fee equal to 6% of the gross proceeds from the sale of the Offered Units which amounts may be netted off the amount paid in respect of the gross proceeds from the sale of the Offered Units as contemplated herein (including in respect of the President's List Orders); and (ii) common share purchase warrants entitling each of the Underwriters to acquire in the aggregate that number of Common Shares as is equal to 6% of the number of Offered Units sold pursuant to the Offering at a exercise price of $1.25 per Common Share for a period of 18 months following the Closing Time subject to the Corporation's right to accelerate the expiry date of the common share purchase warrants on the same terms and conditions as the Warrants upon the dissemination of an Acceleration Notice.

8.5 Whether or not the transactions contemplated herein shall be completed, all costs and expenses of or incidental to the creation, issuance and distribution of the Offered Units shall be borne by the Corporation, including, without limitation, the fees and expenses of the Corporation's counsel, the fees and expenses of agent counsel retained by the Corporation's counsel (provided that if agent counsel, other than agent counsel retained by the Corporation's counsel, is retained by the Underwriters' Counsel, such retainer shall have received the prior approval of the Corporation or the Corporation's counsel), the fees and expenses of the Corporation's auditors, transfer agents, engineers and other outside consultants, the fees of the Exchange, the reasonable fees and the reasonable disbursements of Underwriters' Counsel together with applicable Goods and Services Tax (to a maximum of $75,000 exclusive of disbursements and Goods and Services Tax) and the reasonable out-of-pocket fees and expenses of the Underwriters.

ARTICLE 9
EARLY TERMINATION

9.1 In addition to any other remedies which may be available to the Underwriters, any Underwriter may terminate its obligations hereunder, by written notice to the Corporation, in the event that after the date hereof and at or prior to the Closing Time:

(a) any order to cease or suspend trading in any securities of the Corporation, or prohibiting or restricting the distribution of the Offered Units, Unit Shares, Warrants or Warrant Shares, or proceedings are announced or commenced for the making of any such order,

by any Securities Commission or similar regulatory authority, 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, or by any other competent authority, or there is any change of law or the interpretation or administration thereof (except for any inquiry, action, suit, investigation or other proceeding or order issued based solely on the activities of the Underwriters or any one of them or the members of the Selling Dealer Group), if, in the opinion of the Underwriters, or any one of them, acting reasonably, the announcement or commencement thereof or change, as the case may be, materially adversely affects the trading or distribution of the Offered Units or the Common Shares;

(c) there should develop, occur or come into effect or existence any event, action, state, condition or financial occurrence of national or international consequence, acts of hostility or escalation thereof, or any other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, or any governmental action, law, regulation, inquiry or other occurrence of any nature whatsoever or change in the financial markets which in the opinion of the Underwriters, or any one of them, 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 marketability of the Offered Units or the Common Shares;

(d) there should occur any material change, change of a material fact, occurrence or event of the nature referred to in subsection 5.1(e) or any development that could result in a material change or change of a material fact which, in the opinion of the Underwriters, or any one of them, as determined by the Underwriters, or any one of them, in their sole discretion, acting reasonably, could reasonably be expected to have a material adverse effect on the business, operations or affairs of the Corporation or the market price or value or the marketability of the Offered Units or the Common Shares;

(e) the Underwriters, or any one of them, acting reasonably, determine that the Corporation shall be in breach of, default under or non compliance with, in any material respect, any material representation, warranty, term or condition of this Agreement or the Subscription Agreements; or

(f) the Underwriters shall become aware, as a result of their due diligence review or otherwise, of any material adverse change with respect to the Corporation (in the sole opinion of the Underwriters, or any one of them, acting reasonably) which had not been publicly disclosed or disclosed to the Underwriters prior to the date hereof and which would have a material adverse effect on the market price or value of the Offered Units or the Unit Shares or Warrants,

in any of which cases, the Underwriter shall be entitled, at its option, to terminate and cancel its obligations to the Corporation under this Agreement by written notice to that effect given to the Corporation. In the event of any such termination pursuant to the provisions of this Section 9.1 by any one of the Underwriters, the other Underwriters shall be deemed contemporaneously to have terminated the obligations under this Agreement unless such other Underwriters shall,

within 24 hours after notice of termination is given, notify the Corporation to the effect that they are assuming the obligations of the Underwriter terminating its obligations. In the event of any such termination, the Corporation's liabilities to the Underwriter who has so terminated shall be at an end except for any liability of the Corporation provided for in this Agreement which by its terms survives termination.

9.2 The Underwriters may exercise any or all of the rights provided for in Sections 6.1, 9.1 or 10.1 notwithstanding any material change, change, event or state of facts and notwithstanding any act or thing taken or done by the Underwriters or any inaction by the Underwriters, whether before or after the occurrence of any material change, change, event or state of facts including, without limitation, any act of the Underwriters related to the Offering or continued offering of the Offered Units for sale and the Underwriters shall only be considered to have waived or be estopped from exercising or relying upon any of their rights under or pursuant to Sections 6.1, 9.1 or 10.1 if such waiver or estoppel is in writing and specifically waives or estops such exercise or reliance.

9.3 Any termination pursuant to the terms of this Agreement shall be effected by written notice delivered to the Corporation, provided that no termination pursuant to the terms of this Agreement shall discharge or otherwise affect any obligation of the Corporation under Section 8.5 and Article 11. The rights of the Underwriters to terminate their obligations hereunder are in addition to, and without prejudice to, any other remedies they may have.

ARTICLE 10
SURVIVAL

10.1 The Underwriters may waive, in whole or in part, any breach of, default under or non-compliance with any representation, warranty, term or condition hereof, or extend the time for compliance therewith, without prejudice to any of their 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 Underwriters only if the same is in writing.

10.2 It is understood that all representations and warranties as contained in ARTICLE 4 or contained in certificates or documents submitted pursuant to ARTICLE 6 shall survive the payment by the Underwriters for the Offered Units and shall continue in full force and effect for a period of 24 months from the date hereof for the benefit of the Underwriters regardless of any investigation by, or on behalf of, the Underwriters with respect thereto. It is further understood and agreed that ARTICLE 11 shall not be limited by this Section 10.2 and shall continue in full force and effect from the date hereof for the benefit of the Underwriters indefinitely.

ARTICLE 11
INDEMNIFICATION AND CONTRIBUTION

11.1 The Corporation (the "**Indemnitor**") shall indemnify and save harmless the Underwriters and their affiliates, shareholders, directors, partners, officers, employees, advisors and agents (collectively, the "**Indemnified Parties**") from and against all actual or threatened claims, actions, suits, investigations and proceedings (collectively, "**Proceedings**") and all losses (other than loss of profits), expenses, fees, damages, obligations, payments and liabilities (collectively, "**Liabilities**") (including without limitation all statutory duties and obligations, all amounts paid to settle any action or to satisfy any judgment or award and all

legal fees and disbursements actually incurred which now or any time hereafter are suffered or incurred by reason of any event, act or omission in any way connected, directly or indirectly, with:

(a) any information or statement contained in the Public Record (other than any information or statement relating solely to the Underwriters and furnished to the Corporation by the Underwriters expressly for inclusion in the Public Record), which is or is alleged to be untrue or any omission or alleged omission to provide any information or state any fact the omission of which makes, or is alleged to make, any such information or statement untrue or misleading in light of the circumstances in which it was made;

(b) any misrepresentation or alleged misrepresentation (except a misrepresentation which is based upon information relating to the Underwriters and furnished to the Corporation by the Underwriters expressly for inclusion in the Public Record) contained in the Public Record or any untrue statement of material fact or omission to state a material fact necessary in order to make the statements contained in the Public Record not misleading, in light of the circumstances under which they were made;

(c) any prohibition or restriction of trading in the securities of the Corporation or any prohibition or restriction affecting the distribution of the Offered 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 subsection 11.1(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 the Underwriters or their banking or selling group members, if any) relating to or materially affecting the trading or distribution of the Offered Units or the Common Shares;

(e) any breach of, default under or non-compliance by the Corporation with any representation, warranty, term or condition of this Agreement, the Subscription Agreements or any requirement of Applicable Securities Laws; or

(f) any deficiencies or imperfections (whether actual, threatened or contingent) in relation to, and all actual, threatened or contingent claims, actions, suits, investigations and proceedings in respect of, the assets or interests of the Corporation or any of its subsidiaries, or the enforceability of any agreements, understandings or letters of intent in respect of the assets or interests of the Corporation or any of its subsidiaries;

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 such Proceedings or Liabilities resulted solely from the gross negligence, fraud or wilful misconduct of any Indemnified Party, this indemnity shall not apply.

The Indemnitor hereby waives its rights to recover contribution from the Underwriters with respect to any liability of the Indemnitor by reason of or arising out of any misrepresentation in any part of the Public Record; provided, however, that such waiver shall not apply in respect of liability caused or incurred by reason of any misrepresentation which is based upon information

relating solely to the Underwriters contained in such document and furnished in writing to the Corporation by the Underwriters expressly for inclusion in any part of the Public Record.

11.2 If any Proceeding is brought, instituted or threatened in respect of any Indemnified Party which may result in a claim for indemnification under this Agreement, such Indemnified Party shall promptly after receiving notice thereof notify the Corporation of the notice of claim, in writing, and the Corporation shall be entitled (but not required) to assume conduct of the defence thereof and retain counsel on behalf of the Indemnified Party who is reasonably satisfactory to the Indemnified Party, to represent the Indemnified Party in such Proceeding and the Corporation shall pay the fees and disbursements of such counsel and all other expenses of the Indemnified Party relating to such Proceeding as incurred. Failure to so notify the Corporation shall not relieve the Corporation from liability except and only to the extent that the failure materially prejudices the Corporation. If the Corporation assumes conduct of the defence for an Indemnified Party, the Indemnified Party shall, except when a conflict of interest as described in subsection 11.3(a) exists and counsel to the Indemnified Party advises the Indemnified Party that such action would be prejudicial to the interests of the Indemnified Party, fully cooperate in the defence including without limitation the provision of documents, appropriate officers and employees to give witness statements, attend examinations for discovery, make affidavits, meet with counsel, testify and divulge all information reasonably required to defend or prosecute the Proceedings.

11.3 In any such Proceeding the Indemnified Party shall have the right to employ separate counsel and to participate in the defence thereof if:

(a) the Indemnified Party has been advised in writing by counsel that there may be a reasonable legal defence available to the Indemnified Party that is different from or in addition to those available to the Corporation or that a conflict of interest exists which makes representation by counsel chosen by the Corporation not advisable;

(b) the Indemnitor has not assumed the defence of the Proceeding and employed counsel therefor reasonably satisfactory to the Indemnified Party within 10 days after receiving notice thereof; or

(c) employment of such other counsel has been authorized by the Corporation in writing;

in which event the fees and disbursements of such counsel (on a solicitor and his client basis) shall be paid by the Corporation. It being understood, however, that the Corporation shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate law firm (in addition to any local counsel) for all such Indemnified Parties.

11.4 No admission of liability and no settlement of any Proceeding shall be made without the written consent of the Indemnified Parties affected, such consent not to be unreasonably withheld. No admission of liability shall be made by an Indemnified Party without the written consent of the Indemnitor, such consent not to be unreasonably withheld, and the Indemnitor shall not be liable for any settlement of any Proceeding made without their written consent, such consent not to be unreasonably withheld.

11.5 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 (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 Underwriters on the other hand from the offering of the Offered Units; or

(b) if the allocation provided by subsection 11.5(a) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in subsection 11.5(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 Underwriters, 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 Underwriters. The relative fault of the Corporation, on the one hand, and of the Underwriters, on the other hand, shall be determined by reference, among other things, to whether the misrepresentation or alleged misrepresentation, order, inquiry, investigation or other matter referred to in Section 11.1 hereof 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 Underwriters and the parties' relevant intent, knowledge, access to information and opportunity to correct or prevent such misrepresentation or alleged misrepresentation, order, inquiry, investigation or other matter referred to in Section 11.1 hereof.

The amount paid or payable by the Indemnitor as a result of any Proceedings or Liabilities 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 (other than loss of profits), 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.

Any liability of the Underwriters under this Section 11.5 shall be limited to the amount of the cash fees paid or payable to the Underwriters pursuant to Section 8.4 hereof.

11.6 The rights to indemnity and right of contribution provided in the foregoing shall be in addition to and not in derogation of any other right to contribution which the Indemnified Parties may have by statute or otherwise at law or in equity. Subject to Sections 11.2 and 11.5,

the Indemnitor waives all rights of contribution that it may have against any Indemnified Party relating to any Liability in respect of which the Indemnitor has agreed to indemnify the Indemnified Parties hereunder.

11.7 It is the intention of the Corporation to constitute the Underwriters as trustee for the Indemnified Parties for the purposes of Sections 11.1 to 11.6 inclusive and the Underwriters shall be entitled, as trustee, to enforce such covenants on behalf of any other Indemnified Parties.

11.8 If any Proceeding is brought in connection with the transactions contemplated by this Agreement and the Underwriters are required to testify in connection therewith or are required to respond to procedures designed to discover information relating thereto, the Corporation shall pay to the Underwriters reasonable fees at the normal per diem rate for its directors, officers, partners, employees, agents and advisors involved in preparation for and attendance at such Proceeding or in so responding, provided that such Proceeding is not caused solely by or the result of the gross negligence, fraud or willful misconduct of an Indemnified Party. In such event, any other reasonable costs and out-of-pocket expenses incurred by it in connection therewith will be paid by the Corporation as they are incurred.

11.9 The obligations under the indemnity and right of contribution provided herein shall apply whether or not the transactions contemplated by this Agreement are completed and shall survive the completion of the transactions contemplated under this Agreement and the termination of this Agreement.

ARTICLE 12
NOTICE

12.1 Any notice or other communication to be given hereunder shall, in the case of notice to be given to the Corporation, be addressed to the Corporation at the above address (Fax No.: (416) 941-1090) and a copy to Cassels Brock & Blackwell LLP, 2100 Scotia Plaza, 40 King Street West, Toronto, Ontario, Attention: Jennifer Campbell (Fax No.: (416) 642-7136), and, in the case of notice to be given to the Underwriters, be addressed to:

Jennings Capital Inc.
Suite 2700, 308 – 4th Avenue S.W.
Calgary, Alberta T2P 0H7

Attention: **David McGorman**
Fax No.: (403) 292-0979

Dundee Securities Ltd.
Suite 3600, 350 – 7th Avenue S.W.
Calgary, Alberta T2P 3N9

Attention: **Timothy J. Hart**
Fax No.: (403) 264-6331

Clarus Securities Inc.
Suite 1220, 335 – 8th Avenue S.W.
Calgary, Alberta T2P 1C9

Attention: **Danny C. Mah**
Fax No.: (403) 269-5900

Fraser Mackenzie Limited
Suite 850, 335 – 8th Avenue S.W.
Calgary, Alberta T2P 1C9

Attention: **Scott Fleurie**
Fax No.: (403) 265-5022

PI Financial Corp.
Suite 1560, 300 5th Avenue S.W.
Calgary, Alberta T2P 3C4

Attention: **Arthur H. Kwan**
Fax No.: (403) 543-2800

All Group Financial Services Inc.
Suite 300, 106 Front Street East
Toronto, Ontario M5A 1E1

Attention: **Jamie Boyden**
Fax No.: (416) 640-4751

with a copy to:

McCarthy Tétrault LLP
Suite 3300, 421 - 7th Avenue S.W.
Calgary, Alberta T2P 4K9

Attention: **Sony Gill**
Fax No.: (403) 260-3501

Any such notice or other communication shall be in writing and may be given by telefax or delivery, and shall be deemed to have been given six hours after being telefaxed, if such notice or other communication is telefaxed on a Business Day, and otherwise 12 hours after 12:01 a.m. (Toronto time) commencing on the next succeeding Business Day after being telefaxed, or upon receipt by a responsible officer of the addressee if delivered.

ARTICLE 13
UNITED STATES SECURITIES MATTERS

13.1 The Corporation and the Underwriters agree to comply with the provisions of Schedule "A" hereto, "Terms and Conditions for United States Offers and Sales", which provisions are incorporated herein and form a part of this Agreement.

ARTICLE 14
GENERAL

14.1 The Corporation: (i) acknowledges and agrees that the Underwriters have certain statutory obligations as registrants under the Applicable Securities Laws and have fiduciary relationships with their clients; and (ii) consents to the Underwriters acting hereunder while continuing to act for their clients. To the extent that the Underwriters' statutory obligations as registrants under Applicable Securities Laws or fiduciary relationships with their clients conflicts with their obligations hereunder, the Underwriters shall be entitled to fulfill their statutory obligations as registrants under Applicable Securities Laws and their duties to their clients. Nothing in this Agreement shall be interpreted to prevent the Underwriters from fulfilling their statutory obligations as registrants under Applicable Securities Laws or to act as fiduciaries of their clients.

14.2 In addition, the Corporation hereby acknowledges that (i) the purchase and sale of the Offered Units pursuant to this Agreement is an arm's-length commercial transaction between the Corporation, on the one hand, and each of the Underwriters and any affiliate through which it may be acting, on the other, (ii) each of the Underwriters is acting as principal and not as an agent or fiduciary of the Corporation, and (iii) the Corporation's engagement of each of the Underwriters in connection with the Offered Units and the process leading up to the Offering is as independent contractors and not in any other capacity. Furthermore, the Corporation agrees that it is solely responsible for making its own judgments in connection with the Offering (irrespective of whether any of the Underwriters has advised or is currently advising the Corporation on related or other matters). The Corporation agrees that it will not claim that the Underwriters have rendered advisory services of any nature or respect, or owes an agency, fiduciary or similar duty to the Corporation, in connection with such transaction or the process leading thereto.

14.3 The Corporation shall be entitled to and shall act on any notice, waiver, extension or communication given by or on behalf of the Underwriters by Jennings, which shall represent the Underwriters and which will have the authority to bind the Underwriters in respect of all matters hereunder, except in respect of any settlement under Sections 11.1 or 11.5, or any matter referred to in Sections 8.1, 8.2 or 9.1.

14.4 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.

14.5 This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein and the parties hereto hereby attorn to the jurisdiction of the courts of the Province of Ontario and all courts of appeal therefrom.

14.6 Time shall be of the essence of this Agreement.

14.7 This Agreement may be executed in one or more counterparts and delivered by means of facsimile or other electronic means, each of which so executed shall constitute an original and all of which together shall constitute one and the same agreement.

14.8 This Agreement represents the entire agreement of the parties hereto relating to the subject matter hereof and there are no representations, warranties, covenants or other agreements relating to the subject matter hereof except as stated or referred to herein. It is understood that the terms and conditions of this Agreement supersede any previous verbal or written agreement between the Underwriters and the Corporation in respect of the offer for sale by the Corporation of Offered Units, including in particular the letter agreement dated February 15, 2011.

[The remainder of this page has been intentionally left blank.]

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 returning same to Jennings Capital Inc.

JENNINGS CAPITAL INC.

Per: ________________________________

DUNDEE SECURITIES LTD.

Per: ________________________________

CLARUS SECURITIES INC.

Per: ________________________________

FRASER MACKENZIE LIMITED

Per: ________________________________

PI FINANCIAL CORP.

Per: ________________________________

ALL GROUP FINANCIAL SERVICES INC.

Per: ________________________________

ACCEPTED AND AGREED to effective as of the date of this Agreement.

BROWNSTONE ENERGY INC.

Per: ________________________________

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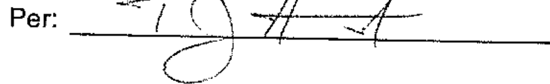
JENNINGS CAPITAL INC.

Per: ______________________________

DUNDEE SECURITIES LTD.

Per: 

CLARUS SECURITIES INC.

Per: ______________________________

FRASER MACKENZIE LIMITED

Per: ______________________________

PI FINANCIAL CORP.

Per: ______________________________

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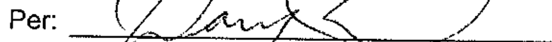
CLARUS SECURITIES INC.

Per: 

FRASER MACKENZIE LIMITED

Per: ______________________________

PI FINANCIAL CORP.

Per: ______________________________

ALL GROUP FINANCIAL SERVICES INC.

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Per: ______________________________

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BROWNSTONE ENERGY INC.

Per: ______________________________

141169-431060
McCarthy Tétrault LLP DOCS #10133837

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JENNINGS CAPITAL INC.

Per: ______________________________

DUNDEE SECURITIES LTD.

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Per:

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PI FINANCIAL CORP.

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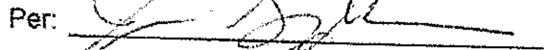
Per: 

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JENNINGS CAPITAL INC.

Per: ______________________________

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FRASER MACKENZIE LIMITED

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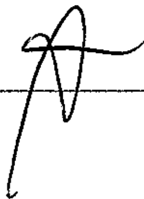
Per:  ______________________________

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McCarthy Tétrault LLP DOCS #10133837

SCHEDULE "A"

TERMS AND CONDITIONS FOR UNITED STATES OFFERS AND SALES

This Schedule A to the Underwriting Agreement dated effective February 15, 2011 between Jennings Capital Inc., Dundee Securities Ltd., Clarus Securities Inc., Fraser Mackenzie Limited, PI Financial Corp., All Group Financial Services Inc. and Brownstone Energy Inc. Capitalized terms used but not defined in this Schedule A shall have the meaning ascribed thereto in the Underwriting Agreement to which this Schedule A is attached.

As used in this Schedule A, the following terms shall have the meanings indicated:

"**Directed Selling Efforts**" means directed selling efforts as that term is defined in Regulation S. Without limiting the foregoing, but for greater clarity in this Schedule, it means, subject to the exclusions from the definition of directed selling efforts contained in Regulation S, any activity undertaken for the purpose of, or that could reasonably be expected to have the effect of, conditioning the market in the United States for any of the Offered Units and includes the placement of any advertisement in a publication with a general circulation in the United States that refers to the offering of the Offered Units;

"**FINRA**" means the Financial Industry Regulatory Authority, Inc.;

"**Foreign Issuer**" shall have the meaning ascribed thereto in Regulation S. Without limiting the foregoing, but for greater clarity, it means any issuer which is (a) the government of any country other than the United States, of any political subdivision thereof or a national of any country other than the United States; or (b) a corporation or other organization incorporated under the laws of any country other than the United States, except an issuer meeting the following conditions as of the last business day of its most recently completed second fiscal quarter: (1) more than 50 percent of the outstanding voting securities of such issuer are held of record either directly or indirectly by residents of the United States; and (2) any of the following: (i) the majority of the executive officers or directors are United States citizens or residents, (ii) more than 50 percent of the assets of the issuer are located in the United States, or (iii) the business of the issuer is administered principally in the United States;

"**Offshore Transaction**" means "offshore transaction" as that term is defined in Regulation S;

"**Qualified Institutional Buyer**" means a "qualified institutional buyer" as that term is defined in Rule 144A;

"**Regulation D**" means Regulation D adopted by the SEC under the U.S. Securities Act;

"**Regulation S**" means Regulation S adopted by the SEC under the U.S. Securities Act;

"**Rule 144A**" means Rule 144A adopted by the SEC under the U.S. Securities Act;

"**SEC**" means the United States Securities and Exchange Commission;

"**Substantial U.S. Market Interest**" means "substantial U.S. market interest" as that term is defined in Regulation S;

"**U.S. Accredited Investor**" means an "accredited investor" within the meaning of Rule 501(a) of Regulation D;

"**U.S. Affiliate**" means a United States broker-dealer affiliate of an Underwriter, duly registered as a broker-dealer under the U.S. Exchange Act and all applicable state securities laws;

"**U.S. Exchange Act**" means the United States *Securities Exchange Act of 1934*, as amended;

"**U.S. Person**" means "U.S. person" as that term is defined in Regulation S;

"**U.S. Securities Act**" means the United States *Securities Act of 1933*, as amended; and

"**United States**" means the United States of America, its territories and possessions, any state of the United States, and the District of Columbia.

Representations, Warranties and Covenants of the Underwriters

Each Underwriter acknowledges that the Offered Units have not been and will not be registered under the U.S. Securities Act or any state securities laws and may be offered and sold in the United States or to, or for the account or benefit of, a U.S. Person or person in the United States, only in transactions exempt from or not subject to the registration requirements of the U.S. Securities Act and state securities laws. Accordingly, each Underwriter, severally and not jointly, represents, warrants and covenants to the Corporation that:

1. It has not offered or sold, and will not offer or sell, any Offered Units forming part of its allotment or otherwise as a part of the distribution except (a) in an Offshore Transaction to a person that is not a U.S. Person or purchasing for the account or benefit of a U.S. Person, in accordance with Rule 903 of Regulation S or (b) in the United States and to U.S. Persons as provided in Sections 2 through 10 below. Accordingly, neither such Underwriter, its U.S. Affiliates nor any person acting on its or their behalf, has made or will make (except as permitted in Sections 2 through 10 below) (i) any offer to sell or any solicitation of an offer to buy, any Offered Units in the United States or to, or for the account or benefit of, a U.S. Person or person in the United States, (ii) any sale of Offered Units to any purchaser unless, at the time the buy order was or will have been originated, the purchaser was outside the United States and not a U.S. Person or purchasing for the account or benefit of a U.S. Person, or such Underwriter, affiliate or person acting on behalf of either reasonably believed that such purchaser was outside the United States and not a U.S. Person or purchasing for the account or benefit of a U.S. Person, or (iii) any Directed Selling Efforts with respect to the Offered Units.

2. It has not entered and will not enter into any contractual arrangement with respect to the distribution of the Offered Units except with its U.S. Affiliates or members of the Selling Dealer Group, or with the prior written consent of the Corporation. It shall require each member of the Selling Dealer Group to agree in writing, for the benefit of the Corporation, to comply with, and shall use its best efforts to ensure that each member of the Selling Dealer Group complies with, the provisions of this Schedule A as if such member of the Selling Dealer Group were an Underwriter.

3. All offers and sales of Offered Units in the United States or to, or for the account or benefit of, a U.S. Person or person in the United States, have been and will be made through U.S. Affiliate in compliance with all applicable U.S. federal and state laws and regulations governing the registration and conduct of securities brokers and dealers and the rules of the FINRA. Such U.S. Affiliate is a Qualified Institutional Buyer that has been and will be, on the date of each offer or sale of Offered Units in the United States, duly registered as a broker-dealer pursuant to Section 15(b) of the U.S. Exchange Act and the securities laws of each state in which such offer or sale is made (unless exempted from the respective state's broker-dealer registration requirements) and is and will be a member of and in good standing with the FINRA.

4. Offers and sales of Offered Units in the United States have not been and will not be made by any form of "general solicitation" or "general advertising" (as those terms are used in Regulation D) or in any manner involving a public offering within the meaning of Section 4(2) of the U.S. Securities Act.

5. The Underwriters shall not offer or sell Offered Units in the United States or to or for the account or benefit of U.S. Persons or persons in the United States except that offers, sales and solicitations of offers to buy Offered Units may be made exclusively (i) pursuant to Regulation D to Substituted Purchasers that are U.S. Accredited Investors in accordance with Rule 506 of Regulation D, which it or its U.S. Affiliate has a pre-existing relationship and has reasonable grounds to believe and does believe that, immediately prior to soliciting any such offeree that is in the United States and at the time of the completion of any sale to any such purchaser, each offeree and each purchaser of Offered Units in the United States is a U.S. Accredited Investor and (ii) pursuant to Rule 144A to persons reasonably believed to be Qualified Institutional Buyers, and in each case shall be made pursuant to and in accordance with exemptions from the registration or qualification requirements of all applicable state securities laws.

6. All purchasers of the Offered Units that are in the United States or U.S. Persons shall be informed that the Offered Units have not been and will not be registered under the U.S. Securities Act and are being offered and sold to such purchasers in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A or Rule 506 of Regulation D, as applicable, thereunder.

7. Prior to completion of any sale of Offered Units by the Corporation to a U.S. Accredited Investor in reliance on Rule 506 of Regulation D or a Qualified Institutional Buyer in compliance with Rule 144A, each purchaser thereof will be required to execute a U.S. subscription agreement ("**U.S. Subscription Agreement**") in a form reasonably acceptable to the Corporation and no other written material will be used in connection with the offer or sale of the Offered Units in the United States.

8. Prior to the Closing Date, it will provide the Corporation and its transfer agent with a list of all purchasers of the Offered Units that are in the United States or U.S. Persons, and in each case indicate whether such purchaser is a Qualified Institutional Buyer purchasing pursuant to Rule 144A or a U.S. Accredited Investor purchasing pursuant to Rule 506 of Regulation D and the state or other jurisdiction in which the Offered Units were offered or sold to such purchaser. Prior to the Closing Time, it will provide the Corporation with copies of all U.S. Subscription Agreements for acceptance by the Corporation.

9. At the Closing Time, each Underwriter will either (i) together with its U.S. Affiliate provide to the Corporation a certificate in the form of Exhibit A to this Schedule A relating to the manner of the offer and sale of the Offered Units in the United States, or (ii) be deemed to have represented and warranted to the Corporation, as of the Closing Time, that it did not and has not offered or sold any of the Offered Units in the United States or to or for the account or benefit of a U.S. Person or person in the United States.

10. None of the Underwriter, its affiliates or any person acting on behalf of any of them has violated or will violate Regulation M under the U.S. Exchange Act in connection with offers and sales of the Offered Units.

Representations, Warranties and Covenants of the Corporation

The Corporation represents, warrants, covenants and agrees that:

1. Except with respect to offers and sales to (a) U.S. Accredited Investors in reliance upon Rule 506 of Regulation D and (ii) Qualified Institutional Buyers pursuant to Rule 144A, neither the Corporation nor any of its affiliates, nor any person acting on its or their behalf (other than the Underwriters, their U.S. Affiliates, their respective affiliates or any person acting on their behalf, in respect of which no representation is made), has made or will make: (i) any offer to sell, or any solicitation of an offer to buy, any Offered Units to a person in the United States or to or for the account or benefit of a U.S. Person or a person in the United States; or (ii) any sale of Offered Units unless, at the time the buy order was or will have been originated, (b) the purchaser is outside the United States and not a U.S. Person or (c) the Corporation, its affiliates, and any person acting on their behalf reasonably believe that the purchaser is outside the United States and not a U.S. Person

2. (a) The Corporation is, and at the Closing Time will be, a Foreign Issuer and the Corporation reasonably believes that there is no Substantial U.S. Market Interest in any of its securities; (b) the Corporation is not now and as a result of the sale of Offered Units contemplated hereby will not be, an open-end investment company, a unit investment trust or a face-amount certificate company registered or required to be registered or a closed-end investment company required to be registered, but not registered, under the United States *Investment Company Act of 1940*, as amended; (c) the Offered Units are not, and as of the Closing Time will not be, and no securities of the same class as the Offered Units are or will be, (i) listed on a national securities exchange registered under Section 6 of the U.S. Exchange Act, (ii) quoted in a "U.S. automated inter-dealer quotation system", as such term is used in Rule 144A, or (iii) convertible or exchangeable at an effective conversion premium (calculated as specified in paragraph (a)(6) of Rule 144A) of less than ten percent for securities so listed or quoted; and (d) neither the Corporation nor any of its predecessors or affiliates has been subject to any order, judgment or decree of any court of competent jurisdiction temporarily, preliminarily or permanently enjoining such person for failure to comply with Rule 503 of Regulation D.

3. During the period in which the Offered Units are offered for sale, neither the Corporation nor any of its affiliates, nor any person acting on its or their behalf (except the Underwriters, their U.S. Affiliates and any persons acting on any of their behalf, in respect of which no representation is made) (i) has made or will make any Directed Selling Efforts with respect to any of the Offered Units, (ii) has engaged in or will engage in any form of "general solicitation" or "general advertising" (as those terms are used in Regulation D) with respect to offers or sales of the any of the Offered Units in the United States, including advertisements,

articles, notices or other communications published in any newspaper, magazine or similar media, or broadcast over radio, or television, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising, (iii) has violated or will violate Regulation M under the U.S. Exchange Act in connection with offers and sales of the any of the Offered Units, (iv) has made or will make any offer or sale of the Offered Units in the United States except through the Underwriters as set forth in this Schedule A or (v) has taken or will take any other action that would cause the exemptions or exclusions from registration provide by Rule 903 of Regulation S, Rule 144A or Rule 506 of Regulation D to be unavailable with respect to offers and sales of the Offered Units pursuant to this Schedule A.

4. The Corporation has not and will not, during the period beginning six months prior to the start of the offering of Offered Units and ending six months after the completion of the offering of Offered Units sell, offer for sale or solicit any offer to buy any of its securities in the United States in a manner that would be integrated with and would cause the exemptions from registration provided by Rule 144A or Rule 506 of Regulation D or the exclusion from registration provided by Rule 903 of Regulation S to be unavailable with respect to offers and sales of the Offered Units pursuant to this Schedule A.

5. For so long as any of the Offered Units are outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, and if the Corporation is not subject to and in compliance with the reporting requirements of Section 13 or Section 15(d) of the U.S. Exchange Act or exempt from such reporting requirements pursuant to Rule 12g3-2(b) thereunder, the Corporation will provide to any holder of such securities, or to any prospective purchaser of such securities designated by such holder, upon the request of such holder or prospective purchaser, at or prior to the time of resale, the information required to be provided by Rule 144A(d)(4).

6. The Corporation will complete and file with the SEC a Notice on Form D with 15 days after the first sale of Offered Units pursuant to Rule 506 of Regulation D, and will make such filings with state securities commission as required by state law.

EXHIBIT A

UNDERWRITERS' CERTIFICATE

In connection with the private placement in the United States of Offered Units of Brownstone Resources Inc. (the "**Corporation**") pursuant to the Underwriting Agreement dated effective as of February 15, 2011 among the Corporation and the Underwriters named therein (the "**Underwriting Agreement**"), each of the undersigned does hereby certify as follows:

(a) Jennings Capital (USA) Inc. (the "**U.S. Affiliate**") was on the date of each offer or sale of Offered Units we made in the United States, and is on the date hereof, duly registered as a broker-dealer pursuant to Section 15(b) of the U.S. Exchange Act and the securities laws of each state in which such offer or sale is made (unless exempted from the respective state's broker-dealer registration requirements) and a member of and in good standing with the Financial Industry Regulatory Authority, Inc. (the "**FINRA**");

(b) all offers and sales of Offered Units that we made in the United States were made by the U.S. Affiliate in compliance with all applicable U.S. federal and state laws and regulations governing the registration and conduct of securities brokers and dealers and the rules of the FINRA;

(c) immediately prior to our transmitting any such materials to an offeree that was in the United States or a U.S. Person, we had a pre-existing relationship with and reasonable grounds to believe and did believe that each offeree was a Qualified Institutional Buyer, or a U.S. Accredited Investor and, on the date hereof, we continue to believe, that each person in the United States or U.S. Person purchasing Offered Units from us pursuant to Rule 144A is a Qualified Institutional Buyer and that each person in the United States or U.S. Person purchasing the Offered Units from the in reliance on Rule 506 of Regulation D is a U.S. Accredited Investor;

(d) no form of "general solicitation" or "general advertising" (as those terms are used in Regulation D under the U.S. Securities Act) was used by us, including advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over radio or television, or any seminar or meeting whose attendees had been invited by general solicitation or general advertising, in connection with the offer or sale of the Offered Units in the United States or to, or for the account or benefit of, a U.S. Person or person in the United States, nor have we solicited offers for or offered to sell the Offered Units by any means involving a public offering within the meaning of Section 4(2) of the U.S. Securities Act;

(e) prior to any sale of Offered Units by the Corporation to a U.S. Accredited Investor in reliance on Rule 506 of Regulation D or a Qualified Institutional Buyer in compliance with Rule 144A, we caused each purchaser thereof to execute a U.S. Subscription Agreement;

(f) each offeree was provided with a copy of the U.S. Subscription Agreement the offering of the Offered Units in the United States, and no other written material has been used by us in connection with the offering of the Offered Units;

(g) neither we nor any member of the Selling Dealer Group, nor any of our other affiliates, have taken or will take any action that would constitute a violation of Regulation M of the SEC under the U.S. Exchange Act; and

(h) the offering of the Offered Units has been conducted by us in accordance with the terms of the Underwriting Agreement, including Schedule A thereto.

Terms used in this certificate have the meanings given to them in the Underwriting Agreement including Schedule A thereto, unless otherwise defined herein.

Dated this _____ day of ___________________, 2011.

JENNINGS CAPITAL INC.

Per: ______________________________

Name:
Title:

JENNINGS CAPITAL (USA) INC.

Per: ______________________________

Name:
Title: