

## UNDERWRITING AGREEMENT

November 28, 2011

Peyto Exploration & Development Corp.  
Suite 1500, 250 - 2nd Street S.W.  
Calgary, Alberta T2P 0C1

**Attention: Mr. Darren Gee, President and Chief Executive Officer**

Dear Sirs:

**Re: Offering of Common Shares of Peyto Exploration & Development Corp.**

BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Peters & Co. Limited, Scotia Capital Inc., Stifel Nicolaus Canada Inc., FirstEnergy Capital Corp., TD Securities Inc., HSBC Securities (Canada) Inc. and Haywood Securities Inc. (collectively, the "**Underwriters**") understand that Peyto Exploration & Development Corp. (the "**Corporation**") proposes to issue and sell 4,260,000 Shares (as herein defined) (the "**Underwritten Shares**"). The Corporation also proposes to issue and sell, at the election of the Underwriters, up to an additional 639,000 Shares (the "**Option Shares**") pursuant to the Over-Allotment Option (as defined below).

The Corporation also agrees to sell to the Underwriters, and the Underwriters will have the option to purchase from the Corporation, for the purpose of covering over-allotments, if any, up to the full number of the Option Shares (the "**Over-Allotment Option**"). The Underwriters will, to the extent that the Over-Allotment Option is exercised, be severally obligated to purchase such Option Shares in the same respective percentages as for the Underwritten Shares and the price of the Option Shares will be the same price per Share as the price for the Underwritten Shares. The Over-Allotment Option may be exercised by written notice to the Corporation given by the Lead Underwriter (as herein defined), on behalf of the Underwriters, at any time until 5:00 p.m. (Calgary time) on the date that is 30 days after the Closing Date (as herein defined). The notice shall specify the number of Option Shares to be purchased pursuant to the Over-Allotment Option. The closing of the purchase and sale of any Option Shares will occur at the time and on the date specified in the notice, which closing date shall not be earlier than the later of (i) the Closing Date and (ii) the second Business Day, (as herein defined) after the giving of the notice, nor later than the fifth Business Day after the giving of the notice (and which closing, for greater certainty, may occur on a date that is more than 30 days after the Closing Date).

Subject to the terms and conditions hereof, the Underwriters hereby severally, and not jointly, agree to purchase from the Corporation the Underwritten Shares at the Closing Time (as herein defined) in the respective percentages set forth in section 19, and the Corporation hereby agrees to issue and sell to the Underwriters at the Closing Time all, but not less than all, of the Underwritten Shares at the purchase price of \$23.50 per Share.

The Underwriters propose to distribute the Offered Shares (as herein defined) in Canada pursuant to the Prospectuses (as herein defined) and to offer and sell the Offered Shares in the United States on a private placement basis through their U.S. Affiliates (as defined in Schedule "A" to this agreement) to Qualified Institutional Buyers (as defined in Schedule "A") pursuant to Rule 144A (as defined in Schedule "A") in the manner described in section 21 of this agreement and Schedule "A" hereto. The Underwriters make the representations, warranties and covenants applicable to them in Schedule "A" and agree, on behalf of themselves and their U.S. Affiliates, for the benefit of the Corporation, to comply with the selling restrictions imposed by the laws of the United States and described in Schedule "A" hereto, which forms part of this agreement. The Corporation makes the representations, warranties and covenants applicable to it in Schedule "A" hereto.

1. Definitions

In this agreement:

- (a) "**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B 9, as amended, including the regulations promulgated thereunder;
- (b) "**AIF**" means the annual information form of the Corporation dated March 30, 2011 for the year ended December 31, 2010;
- (c) "**Applicable Securities Laws**" means all applicable Canadian securities, corporate and other laws, rules, regulations, notices and policies in the Qualifying Provinces;
- (d) "**ASC**" means the Alberta Securities Commission;
- (e) "**Assets**" means the interests in oil and natural gas reserves and associated facilities of the Corporation as described in the Prospectuses;
- (f) "**Business Day**" means a day which is not Saturday or Sunday or a legal holiday in the City of Calgary, Alberta;
- (g) "**Closing Date**" means December 16, 2011 or such other date as may be agreed to by the Underwriters and the Corporation, but in any event, not later than December 30, 2011;
- (h) "**Closing Time**" means 6:30 a.m. (Calgary time) or such other time, on the Closing Date, as the Underwriters and the Corporation may agree;
- (i) "**Corporation's auditors**" means Deloitte & Touche LLP, Chartered Accountants, Calgary, Alberta;

- (j) **“Corporation’s counsel”** means Burnet, Duckworth & Palmer LLP or such other legal counsel as the Corporation, with the consent of the Underwriters, may appoint;
- (k) **“Documents”** means, collectively, the documents incorporated by reference in the Prospectuses and any Supplementary Material including, without limitation:
  - (i) the AIF;
  - (ii) the Financial Statements;
  - (iii) the management's discussion and analysis of the financial condition and operating results of the Corporation for the year ended December 31, 2010;
  - (iv) the management’s discussion and analysis of financial condition and operating results of the Corporation for the three and nine months ended September 30, 2011;
  - (v) the information circular - proxy statement of the Corporation dated April 18, 2011, relating to the annual meeting of Shareholders held on May 18, 2011;
  - (vi) the information circular and proxy statement of the Trust dated November 5, 2010, relating to the special meeting of Unitholders held on December 8, 2010;
  - (vii) the information circular - proxy statement of the Trust dated April 16, 2010 relating to the annual and special meeting of Unitholders held on May 19, 2010;
  - (viii) the material change report of the Trust dated January 10, 2011 in respect of the completion of the Trust Conversion; and
  - (ix) any other documents that are required by NI 44-101 to be incorporated by reference in the Prospectuses and any Supplemental Material;
- (l) **“Exchange”** means the Toronto Stock Exchange;
- (m) **“Financial Statements”** means the audited comparative consolidated financial statements of the Corporation as at and for the year ended December 31, 2010, together with the notes thereto and the auditors’ report thereon and the unaudited comparative consolidated financial statements of the Corporation as at and for the three and nine months ended September 30, 2011 and 2010, together with the notes thereto;

- (n) "**Insite**" means Insite Petroleum Consultants Ltd., independent oil and gas reservoir engineers of Calgary, Alberta;
- (o) "**Insite Report**" means the independent engineering evaluation of the Corporation's oil, natural gas liquids and natural gas interests prepared by Insite dated February 15, 2011 and effective December 31, 2010;
- (p) "**Lead Underwriter**" means BMO Nesbitt Burns Inc.;
- (q) "**misrepresentation**", "**material change**" and "**material fact**" shall have the meanings ascribed thereto under Applicable Securities Laws, "distribution" means "distribution" or "distribution to the public", as the case may be, as defined under Applicable Securities Laws and "distribute" has a corresponding meaning;
- (r) "**NI 44-101**" means National Instrument 44-101 – *Short Form Prospectus Distributions* of the Canadian Securities Administrators, as amended or replaced;
- (s) "**Offered Shares**" means, collectively, the Underwritten Shares and the Option Shares;
- (t) "**Preliminary Prospectus**" means the preliminary short form prospectus of the Corporation to be dated December 2, 2011 and any amendments thereto, in respect of the distribution of the Offered Shares, including the Documents;
- (u) "**Prospectus**" means the (final) short form prospectus of the Corporation and any amendments thereto, in respect of the distribution of the Offered Shares, including the Documents;
- (v) "**Prospectus Review Procedures**" means the procedures for prospectus review in multiple jurisdictions provided for under National Policy 11-202 – *Process for Prospectus Reviews in Multiple Jurisdictions* of the Securities Commissions and Multilateral Instrument 11-102 – *Passport System* of the Securities Commissions (other than Ontario);
- (w) "**Prospectuses**" means, collectively, the Preliminary Prospectus and the Prospectus;
- (x) "**Public Record**" means all information filed by or on behalf of the Corporation and its predecessor entities, with the Securities Commissions, including without limitation, the Documents, the Financial Statements, the Prospectus, any Supplementary Material and any other information filed with any Securities Commission in compliance, or intended compliance, with any Applicable Securities Laws;

- (y) **“Qualifying Provinces”** means each of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia, New Brunswick, Newfoundland and Labrador and Prince Edward Island;
- (z) **“Securities Commissions”** means the securities commissions or similar regulatory authorities in the Qualifying Provinces;
- (aa) **“Selling Dealer Group”** means the dealers and brokers other than the Underwriters who participate in the offer and sale of the Offered Shares pursuant to this agreement;
- (bb) **“Shareholders”** means the holders from time to time of Shares;
- (cc) **“Shares”** means common shares in the capital of the Corporation;
- (dd) **“subsidiary”** has the meaning assigned thereto in the ABCA;
- (ee) **“Supplementary Material”** means, collectively, any amendment to the Preliminary Prospectus or Prospectus, any amended or supplemented Preliminary Prospectus or Prospectus or any ancillary material, information, evidence, return, report, application, statement or document which may be filed by or on behalf of the Corporation under the Applicable Securities Laws or pursuant to the requirements of applicable securities laws, rules and regulations in the United States;
- (ff) **“Tax Act”** means the *Income Tax Act* (Canada) and the regulations thereunder, as amended;
- (gg) **"Trust"** means Peyto Energy Trust;
- (hh) **“Trust Conversion”** means the arrangement under the ABCA involving, the Trust, and certain subsidiaries and affiliates of the Trust and the Unitholders which resulted in the conversion of the Trust from a trust structure to a corporate structure by way of an internal reorganization;
- (ii) **"Unitholders"** means the holders from time to time of Units;
- (jj) **"Units"** means trust units of the Trust;
- (kk) **“Underwriters’ counsel”** means Macleod Dixon LLP or such other legal counsel as the Underwriters, with the consent of the Corporation, may appoint;
- (ll) **“Underwriters’ Fee”** has the meaning ascribed thereto in section 2 hereof;
- (mm) **“United States”** means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;

- (nn) **“U.S. Placement Memorandum”** has the meaning ascribed thereto in Schedule "A" to this agreement; and
- (oo) **“U.S. Securities Act”** means the United States Securities Act of 1933, as amended.

## 2. Underwriting Fee

In consideration for their services in underwriting the distribution of and purchasing the Underwritten Shares, the Corporation agrees to pay the Underwriters at the Closing Time a fee (the **“Underwriters’ Fee”**) of \$0.94 per Underwritten Share for each Underwritten Share purchased (being an aggregate amount of \$4,004,400). The Corporation also agrees to pay to the Underwriters the Underwriters’ Fee for each Option Share purchased by the Underwriters pursuant to the Over-Allotment Option, at the closing of such purchase.

The foregoing fee may, at the sole option of the Underwriters, be deducted from the aggregate gross proceeds of the sale of the Offered Shares and withheld for the account of the Underwriters. In the event that the Canada Revenue Agency determines that Goods and Services Tax provided for in the *Excise Tax Act* (Canada) is exigible on the Underwriters’ Fee, the Corporation agrees to pay the amount of Goods and Services Tax forthwith upon the request of the Underwriters. The Corporation also agrees to pay the Underwriters’ expenses as set forth in section 11.

## 3. Qualification for Sale

- (a) The Corporation represents and warrants to the Underwriters that it is qualified to file a prospectus pursuant to NI 44-101 for the distribution of the Offered Shares.
- (b) The Corporation shall:
  - (i) have, not later than 4:00 p.m. (Calgary time) on December 2, 2011, prepared and filed the Preliminary Prospectus and other documents required under the Applicable Securities Laws with the Securities Commissions and designated the ASC as the principal regulator;
  - (ii) have obtained a preliminary receipt dated not later than December 2, 2011 from the ASC under the Prospectus Review Procedures, evidencing that a receipt has been issued or deemed to have been issued for the Preliminary Prospectus in each Qualifying Province;
  - (iii) have, forthwith after any comments with respect to the Preliminary Prospectus have been received from the ASC, but not later than 4:00 p.m. (Calgary time) on December 9, 2011 (or such later date or time as may be agreed to in writing by the Corporation and the Underwriters), prepared

and filed the Prospectus and other documents required under the Applicable Securities Laws with the Securities Commissions;

- (iv) have obtained a final receipt dated not later than December 9, 2011 (or such later date or time as may be agreed to in writing by the Corporation and the Underwriters) from the ASC under the Prospectus Review Procedures, evidencing that a receipt has been issued or deemed to have been issued for the Prospectus in each Qualifying Province;
  - (v) have otherwise fulfilled all legal requirements to enable the Offered Shares to be offered and sold to the public in each of the Qualifying Provinces through the Underwriters or any other investment dealer or broker registered in the applicable Qualifying Province; and
  - (vi) until the completion of the distribution of the Offered Shares, promptly take or cause to be taken all additional steps and proceedings that from time to time may be required under the Applicable Securities Laws in each Qualifying Province to continue to qualify the Offered Shares for distribution or, in the event that the Offered Shares have, for any reason, ceased to so qualify, to again qualify the Offered Shares for distribution.
- (c) Prior to the filing of the Prospectuses and, during the period of distribution of the Offered Shares, prior to the filing with any Securities Commissions of any Supplementary Material, the Corporation shall have allowed the Underwriters and the Underwriters' counsel to participate fully in the preparation of, and to approve the form of, such documents and to have reviewed any documents incorporated by reference therein.
- (d) During the period from the date hereof until completion of the distribution of the Offered Shares, the Corporation shall allow the Underwriters to conduct all due diligence which they may reasonably require in order to fulfil their obligations as underwriters and in order to enable the Underwriters responsibly to execute the certificates required to be executed by them in the Prospectuses or in any Supplementary Material.
- (e) The Corporation shall take or cause to be taken all such other steps and proceedings, including fulfilling all legal, regulatory and other requirements, as required under Applicable Securities Laws, to qualify the Offered Shares for distribution to the public in the Qualifying Provinces.
4. Delivery of Prospectuses, U.S. Placement Memorandum and Related Documents

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

- (a) prior to or contemporaneously, as nearly as practicable, with the filing with the Securities Commissions of each of the Preliminary Prospectus and the Prospectus:
  - (i) copies of the Preliminary Prospectus and the Prospectus signed as required by Applicable Securities Laws; and
  - (ii) copies of any documents incorporated by reference therein which have not previously been delivered to the Underwriters;
- (b) as soon as they are available, copies of the U.S. Placement Memorandum prepared as contemplated herein including copies of any documents incorporated by reference therein which have not previously been delivered to the Underwriters;
- (c) as soon as they are available, copies of any Supplementary Material signed as required by the Applicable Securities Laws or U.S. securities laws, as applicable, and including, in each case, copies of any documents incorporated by reference therein which have not been previously delivered to the Underwriters; and
- (d) prior to the filing of the Prospectus with the Securities Commissions, a “comfort letter” from the Corporation’s auditors, dated the date of the Prospectus, addressed to the Underwriters and reasonably satisfactory in form and substance to the Underwriters and the Underwriters’ counsel, to the effect that they have carried out certain procedures performed for the purposes of comparing certain specified financial information and percentages appearing in the Prospectus and the documents incorporated therein by reference with indicated amounts in the financial statements or accounting records of the Corporation and have found such information and percentages to be in agreement, which comfort letter shall be based on the Corporation’s auditors review having a cut off date of not more than two Business Days prior to the date of the Prospectus.

Comfort letters similar to the foregoing shall be provided to the Underwriters with respect to any Supplementary Material and any other relevant document at the time the same is presented to the Underwriters for their signature or, if the Underwriters’ signature is not required, at the time the same is filed. All such letters shall be in form and substance acceptable to the Underwriters and the Underwriters’ counsel, acting reasonably.

The deliveries referred to in this section 4 shall also constitute the Corporation’s consent to the use by the Underwriters and other members of the Selling Dealer Group of the Documents, the Prospectuses and any Supplementary Material in connection with the offering and sale of the Offered Shares. Each delivery of the U.S. Placement Memorandum and any Supplementary Material will constitute consent by the Corporation to the use of the U.S. Placement Memorandum and any Supplementary Material required to be prepared and/or

filed under U.S. securities laws by the U.S. broker affiliates of the Underwriters and members of the Selling Dealer Group for the distribution of the Offered Shares for sale by them in the United States in accordance with this agreement.

5. Commercial Copies

- (a) The Corporation shall, as soon as possible but in any event not later than noon (local time at the place of delivery) on the Business Day following the date of the filing of the Preliminary Prospectus or the Prospectus, as the case may be, with the Securities Commissions and no later than noon (local time) on the first Business Day after the execution of any Supplementary Material in connection with the Prospectuses cause to be delivered to the Underwriters, without charge, commercial copies of the Preliminary Prospectus, the Prospectus or such Supplementary Material in such numbers and in such cities as the Underwriters may reasonably request by oral or written instructions to the Corporation or the printer thereof given no later than the time when the Corporation authorizes the printing of the commercial copies of such documents.
- (b) The Corporation shall cause to be provided to the Underwriters such number of copies of any documents incorporated by reference in the Preliminary Prospectus, the Prospectus or any Supplementary Materials as the Underwriters may reasonably request.
- (c) The Corporation shall cause to be delivered to the Underwriters, contemporaneously with the deliveries contemplated by subsection 5(a), at those delivery points that the Underwriters may reasonably request, commercial copies of the U.S. Placement Memorandum and any Supplementary Material required to be delivered to purchasers or prospective purchasers of the Offered Shares.

6. Distribution of Offered Shares

- (a) The Underwriters shall offer the Offered Shares for sale to the public, directly and through the Seller Dealer Group (the Underwriters together with the Seller Dealer Group are referred to herein as the “**Selling Firms**”), in compliance with Applicable Securities Laws and upon the terms and conditions set forth in the Preliminary Prospectus, the Prospectus, any Supplementary Material and this agreement. The Underwriters shall be entitled to assume that the Offered Shares are qualified for distribution in any Qualifying Province named in the final receipt issued by the ASC pursuant to the Prospectus Review Procedures with respect to the filing of the Prospectus unless the Underwriters receive notice to the contrary from the Corporation or the applicable Securities Commission. Notwithstanding the foregoing, an Underwriter will not be liable to the Corporation under this Section 6(a) with respect to a default by another Selling

Firm under this Section 6(a) but will be liable to the Corporation only for its own default.

- (b) After the Underwriters have made a reasonable effort to sell all of the Underwritten Shares at the initial offering price of \$23.50 per Underwritten Share disclosed in the Prospectus, the Underwriters may decrease the offering price. Any such decrease will not decrease the price paid by the Underwriters to the Corporation for the Underwritten Shares or the Underwriters' Fee paid by the Corporation to the Underwriters for the Underwritten Shares. The Underwriters will inform the Corporation if the offering price to the public is decreased.
- (c) In connection with the distribution of the Offered Shares, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Shares at levels other than those that might otherwise prevail in the open market, as permitted by Applicable Securities Laws. Such transactions, if commenced, may be discontinued at any time.
- (d) The Underwriters shall use all reasonable efforts to complete and to cause the Selling Firms to complete the distribution of the Underwritten Shares as soon as possible after the Closing Time and to complete the distribution of the Option Shares as soon as possible after the closing of the purchase and sale of any Option Shares. The Lead Underwriter will notify the Corporation when, in its opinion, the Underwriters have ceased distribution of the Offered Shares and shall, as soon as practicable, provide the Corporation with a breakdown of the number of Offered Shares distributed in each of the Qualifying Provinces where such breakdown is required for the purpose of calculating fees payable to Securities Commissions.
- (e) The Underwriters will not solicit offers to purchase or sell the Offered Shares so as to require registration of the Offered Shares or the filing of a prospectus, registration statement or other notice or document with respect to the distribution of the Offered Shares under the laws of any jurisdiction other than the Qualifying Provinces, and will require each other Selling Firm to agree with the Underwriters not to so solicit or sell. In particular, the Underwriters acknowledge that the Offered Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States except in accordance with Rule 144A under the U.S. Securities Act, and agree that in addition to the provisions in Schedule "A", they have not offered or sold, and will not offer or sell, any of the Offered Shares within the United States except for offers and sales made in accordance with Rule 144A under the U.S. Securities Act.

7. Material Change

- (a) During the period of distribution of the Offered Shares, the Corporation will promptly inform the Underwriters, in writing, of the full particulars of:
  - (i) any material change (actual, anticipated or threatened) in or affecting the business, operations, capital, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of operations of the Corporation;
  - (ii) any change in any material fact contained or referred to in the Preliminary Prospectus, the Prospectus, the U.S. Placement Memorandum or any Supplementary Material; and
  - (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 the Preliminary Prospectus, the Prospectus, the U.S. Placement Memorandum or any Supplementary Material untrue, false or misleading in any material respect;
    - (B) result in a misrepresentation in the Preliminary Prospectus, the Prospectus, the U.S. Placement Memorandum or any Supplementary Material; or
    - (C) result in the Preliminary Prospectus, the Prospectus, the U.S. Placement Memorandum or any Supplementary Material not complying in any material respect with the Applicable Securities Laws or U.S. securities laws, as applicable,

provided that if the Corporation is uncertain as to whether a material change, change, occurrence or event of the nature referred to in this subsection has occurred, the Corporation shall promptly inform the Underwriters, in writing, 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 nature.

- (b) During the period of distribution of the Offered Shares, the Corporation shall promptly inform the Underwriters of the full particulars of:
  - (i) any request of any Securities Commission for any amendment to the Preliminary Prospectus, the Prospectus or any other part of the Public Record or for any additional information;
  - (ii) the issuance by any Securities Commission or 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; and

- (iii) the receipt by the Corporation of any communication from any Securities Commission or similar regulatory authority, the Exchange or any other competent authority relating to the Preliminary Prospectus, the Prospectus, the U.S. Placement Memorandum, any other part of the Public Record or the distribution of the Offered Shares.
- (c) The Corporation will promptly 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 7(a) or 7(b) above and the Corporation will prepare and file promptly at the Underwriters' request any amendment to the Prospectus or Supplementary Material as may be required under Applicable Securities Laws provided that the Corporation shall have allowed the Underwriters and the Underwriters' counsel to participate fully in the preparation of any Supplementary Material, to have reviewed any other documents incorporated by reference therein and conduct all due diligence investigations which the Underwriters may reasonably require in order to fulfill their obligations as underwriters and in order to enable the Underwriters responsibly to execute the certificate required to be executed by them in, or in connection with, any Supplementary Material, such approval not to be unreasonably withheld and to be provided in a timely manner. The Corporation shall further promptly deliver to each of the Underwriters and the Underwriters' counsel a copy of each Supplementary Material as filed with the Securities Commissions, and of opinions and letters with respect to each such Supplementary Material substantially similar to those referred to in section 4 above.
- (d) During the period of distribution of the Offered Shares, the Corporation will promptly provide to the Underwriters, for review by the Underwriters and the Underwriters' counsel, prior to filing or issuance:
- (i) any financial statement of the Corporation;
  - (ii) any proposed Document including without limitation any amendment to the AIF, new annual information form, material change report, interim report, or information circular, which may be incorporated, or deemed to be incorporated, by reference in the Prospectus; and
  - (iii) any press release of the Corporation,
- and provide to the Underwriters, for review by the Underwriters and the Underwriters' counsel any draft or final report with respect to the crude oil,

natural gas liquids and natural gas reserves, or value, attributable to the Assets prepared by Insite or any other independent engineer as soon as practicable following receipt thereof by the Corporation.

8. Representations and Warranties of the Corporation

- (a) Each delivery of the Prospectus and the U.S. Placement Memorandum pursuant to section 4 above shall constitute a representation and warranty to the Underwriters by the Corporation (and the Corporation hereby acknowledges that each of the Underwriters is relying on such representations and warranties in entering into this agreement) that:
  - (i) all of the information and statements (other than any information or statement relating solely to the Underwriters and furnished to the Corporation by the Underwriters in writing expressly for inclusion in the Preliminary Prospectus, Prospectus or U.S. Placement Memorandum) contained in the Preliminary Prospectus, the Prospectus, the U.S. Placement Memorandum or any Supplementary Material, as applicable, including, without limitation, the documents incorporated by reference, as the case may be, at the respective dates of such documents:
    - (A) are true and correct in all material respects;
    - (B) contain no misrepresentation; and
    - (C) constitute full, true and plain disclosure of all material facts relating to the Corporation and the Offered Shares;
  - (ii) the Preliminary Prospectus, the Prospectus, or any Supplementary Material, as applicable, including, without limitation, the documents incorporated by reference, as the case may be, complies in all material respects with the Applicable Securities Laws, including without limitation NI 44-101; and
  - (iii) except as is disclosed in the Public Record, there has been no intervening material change (actual, proposed or prospective, whether financial or otherwise), from the date of the Preliminary Prospectus, the Prospectus, the U.S. Placement Memorandum and any Supplementary Material to the time of delivery thereof, in the business, operations, capital, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of operations of the Corporation.
- (b) In addition to the representations and warranties contained in subsection (a) hereof the Corporation represents and warrants to the Underwriters, and

acknowledges that each of the Underwriters is relying upon such representations and warranties in entering into this agreement that:

- (i) the Corporation has been duly amalgamated and organized and is valid and subsisting in good standing under the laws of its jurisdiction of amalgamation, and has all requisite authority and power to carry on its business as described in the Prospectuses and to own, lease and operate its properties and assets as described in the Prospectuses including, without limitation, to own and administer its properties and assets, including the Assets;
- (ii) the Corporation does not have any subsidiaries and the Corporation is not “affiliated” with or a “holding corporation” of any body corporate (within the meaning of those terms in the ABCA);
- (iii) the Corporation has full power and authority to issue the Offered Shares and, at the Closing Date, the Underwritten Shares to be purchased hereunder will be duly and validly authorized for issuance and, upon receipt of the purchase price therefor, will be duly and validly issued as fully paid and non assessable and the Option Shares will be duly and validly authorized for issuance and, if applicable, upon receipt of the purchase price therefor, will be duly and validly issued as fully paid and non assessable upon due exercise of the Over-Allotment Option;
- (iv) the Corporation is not in default or breach of, and the execution and delivery of, and the performance of and compliance with the terms of this agreement by the Corporation and the transactions contemplated hereby and thereby 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, would result in a breach of or constitute a default under, any term or provision of the articles, by laws, or resolutions of the Corporation, or any indenture, mortgage, note, contract, agreement (written or oral), instrument, lease or other document to which the Corporation is a party or by which the Corporation is bound, or any judgment, decree, order, statute, rule or regulation applicable to the Corporation which default or breach might reasonably be expected to materially adversely affect the business, operations, capital, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of operations of the Corporation;
- (v) the Corporation has full corporate power and authority to enter into this agreement and to perform its obligations set out herein and this agreement has been duly authorized, executed and delivered by the Corporation and this agreement is a legal, valid and binding obligation of

the Corporation enforceable against the Corporation in accordance with its terms subject to the general qualifications that:

- (A) enforceability may be limited by bankruptcy, insolvency or other laws affecting creditors' rights generally; and
  - (B) equitable remedies, including the remedies of specific performance and injunctive relief, are available only in the discretion of the applicable court;
- (vi) there has not been any material change in the capital, assets, liabilities or obligations (absolute, accrued, contingent or otherwise) of the Corporation, from the position set forth in the Financial Statements except as contemplated by the Prospectuses and there has not been any adverse material change in the business, operations, capital, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of operations of the Corporation since December 31, 2010 except as disclosed in the Prospectuses; and since that date there have been no material facts, transactions, events or occurrences which could materially adversely affect the business, operations, capital, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of operations of the Corporation which have not been disclosed in the Prospectuses;
- (vii) the Financial Statements fairly present, in accordance with generally accepted accounting principles in Canada, consistently applied (other than in respect of the adoption of International Financial Reporting Standards as described in the notes to certain of the Financial Statements), the financial position and condition, the results of operations, cash flows and the other information purported to be shown therein of the Corporation, as at the dates thereof and for the periods then ended and reflect all assets, liabilities and obligations (absolute, accrued, contingent or otherwise) of the Corporation, as at the dates thereof required to be disclosed by generally accepted accounting principles in Canada, and include all adjustments necessary for a fair presentation;
- (viii) except as shall have been made or obtained at or before the Closing Time under the Applicable Securities Laws, no authorization, approval, consent, order, filing, registration or qualification of or with any court or governmental authority or agency or body or regulatory authority is required to be obtained by the Corporation in connection with the sale and delivery of the Offered Shares;

- (ix) there are no actions, suits, proceedings or inquiries pending or (as far as the Corporation is aware) threatened against or affecting the Corporation at law or in equity or before or by any federal, provincial, municipal or other governmental department, commission, board, bureau, agency or instrumentality which in any way materially adversely affects, or may in any way materially adversely affect, the business, operations, capital, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of operations of the Corporation or which affects or may affect the distribution of the Offered Shares;
- (x) the Corporation has conducted and is conducting its business in all material respects in compliance with all applicable laws, rules and regulations of each jurisdiction in which it carries on business and holds all material licences, registrations and qualifications in all jurisdictions in which it carries on business necessary to carry on its business as now conducted and as contemplated to be conducted in the Prospectuses;
- (xi) the information and statements set forth in the Public Record to the extent incorporated by reference in the Prospectuses were true, correct, and complete and did not contain any misrepresentation, as of the date of such information or statements;
- (xii) the authorized capital of the Corporation consists of an unlimited number of Shares of which, as at the date of this agreement, 133,061,301 Shares are issued and outstanding;
- (xiii) no person holds any securities convertible into or exchangeable for Shares or other securities of the Corporation or has any agreement, warrant, option, right or privilege being or capable of becoming an agreement, warrant, option or right for the acquisition of any unissued Shares or other securities of the Corporation;
- (xiv) no order, ruling or determination having the effect of ceasing, suspending or restricting trading in any securities of the Corporation and no proceedings, investigations or inquiries for such purpose are pending or contemplated or (as far as the Corporation is aware) threatened;
- (xv) Valiant Trust Company at its principal office in the City of Calgary and, through its agent, the City of Toronto, is the duly appointed registrar and transfer agent of the Corporation with respect to the Shares;
- (xvi) the minute books and record books, as the case may be, of the Corporation and its predecessors, are true and correct in all material respects and at the Closing Date will contain the minutes of all meetings

and all resolutions of the trustees, directors, shareholders, partners, committees of the board of directors and Shareholders of the Corporation and its predecessors;

- (xvii) other than as provided for in this agreement, the Corporation, has not incurred any obligation or liability (absolute, accrued, 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;
- (xviii) the issued and outstanding Shares are listed and posted for trading on the Exchange;
- (xix) the Corporation is a "reporting issuer" in each of the provinces of Canada within the meaning of the Applicable Securities Laws in such provinces and is not in default of any requirement of the Applicable Securities Laws in any material respect;
- (xx) the definitive form of certificates for the Shares is in due and proper form under the laws governing the Corporation and in compliance with the requirements of the Exchange;
- (xxi) the Corporation has made available to Insite, prior to the issuance of the Insite Report, for the purpose of preparing the Insite Report, all information requested by Insite, which information does not contain any material misrepresentation. The Corporation does not have any knowledge of a material adverse change in any production, cost, price (except for changes in commodity prices), reserves or other relevant information provided to Insite since the date that such information was so provided. The Corporation believes that the Insite Report reasonably presents the quantity and pre-tax present worth values of the oil and gas reserves attributable to the crude oil, natural gas liquids and natural gas properties evaluated in such report as at December 31, 2010 based upon information available at the time such reserves information was prepared, and the Corporation believes that at the date of each such report, each report did not (and as of the date hereof, except as may be attributable to changes in commodity prices and production since the date of each such report, does not) overstate the aggregate quantity or pre tax present worth values of such reserves or the estimated monthly production volumes therefrom;
- (xxii) the Corporation is not aware of any defects, failures or impairments in the title of the Corporation to the Assets, whether or not an action, suit, proceeding or inquiry is pending or threatened or whether or not discovered by any third party, which in aggregate could have a material

adverse effect on: (A) the quantity and pre-tax present worth values of the Assets; (B) the current production volumes of the Corporation; or (C) the current cash flow of the Corporation;

- (xxiii) to the knowledge of the Corporation, the Corporation has good and marketable title to the Assets, free and clear of all liens, charges, encumbrances and security interests of any nature or kind except for the security interest granted to the lender of the Corporation as described in the Prospectuses;
- (xxiv) each of the Corporation and its predecessors have been and the Corporation is in material compliance with all applicable federal, state, municipal and local laws, statutes, ordinances, by laws and regulations and orders, directives and decisions rendered by any ministry, department or administrative or regulatory agency, domestic or foreign, ("**Environmental Laws**") relating to the protection of the environment, occupational health and safety or the processing, use, treatment, storage, disposal, discharge, transport or handling of any pollutants, contaminants, chemicals or industrial, toxic or hazardous wastes or substance;
- (xxv) there has not occurred any material spills, emissions or pollution on any property of the Corporation or for which the Corporation, is or may be responsible, nor is the Corporation, subject to any outstanding stop orders, control orders, clean-up orders or reclamation orders under Environmental Laws;
- (xxvi) the Corporation has obtained all material licences, permits, approvals, consents, certificates, registrations and other authorizations under Environmental Laws (the "**Environmental Permits**") necessary for the operation of its projects as currently operated and each Environmental Permit is valid, subsisting and in good standing and the Corporation is not in default or breach thereof and no proceeding is pending or threatened to revoke or limit any Environmental Permit, except in each case where the result would not have a material adverse effect on the Corporation;
- (xxvii) the Corporation (including its predecessors) has not received any notice of, or been prosecuted for an offence alleging, material non compliance with any Environmental Laws, and the Corporation (including its predecessors) has not settled any allegation of material non-compliance short of prosecution. There are no order or directions relating to environmental matters requiring any material work, repairs, construction or capital expenditures to be made with respect to any of the assets of the Corporation, nor has the Corporation received notice of any of the

same and which orders directions or notices remain outstanding as unresolved;

- (xxviii) the Corporation has the necessary power and authority to execute and deliver the Prospectuses and all requisite action has been taken by the Corporation to authorize the execution and delivery by it of the Prospectuses and all ancillary documentation and the filing thereof;
- (xxix) the attributes and characteristics of the Offered Shares conform in all material respects to the attributes and characteristics thereof described in the Prospectuses;
- (xxx) except as disclosed in the Preliminary Prospectus, the Prospectus and any Supplementary Material, as the case may be, the Corporation has no material contingent liabilities;
- (xxxi) with such exceptions as are not material to the Corporation, each of the Corporation and its predecessors has duly and on a timely basis filed all tax returns required to be filed by it, has paid all taxes due and payable by it and has paid all assessments and re-assessments and all other taxes, governmental charges, penalties, interest and other fines due and payable by it and which were 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, 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 each of the Corporation and its predecessors, the conversion of the Trust into the Corporation did not result in a material reduction in the Corporation's tax attributes attributable to the Trust's activities or the Corporation's ability to use such tax attributes, and to the best of the knowledge, information and belief of the Corporation, there are no actions, suits, proceedings, investigations or claims threatened or pending against any of the Corporation or its predecessors in respect of taxes, governmental charges or assessments asserted by any such authority, and each of the Corporation and its predecessors has withheld and remitted on a timely basis any amounts that it is required to withhold and remit under any applicable legislation.

## 9. Indemnity

- (a) The Corporation shall indemnify and save the Underwriters, and each of the Underwriters' agents, directors, officers, shareholders and employees harmless against and from all liabilities, claims, demands, losses (other than losses of profit in connection with the distribution of the Offered Shares), costs (including,

without limitation, legal fees and disbursements on a full indemnity basis), damages and expenses to which the Underwriters, or any of the Underwriters' agents, directors, officers, shareholders or employees may be subject or which the Underwriters, or any of the Underwriters' agents, directors, officers, shareholders or employees may suffer or incur, whether under the provisions of any statute or otherwise, in any way caused by, or arising directly or indirectly from or in consequence of:

- (i) any information or statement contained in the Preliminary Prospectus, the Prospectus, the U.S. Placement Memorandum, any Supplementary Material or in any other document or material filed or delivered pursuant hereto (other than any information or statement relating solely to the Underwriters and furnished to the Corporation by the Underwriters in writing expressly for inclusion in the Preliminary Prospectus, Prospectus or U.S. Placement Memorandum) which is or is alleged to be untrue or any omission or alleged omission to provide any information or state any fact (other than any information or fact relating solely to the Underwriters) 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;
- (ii) any misrepresentation or alleged misrepresentation (except a misrepresentation which is based upon information relating solely to the Underwriters and furnished to the Corporation by the Underwriters in writing expressly for inclusion in the Preliminary Prospectus, Prospectus or U.S. Placement Memorandum) contained in the Preliminary Prospectus, the Prospectus, the U.S. Placement Memorandum, any Supplementary Materials or in any other document or any other part of the Public Record filed by or on behalf of the Corporation;
- (iii) any prohibition or restriction of trading in the securities of the Corporation or any prohibition or restriction affecting the distribution of the Offered Shares 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 9(a)(ii);
- (iv) 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 Dealer Group members, if any) prohibiting, restricting, relating to or materially affecting the trading or distribution of the Offered Shares; or
- (v) any breach of, default under or non compliance by the Corporation with any requirements of the Applicable Securities Laws, applicable U.S.

securities laws, the by laws, rules or regulations of the Exchange or any representation, warranty, term or condition of this agreement or in any certificate or other document delivered by or on behalf of the Corporation hereunder or pursuant hereto;

provided, however, no party who has engaged in any fraud, wilful misconduct, fraudulent misrepresentation or negligence shall be entitled, to the extent that the liabilities, claims, losses, costs, damages or expenses were caused by such activity, to claim indemnification from any person who has not engaged in such fraud, wilful misconduct, fraudulent misrepresentation or negligence (provided that, for greater certainty, an Underwriters' failure to conduct such reasonable investigation as to provide reasonable grounds for a belief that the Prospectus contained no misrepresentation shall not constitute negligence for the purposes of this subsection 9(a) or otherwise disentitle an Indemnified Person from claiming indemnification hereunder).

- (b) If any claim contemplated by subsection 9(a) shall be asserted against any of the persons or corporations in respect of which indemnification is or might reasonably be considered to be provided for in such subsection, such person or corporation (the "**Indemnified Person**") shall notify the Corporation (the "**Indemnifying Party**") (provided that failure to so notify the Indemnifying Party of the nature of such claim in a timely fashion shall relieve the Indemnifying Party of liability hereunder only if and to the extent that such failure materially prejudices the Indemnifying Party's ability to defend such claim) as soon as possible of the nature of such claim and the Indemnifying Party shall be entitled (but not required) to assume the defence of any suit brought to enforce such claim, provided however, that the defence shall be through legal counsel selected by the Indemnifying Party and acceptable to the Indemnified Person acting reasonably and that no settlement may be made by the Indemnifying Party or the Indemnified Person without the prior written consent of the other, such consent not to be unreasonably withheld. The Indemnified Person shall have the right to retain its own counsel in any proceeding relating to a claim contemplated by subsection 9(a) if:
  - (i) the Indemnified Person has been advised by counsel that there may be a reasonable legal defense available to the Indemnified Person which is different from or additional to a defense available to the Indemnifying Party and that representation of the Indemnified Person and the Indemnifying Party by the same counsel would be inappropriate due to the actual or potential differing interests between them (in which case the Indemnifying Party shall not have the right to assume the defense of such proceedings on the Indemnified Person's behalf);

- (ii) the Indemnifying Party shall not have taken the defense of such proceedings and employed counsel within ten (10) days after notice has been given to the Indemnifying Party of commencement of such proceedings; or
- (iii) the employment of such counsel has been authorized by the Indemnifying Party in connection with the defense of such proceedings;

and, in any such event, the reasonable fees and expenses of such Indemnified Person's counsel (on a solicitor and his client basis) shall be paid by the Indemnifying Party, provided that the Indemnifying Party 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 fees and expenses of more than one separate law firm (in addition to any local counsel) for all such Indemnified Persons.

- (c) The Indemnifying Party hereby waives its rights to recover contribution from the Underwriters with respect to any liability of the Indemnifying Party by reason of or arising out of any misrepresentation in the Preliminary Prospectus, the Prospectus, the U.S. Placement Memorandum, any Supplementary Material or any other 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 to the Corporation by the Underwriters in writing expressly for inclusion in the Preliminary Prospectus, the Prospectus, the U.S. Placement Memorandum or any Supplementary Material.
- (d) If any legal proceedings shall be instituted against an Indemnifying Party in respect of the Preliminary Prospectus, the Prospectus, the U.S. Placement Memorandum, any Supplementary Material or any other part of the Public Record or the Offered Shares or if any regulatory authority or stock exchange shall carry out an investigation of the Indemnifying Party in respect of the Preliminary Prospectus, the Prospectus, the U.S. Placement Memorandum, any Supplementary Material or any other part of the Public Record or the Offered Shares and, in either case, any Indemnified Person is required to testify, or respond to procedures designed to discover information, in connection with or by reason of the services performed by the Underwriters hereunder, the Indemnified Persons may employ their own legal counsel and the Indemnifying Party shall pay and reimburse the Indemnified Persons for the reasonable fees, charges and disbursements (on a full indemnity basis) of such legal counsel, the other expenses reasonably incurred by the Indemnified Persons in connection with such proceedings or investigation and a fee at the normal per diem rate for

any director, officer or employee of the Underwriters involved in the preparation for or attendance at such proceedings or investigation.

- (e) The rights and remedies of the Indemnified Persons set forth in sections 9, 10 and 11 hereof are to the fullest extent possible in law cumulative and not alternative and the election by any Underwriter or other Indemnified Person to exercise any such right or remedy shall not be, and shall not be deemed to be, a waiver of any other rights and remedies.
- (f) The Indemnifying Party hereby acknowledges that the Underwriters are acting as agents for the Underwriters' respective agents, directors, officers, shareholders and employees under this section 9 and under section 10 with respect to all such agents, directors, officers, shareholders and employees.
- (g) The Indemnifying Party waives any right it may have of first requiring an Indemnified Person to proceed against or enforce any other right, power, remedy or security or claim or to claim payment from any other person before claiming under this indemnity. It is not necessary for an Indemnified Person to incur expense or make payment before enforcing such indemnity.
- (h) The rights of indemnity contained in this section 9 shall not apply if the Indemnifying Party has complied with the provisions of sections 3 and 4 and the person asserting any claim contemplated by this section 9 was not provided with a copy of the Prospectus or any amendment to the Prospectus or other document which corrects any misrepresentation or alleged misrepresentation which is the basis of such claim and which was required, under Applicable Securities Laws, to be delivered to such person by the Underwriters.
- (i) If the Indemnifying Party has assumed the defense of any suit brought to enforce a claim hereunder, the Indemnified Person shall provide the Indemnifying Party copies of all documents and information in its possession pertaining to the claim, take all reasonable actions necessary to preserve its rights to object to or defend against the claim, consult and reasonably cooperate with the Indemnifying Party in determining whether the claim and any legal proceeding resulting therefrom should be resisted, compromised or settled and reasonably cooperate and assist in any negotiations to compromise or settle, or in any defense of, a claim undertaken by the Indemnifying Party.

#### 10. Contribution

In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in this agreement is due in accordance with its terms but is, for any reason, held by a court to be unavailable from the Indemnifying Party on grounds of policy or otherwise, the Indemnifying Party and the party or parties seeking indemnification shall contribute to the aggregate liabilities, claims, demands, losses (other than losses of profit in

connection with the distribution of the Offered Shares), costs (including, without limitation, legal fees and disbursements on a full indemnity basis), damages and expenses 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 Indemnifying Party on the one hand, and by the Underwriters on the other hand, from the offering of the Offered Shares; or
- (b) if the allocation provided by subsection 10(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 10(a) above but also to reflect the relative fault of the Underwriters on the one hand, and the Indemnifying Party, on the other hand, in connection with the statements, commissions or omissions or other matters 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 Indemnifying Party, 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 Indemnifying Party (net of fees but before deducting expenses) bear to the fees received by the Underwriters. In the case of liability arising out of the Preliminary Prospectus, the Prospectus, any Supplementary Material or any other part of the Public Record, the relative fault of the Indemnifying Party, 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 or thing referred to in section 9 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 Indemnifying Party or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such misrepresentation or alleged misrepresentation, order, inquiry, investigation or other matter or thing referred to in section 9.

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

Each of the Indemnifying Party and the Underwriters agree 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 subsections. The rights to contribution

provided in this section 10 shall be in addition to, and without prejudice to, any other right to contribution which the Underwriters or other Indemnified Persons may have.

Any liability of the Underwriters under this section 10 shall be limited to the amount actually received by the Underwriters under section 2.

#### 11. Expenses

Whether or not the transactions contemplated herein shall be completed, all costs and expenses (including applicable goods and services tax) of or incidental to the transactions contemplated hereby including, without limitation, those relating to the distribution of the Offered Shares shall be borne by the Corporation including, without limitation, all costs and expenses of or incidental to the preparation, filing, reproduction (including the commercial copies thereof) of the Preliminary Prospectus, the Prospectus and any Supplementary Material and the delivery thereof to the Underwriters, the fees and expenses of the Corporation's counsel, the fees and expenses of agent counsel retained by the Corporation or the Corporation's counsel, the fees and expenses of the Corporation's transfer agent, auditors, engineers and other outside consultants, all stock exchange listing fees, the cost of preparing record books for all of the parties to this agreement and their respective counsel and all other costs and expenses relating to this transaction. Notwithstanding the foregoing, the fees and disbursements of the Underwriters' counsel and the out of pocket expenses of the Underwriters shall be borne by the Underwriters; provided that if the purchase and sale of the Offered Shares is not completed due to any failure of the Corporation to comply with the terms of this agreement, the Corporation shall reimburse the Underwriters in respect of such fees, disbursements and expenses, to the extent they are reasonable.

#### 12. Termination

- (a) Any Underwriter may, without liability, terminate its obligations hereunder, by written notice to the Corporation, in the event that after the date hereof and at or prior to the Closing Time:
  - (i) any order to cease or suspend trading in any securities of the Corporation or prohibiting or restricting the distribution of any of the Shares, including the Offered Shares, is made, or proceedings are announced, commenced or threatened for the making of any such order, by any securities commission or similar regulatory authority, the Exchange or any other competent authority, and has not been rescinded, revoked or withdrawn;
  - (ii) there should occur or commence, or be announced or threatened, any inquiry, action, suit, investigation or other proceeding (whether formal or informal); or any order is issued by any governmental authority or exchange; or any law or regulation is promulgated, changed or announced which, in the opinion of the Underwriter, acting reasonably, is

expected to adversely affect the trading in or the distribution of the Offered Shares or any other securities of the Corporation or would be expected to have a material adverse effect on the market price or value of the Shares or other securities of the Corporation;

- (iii) there shall have occurred any adverse change, as determined by the Underwriter in its sole discretion, acting reasonably, in the senior management of the Corporation or in the business, operations, capital or condition (financial or otherwise), business prospects, properties, assets, liabilities or obligations (absolute, accrued, contingent or otherwise) of the Corporation which in the Underwriter's opinion, could reasonably be expected to have a significant adverse effect on the market price or value of the Offered Shares or the investment quality or marketability of the Offered Shares;
  - (iv) there should develop, occur or come into effect or existence any event, action, state, condition or major financial occurrence of national or international consequence, any law or regulation, or any other occurrence of any nature whatsoever, which, in the sole opinion of the Underwriter, acting reasonably, seriously adversely affects, or involves, or will seriously adversely affect, or involve, the financial markets or the business, operations or affairs of the Corporation;
  - (v) the Underwriter shall become aware of any adverse material change with respect to the Corporation which had not been publicly disclosed in writing to the Underwriter at or prior to the date hereof; or
  - (vi) the Corporation shall be in breach or default under or non compliance with any representation, warranty, term or condition of this agreement, in any material respect.
- (b) The Underwriters, or any of them, may exercise any or all of the rights provided for in subsection 12(a) or section 13 or 17 notwithstanding any material change, change, event or state of facts and (except where the Underwriter purporting to exercise any of such rights is in breach of its obligations under this agreement) 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 Shares for sale and any act taken by the Underwriters in connection with any amendment to the Prospectus (including the execution of any amendment or any other Supplementary Material) 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 subsection 12(a) or section 13 or 17 if such

waiver or estoppel is in writing and specifically waives or estops such exercise or reliance.

- (c) Any termination pursuant to the terms of this agreement shall be effected by notice in writing delivered to the Corporation, provided that no termination shall discharge or otherwise affect any obligation of the Corporation under section 9, 10, 11 or 17. The rights of the Underwriters to terminate their obligations hereunder are in addition to, and without prejudice to, any other remedies they may have.
- (d) If an Underwriter elects to terminate its obligation to purchase the Offered Shares as aforesaid, whether the reason for such termination is within or beyond the control of the Corporation, the liability of the Corporation hereunder shall be limited to the indemnity referred to in section 9, the contribution rights referred to in section 10 and the payment of expenses referred to in section 11.

### 13. Closing Documents

The obligations of the Underwriters hereunder, as to the Underwritten Shares to be purchased at the Closing Time shall be conditional upon the Corporation having performed in all material respects, at the Closing Time, all of its obligations hereunder theretofore to be performed, and the Underwriters receiving at the Closing Time:

- (a) favourable legal opinions of the Corporation's counsel and the Underwriters' counsel addressed to the Underwriters, in form and substance reasonably satisfactory to the Underwriters, with respect to such matters as the Underwriters may reasonably request relating to the offering of the Offered Shares, the Corporation and the transactions contemplated hereby, including, without limitation, that:
  - (i) the Corporation has been duly amalgamated, is validly subsisting and has all requisite corporate power and authority to carry on its business as now conducted by it and to own and lease its properties and assets and is qualified to carry on business under the laws of the jurisdictions where it carries on a material portion of its business and conduct its business as described in the Prospectuses;
  - (ii) the Corporation has all necessary corporate power and authority to enter into this agreement and to perform its obligations set out herein, and this agreement has been duly authorized, executed and delivered by the Corporation, and constitutes a legal, valid and binding obligation of the Corporation enforceable against the Corporation in accordance with its terms subject to laws relating to creditors' rights generally and except that rights to indemnity and contribution may be limited or unavailable by applicable law;

- (iii) the execution and delivery of this agreement and the fulfilment of the terms hereof by the Corporation and the performance of and compliance with the terms of this agreement by the Corporation does not and will not result in a breach of, or constitute a default under, and does 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 Province of Alberta or the federal laws of Canada applicable therein or any term or provision of the articles, by laws or resolutions of the Shareholders or the directors of the Corporation, or 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, of which such counsel is aware;
- (iv) the form of the definitive certificate representing the Shares has been approved and adopted by the Corporation and complies with all legal requirements (including all applicable requirements of the Exchange) relating thereto;
- (v) the Underwritten Shares have been duly and validly created, allotted and issued as fully paid and non assessable Shares;
- (vi) the Corporation and the attributes of the Underwritten Shares conform in all material respects with the description thereof contained in the Prospectuses;
- (vii) the Underwritten Shares are qualified investments under the statutes set out under the heading "Eligibility for Investment" in the Prospectuses for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts subject to the limitations set out in the Prospectuses;
- (viii) all documents have been filed, all proceedings have been taken and all legal requirements have been fulfilled as required under the Applicable Securities Laws in order to qualify the Offered Shares for distribution and sale to the public in each of the Qualifying Provinces by or through investment dealers and brokers duly registered under the applicable laws of such provinces who have complied with the relevant provisions of such Applicable Securities Laws;
- (ix) the Corporation is a "reporting issuer" not in default of any requirement of the Securities Act (Alberta) and the regulations thereunder and has a similar status under the Applicable Securities Laws of each of the other Qualifying Provinces;

- (x) the Corporation has the necessary power and authority to execute and deliver the Prospectuses and all necessary action has been taken by the Corporation to authorize the execution and delivery by it of the Prospectuses and the filing thereof, as the case may be, in each of the Qualifying Provinces in accordance with Applicable Securities Laws;
- (xi) the Underwritten Shares are conditionally listed and, upon notification to the Exchange of the issuance and sale thereof, will be posted for trading on the Exchange;
- (xii) Valiant Trust Company, at its principal office in Calgary and, through its agent, in Toronto, has been duly appointed the transfer agent and registrar for the Shares; and
- (xiii) as to the authorized and issued capital of the Corporation and all other legal matters, including compliance with Applicable Securities Laws in any way connected with the issuance, sale and delivery of the Underwritten Shares as the Underwriters may reasonably request.

It is understood that the respective counsel may rely on the opinions of local counsel acceptable to them as to matters governed by the laws of jurisdictions other than where they are qualified to practice law, and on certificates of officers of the Corporation, the transfer agent and the Corporation's auditors as to relevant matters of fact. It is further understood that the Underwriters' counsel may rely on the opinion of the Corporation's counsel as to matters which specifically relate to the Corporation, and the Shares, including the issuance of the Offered Shares;

- (b) if any of the Offered Shares are sold in the United States, a favourable legal opinion of Dorsey & Whitney LLP, the Corporation's special United States counsel, in form and substance reasonably satisfactory to the Underwriters, which opinion may be subject to the usual and customary qualifications for opinions of this type, to the effect that no registration under the U.S. Securities Act is required for the offer and sale of the Offered Shares in the United States pursuant to and in accordance with the terms of Schedule "A" to this agreement;
- (c) a certificate of the Corporation dated the Closing Date, addressed to the Underwriters and signed on behalf of the Corporation by the President and Chief Executive Officer and Vice President, Finance of the Corporation or such other officers or directors of the Corporation satisfactory to the Underwriters, acting reasonably, certifying that:
  - (i) the Corporation has complied with and satisfied in all material respects all terms and conditions of this agreement on its part to be complied with or satisfied at or prior to the Closing Time, as applicable;

- (ii) the representations and warranties of the Corporation set forth in this agreement are true and correct in all material respects at the Closing Time, as if made at such time (and, with respect to the representations and warranties contemplated by subsection 8(a), as if the Prospectus was delivered to the Underwriters at the Closing Time); and
- (iii) no event of a nature referred to in subsection 12(a)(i), (ii) or (iii) has occurred or to the knowledge of such officer is pending, contemplated or threatened (excluding any requirement to make any determination as to any Underwriter's opinion);

and the Underwriters shall have no knowledge to the contrary;

- (d) a comfort letter of the Corporation's auditors, addressed to the Underwriters and dated the Closing Date, satisfactory in form and substance to the Underwriters, acting reasonably, bringing the information contained in the comfort letter referred to in subsection 4(d) up to the Closing Time, which comfort letter shall be not more than two Business Days prior to the Closing Date;
- (e) evidence satisfactory to the Underwriters that the Offered Shares have been conditionally listed on the Exchange not later than the close of business on the last Business Day preceding the Closing Date and the Underwritten Shares shall be posted for trading as at the opening of business on the Closing Date; and
- (f) such other certificates and documents as the Underwriters may request, acting reasonably.

#### 14. Deliveries

The purchase and sale of the Underwritten Shares shall be completed at the Closing Time at the offices of the Corporation's counsel in Calgary, Alberta or at such other place as the Corporation and the Underwriters may agree. Subject to the conditions set forth in section 13, the Underwriters, on the Closing Date, shall deliver to the Corporation the amount of \$96,105,600 in respect of the Underwritten Shares by wire transfer against delivery by the Corporation of:

- (i) the opinions, certificates and documents referred to in section 13;
- (ii) definitive certificate(s) representing, in the aggregate, all of the Underwritten Shares registered in the name of "CDS &Co.", as CDS Clearing and Depository Services Inc.'s nominee, or in such name or names as the Underwriters shall notify the Corporation in writing not less than 24 hours prior to the Closing Time; and

- (iii) a certified cheque or bank draft payable to the Lead Underwriter representing the fee provided for in section 2 in respect of the Underwritten Shares.

The purchase and sale of any Option Shares will occur at the offices of the Corporation's counsel in Calgary, Alberta or at such other place as the Corporation and the Underwriters may agree, at the time and on the date specified in the written notice to the Corporation given by the Lead Underwriter, on behalf of the Underwriters, in connection with the exercise of the Over-Allotment Option, which closing date will not be earlier than the later of (i) the Closing Date and (ii) the second Business Day after the giving of the notice, nor later than the fifth Business Day after the giving of the notice (and which closing, for greater certainty, may occur on a date that is more than thirty (30) days after the Closing Date). The closing of any such purchase and sale will be conditional upon and subject to the conditions contained in section 13 being fulfilled at or prior to the closing, proceed in the manner set forth in this section 14 and be subject to the other terms and conditions as are set forth in this agreement with respect to the purchase and sale of the Underwritten Shares, including without limitation those set forth in sections 12 and 19, subject in each case to the necessary changes.

#### 15. Restrictions on Offerings

The Corporation agrees that, prior to 90 days after the Closing Date, it shall not, directly or indirectly, sell or offer to sell any Shares or otherwise issue, lend, transfer or dispose of any securities exchangeable, convertible or exercisable into Shares or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares, whether any such transaction is settled by delivery of Shares or other such securities, in cash or otherwise, (provided that the foregoing, will not restrict the Corporation from granting incentive rights to acquire Shares to directors, officers and employees of the Corporation pursuant to the Corporation's two bonus plans and issuing Shares pursuant thereto including any private placements to participants in such plans and to satisfy currently outstanding instruments or contractual commitments), without the prior consent of the Lead Underwriter, on behalf of the Underwriters, which consent may not be unreasonably withheld.

#### 16. Notices

Any notice or other communication to be given hereunder shall, in the case of notice to be given to the Corporation, be addressed to the Corporation, c/o Darren Gee, at the below address, Fax No. (403) 451-4100 with a copy to:

Burnet, Duckworth & Palmer LLP  
2400, 525 - 8th Avenue SW.  
Calgary, Alberta T2P 1G1

Attention: Stephen J. Chetner  
Fax No.: (403) 260 0337

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

BMO Nesbitt Burns Inc.  
2200, 333 — 7th Avenue S.W.  
Calgary, Alberta T2P 2Z1

Attention: Eric L. Toews  
Fax No.: (403) 515-1535

CIBC World Markets Inc.  
900, 855 – 2nd Street S.W.  
Calgary, Alberta T2P 4J7

Attention: Denis R. Rajotte  
Fax No.: (403) 260 0524

RBC Dominion Securities Inc.  
Suite 3900, Bankers Hall West  
888 — 3rd Street S.W.  
Calgary, Alberta T2P 5C5

Attention: Rob King  
Fax No.: (403) 299 6901

Peters & Co. Limited  
2300, 308— 4th Avenue S.W.  
Calgary, Alberta T2P 0H7

Attention: J.G. (Jeff) Lawson  
Fax No.: (403) 261-7565

Scotia Capital Inc.  
Suite 1800, 700 – 2nd Street S.W.  
Calgary, Alberta T2P 2W1

Attention: Drew Ross  
Fax No.: (403) 269-8355

Stifel Nicolaus Canada Inc.  
Suite 2400, 520 – 5th Avenue S.W.  
Calgary, Alberta T2P 3R7

Attention: Terris N. Chorney  
Fax No.: (403) 264-5015

FirstEnergy Capital Corp.  
1100, 311 – 6th Avenue S.W.  
Calgary, Alberta T2P 3H2

Attention: Jamie Ha  
Fax No.: (403) 262-0688

TD Securities Inc.  
800, 324 - 8<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 2Z2

Attention: Robi Contrada  
Fax No.: (403) 292-2776

HSBC Securities (Canada) Inc.  
70 York Street, 8th Floor  
Toronto, Ontario M5J 1S9

Attention: Jay Lewis  
Fax No.: (416) 864-2700

Haywood Securities Inc.  
301, 808— 1st Street S.W.  
Calgary, Alberta T2P 1M9

Attention: Kent Porteous  
Fax No.: (403) 509-1991

and a copy to:

Macleod Dixon LLP  
Suite 3700, 400 – 3rd Avenue S.W.  
Calgary, Alberta T2P 4H2

Attention: Mark G. Eade  
Fax No.: (403) 264-5973

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

- (a) a communication which is personally delivered shall, if delivered before 4:00 p.m. (local time at the place of delivery) on a Business Day, be deemed to be

given and received on that day and, in any other case be deemed to be given and received on the first Business Day following the day on which it is delivered; and

- (b) a communication which is sent by facsimile transmission shall, if sent on a Business Day before 4:00 p.m. (local time at the place of receipt), be deemed to be given and received on that day and, in any other case, be deemed to be given and received on the first Business Day following the day on which it is sent.

#### 17. Conditions

All terms, covenants and conditions of this agreement to be performed by the Corporation shall be construed as conditions, and any breach or failure to comply with any material terms and conditions which are for the benefit of the Underwriters shall entitle any Underwriter to terminate its obligations to purchase the Underwritten Shares, by written notice to that effect given to the Corporation prior to the Closing Time. 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 and signed by the Underwriter or Underwriters providing the waiver or extension.

#### 18. Survival of Representations and Warranties

All representations, warranties, terms and conditions herein (including, without limitation, those contained in section 8) or contained in certificates or documents submitted pursuant to or in connection with the transactions contemplated herein shall survive the payment by the Underwriters for the Offered Shares, the termination of this agreement and the distribution of the Offered Shares pursuant to the Prospectus and shall continue in full force and effect for the benefit of the Underwriters regardless of any investigation by or on behalf of the Underwriters with respect thereto.

#### 19. Several Liability of Underwriters

The Underwriters' rights and obligations under this agreement are several and not joint and several including, without limitation, that:

- (a) each of the Underwriters shall be obligated to purchase only the percentage of the total number of Underwritten Shares set forth opposite their names set forth in this section 19; and
- (b) if one or more of the Underwriters does not purchase its applicable percentage of the total number of Underwritten Shares and the percentage of the total number of Underwritten Shares which one or more of the Underwriters has not

purchased exceeds nine and a half (9.5%) percent of the total number of Underwritten Shares that the Underwriters have agreed to purchase, each of the other Underwriters who shall be willing and able to purchase its own applicable percentage of the total number of Underwritten Shares shall be relieved of its obligations hereunder on submission to the Corporation of reasonable evidence of its ability and willingness to fulfil its obligations hereunder at the Closing Time, provided that, notwithstanding the provisions of subsection (b) of this section 19, the Underwriters who shall be willing and able to purchase their applicable percentage of the total number of Underwritten Shares shall have the right, but not the obligation, to purchase the total number of Underwritten Shares.

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

BMO Nesbitt Burns Inc.	32.5%
CIBC World Markets Inc.	16.0%
RBC Dominion Securities Inc.	16.0%
Peters & Co. Limited	9.0%
Scotia Capital Inc.	6.0%
Stifel Nicolaus Canada Inc.	6.0%
FirstEnergy Capital Corp.	5.0%
TD Securities Inc.	5.0%
HSBC Securities (Canada) Inc.	3.0%
Haywood Securities Inc.	1.5%
	<u>100.0%</u>

Nothing in this agreement shall obligate the Corporation to sell the Underwriters less than all of the Underwritten Shares or shall relieve any Underwriter in default from liability to the Corporation, or any non defaulting Underwriter in respect of the defaulting Underwriter's default hereunder. In the event of a termination by the Corporation of its obligations under this agreement, there shall be no further liability on the part of the Corporation to the Underwriters except in respect of any liability which may have arisen or may thereafter arise under section 9, 10 or 11.

## 20. Authority to Bind Underwriters

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 the Lead Underwriter, which shall represent the Underwriters and which shall have the authority to bind the Underwriters in respect of all matters hereunder, except in respect of any settlement under section 9 or 10, any matter referred to in section 12 or any waiver or extension under section 17 (which waiver may be given by and on behalf of the Underwriters exercising such waiver), any agreement under section 19 or any amendment to the definition of Closing Date. While not affecting the

foregoing, the Lead Underwriter shall consult with the other Underwriters with respect to any such notice, waiver, extension or other communication.

## 21. Underwriters Covenants

- (a) Each of the Underwriters covenants and agrees with the Corporation that it will:
  - (i) conduct activities in connection with the proposed offer and sale of the Offered Shares in compliance with all the Applicable Securities Laws and cause a similar covenant to be contained in any agreement entered into with any Selling Dealer Group established in connection with the distribution of the Offered Shares;
  - (ii) except pursuant to Schedule "A", not solicit subscriptions for the Offered Shares, trade in Offered Shares or otherwise do any act in furtherance of a trade of Offered Shares outside of the Qualifying Provinces or in other jurisdictions outside of Canada; and
  - (iii) as soon as reasonably practicable after the Closing Date, provide the Corporation with a breakdown of the number of Offered Shares sold in each of the Qualifying Provinces and, upon completion of the distribution of the Offered Shares, provide to the Corporation notice to that effect, if required by Applicable Securities Laws.
- (b) For the purposes of this section 21, the Underwriters shall be entitled to assume that the Offered Shares may be lawfully offered for sale and sold in the Qualifying Provinces if the final receipt has been issued evidencing that a receipt for the Prospectus has been issued by the Securities Commissions, provided the Underwriters do not have actual knowledge, and have not been notified in writing by the Corporation of any circumstances that would legally prohibit such distribution.
- (c) No Underwriter will be liable to the Corporation under this section 21 with respect to a default by any of the other Underwriters but will be liable to the Corporation only for its own default.

## 22. Severance

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

23. Relationship Between the Corporation and the Underwriters

The Corporation: (i) acknowledges and agrees that the Underwriters have certain statutory obligations as registrants under the Applicable Securities Laws and have certain relationships with their clients; (ii) acknowledges and agrees that the Underwriters are not the agents of the Corporation nor otherwise fiduciaries of the Corporation; and (iii) consents to the Underwriters acting hereunder while continuing to act for their clients. To the extent that the Underwriters' statutory obligations as registrants under the Applicable Securities Laws or relationships with their clients conflicts with their obligations hereunder the Underwriters shall be entitled to fulfil their statutory obligations as registrants under the 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 the Applicable Securities Laws or acting for their clients.

24. Governing Law

This agreement shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein. Each of the Corporation and the Underwriters hereby attorn to the non exclusive jurisdiction of the courts of the Province of Alberta.

25. Time of the Essence

Time shall be of the essence of this agreement.

26. Counterpart Execution

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

27. Further Assurances

Each party to this agreement covenants and agrees that, from time to time, it will, at the request of the requesting party, execute and deliver all such documents and do all such other acts and things as any party hereto, acting reasonably, may from time to time request be executed or done in order to better evidence or perfect or effectuate any provision of this agreement or of any agreement or other document executed pursuant to this agreement or any of the respective obligations intended to be created hereby or thereby.

28. Use of Proceeds

The Corporation hereby covenants and agrees to use the net proceeds of the sale of the Shares hereunder in accordance with the disclosure in the Prospectus.

29. Dividends

The Corporation agrees that it shall not prior to the Closing Date declare or pay or establish a record date for any dividends to Shareholders prior to the Closing Date, other than the regular monthly dividends of \$0.06 per Share which are payable on December 15, 2011 to Shareholders of record on November 30, 2011 and on January 13, 2012 to Shareholders of record on December 31, 2011.

30. Entire Agreement

It is understood that the terms and conditions of this agreement supersede any previous verbal or written agreement between the Underwriters and the Corporation.

**[The remainder of this page 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 by returning the same to BMO Nesbitt Burns Inc.

**BMO NESBITT BURNS INC.**

By: "Eric L. Toews" \_\_\_\_\_

**CIBC WORLD MARKETS INC.**

By: "Denis R. Rajotte" \_\_\_\_\_

**RBC DOMINION SECURITIES INC.**

By: "Rob King" \_\_\_\_\_

**PETERS & CO. LIMITED**

By: "J.G. (Jeff) Lawson" \_\_\_\_\_

**SCOTIA CAPITAL INC.**

By: "Drew Ross" \_\_\_\_\_

**STIFEL NICOLAUS CANADA INC.**

By: "Terris N. Chorney" \_\_\_\_\_

**FIRSTENERGY CAPITAL CORP.**

By: "Jamie Ha" \_\_\_\_\_

**TD SECURITIES INC.**

By: "Robi Contrada" \_\_\_\_\_

**HSBC SECURITIES (CANADA) INC.**

By: "Jay Lewis" \_\_\_\_\_

**HAYWOOD SECURITIES INC.**

By: "Kent Porteous" \_\_\_\_\_

ACCEPTED AND AGREED to as of the 28th day  
of November, 2011

**PEYTO EXPLORATION & DEVELOPMENT  
CORP.**

By: "Darren Gee" \_\_\_\_\_

**SCHEDULE "A"**  
**TERMS AND CONDITIONS FOR**  
**UNITED STATES OFFERS AND SALES**

As used in this Schedule "A", the terms listed below have the meanings set forth below. Capitalized terms not otherwise defined herein have the meanings ascribed thereto in the agreement to which this Schedule "A" is appended.

**"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 "A", 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 Securities and shall include, without limitation, the placement of any advertisement in a publication with a general circulation in the United States that refers to the offering of any of the Securities;

**"General Solicitation"** and **"General Advertising"** means "general solicitation" and "general advertising", respectively, as used in Rule 502(c) of Regulation D, including, without limitation, advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over television, radio or the internet, or any seminar or meeting whose attendees had been invited by general solicitation or general advertising;

**"Qualified Institutional Buyer"** means a "qualified institutional buyer" as 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 144"** means Rule 144 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;

**"Securities"** means the Offered Shares;

**"Selling Dealer Group"** means the dealers and brokers other than the Underwriters who participate in the offer and sale of the Securities pursuant to the agreement;

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

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

**"U.S. Affiliate"** means a U.S. registered broker-dealer affiliate of an Underwriter;

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

**“U.S. Placement Memorandum”** means the Preliminary Prospectus or Prospectus as the case may be, supplemented with the “wrap” pages describing, among other things, restrictions imposed under the U.S. Securities Act; and

**“U.S. Securities Act”** means the United States Securities Act of 1933, as amended.

1. Each Underwriter represents and warrants to and covenants and agrees with the Corporation that:
  - (a) it acknowledges that the Securities have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States except pursuant to the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A and similar exemptions under applicable state securities laws. It has not offered or sold, and will not offer or sell, any of the Securities constituting part of its allotment except in accordance with Rule 903 of Regulation S or Rule 144A and in accordance with all applicable state securities laws;
  - (b) it has not entered and will not enter into any contractual arrangement with respect to the distribution of the Securities, except with its affiliates, any Selling Dealer Group members or with the prior written consent of the Corporation;
  - (c) it has required and shall require each Selling Dealer Group member to agree, for the benefit of the Corporation, to comply with, and shall use its best efforts to ensure that each Selling Dealer Group member complies with, the applicable provisions of this Schedule “A” as if such provisions applied to such Selling Dealer Group member;
  - (d) all offers and sales of the Securities in the United States have been and will be effected through one or more U.S. Affiliates in accordance with all applicable U.S. federal and state securities (including broker-dealer) laws;
  - (e) each U.S. Affiliate is a Qualified Institutional Buyer, is a duly registered broker or dealer under the U.S. Exchange Act and under the securities laws of each applicable state (unless exempted from the respective state's broker-dealer registration requirements), and is a member of, and in good standing with, the Financial Industry Regulatory Authority, Inc. on the date such representation is made;
  - (f) it has not and will not, either directly or through a U.S. Affiliate or any other affiliate or person acting on its or their behalf, solicit offers for, or offer to sell, the Securities in the United States by means of any form of General Solicitation or General Advertising or in any manner involving a public offering within the

meaning of Section 4(2) of the U.S. Securities Act, and neither it nor its affiliate(s), nor any persons acting on its or their behalf have engaged or will engage in any Directed Selling Efforts with respect to the Securities;

- (g) it has solicited and will solicit, and has caused and will cause, each U.S. Affiliate to solicit offers for the Securities in the United States only from, and has offered and will offer the Securities only to, persons it reasonably believes to be Qualified Institutional Buyers in accordance with Rule 144A. It also agrees that it has solicited and will solicit offers for the Securities only from, and has offered and will offer the Securities only to, persons that in purchasing such Securities will be deemed to have made the representations, warranties and agreements set forth in the U.S. Placement Memorandum;
- (h) it will inform, and cause each U.S. Affiliate to inform, all purchasers of the Securities in the United States and all purchasers of the Securities that were offered Securities in the United States that the Securities have not been and will not be registered under the U.S. Securities Act and are being sold to them without registration under the U.S. Securities Act in reliance upon Rule 144A;
- (i) it will deliver, through a U.S. Affiliate, a copy of a U.S. Placement Memorandum, including the Preliminary Prospectus or Final Prospectus, to each offeree in the United States, and it will deliver, through a U.S. Affiliate, a copy of the U.S. Placement Memorandum, including the Final Prospectus, to each person (i) in the United States and (ii) each person that was offered Securities in the United States, in each case that is purchasing Securities from it. In connection with offers and sales of the Securities in the United States, it has not used and will not use any written material other than the U.S. Placement Memorandum;
- (j) it has caused and shall cause each U.S. Affiliate to agree, for the benefit of the Corporation, to the same provisions as are contained in paragraph 1 of this Schedule "A";
- (k) at least one business day prior to closing, it shall cause each U.S. Affiliate to provide Valiant Trust Company ("**Transfer Agent**") with a list of all purchasers of the Securities in the United States and all purchasers of the Securities that were offered Securities in the United States; and
- (l) if it or any of its U.S. Affiliates have offered or sold Securities in the United States, at closing it, together with each such U.S. Affiliate, will provide a certificate, substantially in the form of Exhibit 1 to this Schedule "A", or will be deemed to have represented that neither it nor any of its U.S. Affiliates offered or sold Securities in the United States.

2. The Corporation represents, warrants to and covenants and agrees to and with the Underwriters that:
- (a) it is a “foreign issuer” (as such term is defined in Regulation S) and reasonably believes that there is no Substantial U.S. Market Interest in the Shares;
  - (b) it is not, and after giving effect to the offering and sale of the Securities and the application of the proceeds thereof as described in the Prospectus, will not be, registered or required to register as an “investment company” pursuant to the provisions of the United States Investment Company Act of 1940, as amended;
  - (c) at the date hereof and as of the Closing Time, the Securities are not and will not be (i) part of a class 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” (within the meaning of Rule 144A), or (iii) convertible, exchangeable or exercisable at an effective conversion premium or effective exercise premium (calculated as specified in paragraph (a)(6) or (a)(7), as applicable, of Rule 144A under the U.S. Securities Act) of less than ten percent for securities so listed or quoted;
  - (d) for so long as any of the Securities are outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act and may not be resold pursuant to Rule 144(b)(1) under the U.S. Securities Act, it shall either: (A) comply with the requirements of Rule 12g3-2(b) under the U.S. Exchange Act; (B) file reports and other information with the SEC under Section 13 or 15(d) of the Exchange Act; or (C) provide to any holder of Securities and any prospective purchaser of Securities designated by such holder, upon the request of such holder, the information required to be provided by paragraph (d)(4), of Rule 144A (so long as such information is required to be provided in order to permit the resale of securities pursuant to Rule 144A);
  - (e) none of it, its affiliates or any person acting on its or their behalf (other than the Underwriters, their affiliates, any Selling Dealer Group member and any person acting on their behalf, as to which no representation is made) has offered or will offer to sell the Securities by means of any form of General Solicitation or General Advertising or in any manner involving a public offering within the meaning of Section 4(2) of the U.S. Securities Act;
  - (f) none of it, its affiliates or any person acting on its or their behalf (other than the Underwriters, their affiliates, any Selling Dealer Group member and any person acting on their behalf, as to which no representation is made) has engaged or will engage in any Directed Selling Efforts with respect to the Securities; and
  - (g) during the period in which the Securities are offered for sale, neither the Corporation nor any of its affiliates, nor any person acting on its or their behalf

(other than the Underwriters, their affiliates, any Selling Dealer Group member and any person acting on their behalf, as to which no representation is made), has taken or will take any action that would cause the exemptions or exclusions from registration provided by Rule 903 of Regulation S or Rule 144A to be unavailable with respect to offers and sales of the Securities pursuant to this Schedule "A" and the agreement to which it is appended.

**EXHIBIT 1 TO SCHEDULE "A"**  
**FORM OF UNDERWRITERS' CERTIFICATE**

In connection with the offer and sale of the common shares (the "**Securities**") of Peyto Exploration & Development Corp. (the "**Corporation**") to one or more U.S. institutional investors pursuant to the Underwriting Agreement (the "**Underwriting Agreement**") dated as of November 28, 2011 among the Corporation, and the underwriters named therein (each an "**Underwriter**"), the undersigned Underwriter and its undersigned broker-dealer affiliate who has signed below in its capacity as placement agent in the United States for the Underwriter (the "**U.S. Affiliate**"), do hereby certify that:

- (a) the U.S. Affiliate is a duly registered broker or dealer under the U.S. Exchange Act and under the securities laws of each applicable state (unless exempted from the respective state's broker-dealer registration requirements), and is and was a member of, and in good standing with, the Financial Industry Regulatory Authority, Inc. on the date hereof and on the date of each offer and sale of Securities made by it, and all offers and sales of Securities in the United States have been and will be effected by the U.S. Affiliate in accordance with all U.S. federal and state (including broker -dealer) laws;
- (b) neither we nor our representatives have utilized, and neither we nor our representatives will utilize, any form of general solicitation or general advertising (as those terms are used in Regulation D under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"));
- (c) we provided each offeree of Securities that was in the United States a copy of one or both of the U.S. Placement Memorandum including the Preliminary Prospectus and the U.S. Placement Memorandum including the Prospectus, and we provided each purchaser of Securities that was (i) in the United States or (ii) offered Securities in the United States, prior to the sale of Securities to such purchaser, with a copy of the U.S. Placement Memorandum including the Prospectus;
- (d) immediately prior to transmitting the U.S. Placement Memorandum to offerees, we had reasonable grounds to believe and did believe that each offeree was a qualified institutional buyer as defined in Rule 144A under the U.S. Securities Act (a "**Qualified Institutional Buyer**"), and, on the date hereof, we continue to believe that each purchaser of the Securities in the United States and each purchaser of Securities that was offered Securities in the United States is a Qualified Institutional Buyer; and

(e) the offering of the Securities in the United States has been conducted by us in accordance with the Underwriting Agreement.

Dated: \_\_\_\_\_

**[UNDERWRITER]**

**[U.S. BROKER-DEALER AFFILIATE OF  
UNDERWRITER]**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title: