

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities offered hereby have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “1933 Act”) or any state securities law. Accordingly, subject to certain exceptions, these securities may not be offered, or sold or delivered within the United States of America or to, or for the benefit of, U.S. persons (as defined in the 1933 Act). See “Plan of Distribution”.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. **Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of Exxel Energy Corp. at 609 West Hastings Street, 11th Floor, Vancouver, British Columbia, Canada V6B 4W4, (604) 331-3396, and are also available electronically at www.sedar.com.

SHORT FORM PROSPECTUS

New Issue

November 1, 2006



EXXEL ENERGY CORP.

**Up to \$20,000,001
Up to 5,714,286 Units**

This short form prospectus qualifies the distribution (the “Offering”) of up to 5,714,286 units (each a “Unit” and collectively, the “Units”) of Exxel Energy Corp. (the “Company” or “Exxel”) at a price of \$3.50 per Unit (the “Offering Price”). Each Unit will be comprised of one common share in the capital of Exxel (each a “Common Share” and collectively the “Common Shares”) and one-half of one common share purchase warrant (each whole common share purchase warrant a “Warrant” and collectively, the “Warrants”). Each Warrant will entitle the holder thereof to acquire one common share (each a “Warrant Share” and collectively, the “Warrant Shares”) of the Company at an exercise price of \$4.00 per Warrant Share at any time until 5:00 p.m. (Vancouver time) on the date that is 18 months from the Closing Date (as hereinafter defined). The distribution of the Common Shares and Warrants comprising the Units is qualified hereunder.

The Company’s head office is located at 609 West Hastings Street, 11th Floor, Vancouver, British Columbia, Canada V6B 4W4 and its registered office is located at 1620-401 West Georgia Street, Vancouver, British Columbia, Canada V6B 5A1. The Units will be issued pursuant to an agency agreement (the “Agency Agreement”) dated as of November 1, 2006, between Exxel and MGI Securities Inc., Mirabaud Securities Limited, Sanders Morris Harris Inc., Knight Capital Markets LLC and Macquarie Securities (USA) Inc. (collectively, the “Agents”).

The Company’s outstanding Common Shares are listed and posted for trading on the TSX Venture Exchange (the “TSXV”) under the symbol “EXX”. On October 31, 2006, the last trading day prior to the date of this short form

prospectus, the closing price of the Common Shares on the TSXV was \$3.85. The TSXV has conditionally approved the listing of the Common Shares and the Warrant Shares to be distributed under this short form prospectus, including the Common Shares issuable upon the exercise of the Agents' Warrants (as hereinafter defined). Listing will be subject to the Company fulfilling all of the listing requirements of the TSXV. The Offering Price was determined by negotiation between the Company and the Agents. See "Plan of Distribution".

Price: \$3.50 per Unit

	Price to the Public⁽¹⁾	Agents' Fee⁽²⁾⁽³⁾	Net Proceeds to the Company⁽⁴⁾
Per Unit	\$3.50	\$0.20	\$3.30
Total ⁽⁵⁾	\$20,000,001	\$1,150,000	\$18,850,001

Notes:

- (1) The Company has allocated \$3.50 of the subscription price of each Unit to the Common Share and a nil amount to the Warrant issued in respect of each Unit.
- (2) The Agents will receive a cash commission equal to 5.5% of the gross proceeds of the Offering (the "Agents' Fee"). The Agents will also receive non-transferable warrants (each an "Agents' Warrant" and collectively the "Agents' Warrants") to purchase that number of Common Shares as is equal to 2.5% of the number of Units sold pursuant to the Offering, including those sold upon exercise of the Agents' Option (as hereinafter defined), if any. Each Agents' Warrant will entitle the holder thereof to acquire one Common Share at the Offering Price until the date which is 24 months following the Closing Date (as hereinafter defined). The grant of the Agents' Warrants is also qualified by this short form prospectus. See "Plan of Distribution".
- (3) In addition to the Agents' Fee, MGI Securities Inc. will receive an advisory fee equal to 0.25% of the gross proceeds of Offering (the "Advisory Fee"), being \$50,000 assuming no exercise of the Agents' Option. See "Plan of Distribution".
- (4) After deducting the Agents' Fee and the Advisory Fee, but before deducting expenses of the Offering estimated at \$550,000, which will be paid from the proceeds of the Offering.
- (5) The Company has granted the Agents an option (the "Agents' Option"), exercisable in whole or in part in the sole discretion of the Agents up to 48 hours prior to the Closing Date, to arrange for the sale of up to an additional 857,144 Units at the Offering Price. If the Agents' Option is exercised in full, the total approximate Price to the Public, Agents' Fee and Advisory Fee, and Net Proceeds to the Company will be \$23,000,005, \$1,322,500 and \$21,677,505, respectively, before deducting the estimated expenses of the Offering. This short form prospectus qualifies the distribution of any Common Shares and Warrants issuable upon exercise of the Agents' Option. See "Plan of Distribution".

Agents' Position	Maximum size or number of securities held	Exercise period	Exercise Price
Over-Allotment Option	N/A	N/A	N/A
Compensation Option	N/A	N/A	N/A
Agents' Warrants ⁽¹⁾	164,286 Common Shares	Exercisable for a period of 24 months following the Closing Date	\$3.50
Total Securities Under Option ⁽¹⁾	164,286 Common Shares	Exercisable for a period of 24 months following the Closing Date	\$3.50
Other Compensation Securities	N/A	N/A	N/A

Note:

- (1) Assuming the exercise of the Agents' Option in full.

An Investment in the Units is subject to certain risks. Prospective investors should carefully consider the risk factors described in this short form prospectus under "Risk Factors".

The Agents and any selling group members conditionally offer the Units on a “reasonable commercial efforts” basis, subject to prior sale, if, as and when issued by the Company and delivered and accepted by the Agents in accordance with the conditions contained in the Agency Agreement referred to under “Plan of Distribution” and subject to approval of certain legal matters on behalf of the Company by Aird & Berlis LLP, and on behalf of the Agents by Wildeboer Dellelce LLP.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Closing of the Offering is expected to occur on or about November 9, 2006 or such other date as the Company and the Agents may agree (the “Closing Date”), but in any event not later than January 29, 2007. It is expected that certificates representing the Common Shares and Warrants will be available for delivery at the closing of the Offering.

Subject to applicable laws, the Agents may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See “Plan of Distribution”.

Investors should rely only on the information contained in or incorporated by reference in this short form prospectus. The Company has not authorized anyone to provide investors with different information. The Company is not offering the Units in any jurisdiction in which the offer is not permitted. Investors should not assume that the information contained in this short form prospectus is accurate as of any date other than the date on the front of this short form prospectus.

Clifford V. Adams, a Director and the Chief Executive Officer and President of the Company, Michael Lou, the Executive Vice President and Chief Financial Officer of the Company, and Victor Barcot, the Executive Vice President Business Development and Investor Relations of the Company, were each employed by Macquarie Securities (USA) Inc. (or an affiliate thereof) immediately prior to joining the Company. Consequently, the Company may be a connected issuer of Macquarie Securities (USA) Inc., one of the Agents, for the purposes of applicable securities laws. See “Relationship between the Company and Macquarie Securities (USA) Inc.”

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FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this short form prospectus constitute forward-looking information or forward-looking statements (collectively, “forward-looking statements”). All statements contained herein that are not clearly historical in nature are forward-looking, and the words “anticipate”, “believe”, “expect”, “estimate” and similar expressions are generally intended to identify forward-looking statements. Such statements represent the Company’s internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital expenditures, anticipated future debt levels and incentive fees or revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions. Actual events or results may differ materially. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the Company’s actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company. Prospective investors should carefully consider the information contained under the heading “Risk Factors” in this short form prospectus and all other information included in or incorporated by reference in this short form prospectus before making investment decisions with regard to the Units.

Forward-looking statements included or incorporated by reference in this short form prospectus include, but are not limited to, statements with respect to:

- the focus of capital expenditures;
- the sale, farming in, farming out or development of certain exploration properties using third party resources;
- the impact of changes in oil and gas prices on cash flow;
- drilling plans;
- the existence, operation and strategy of the commodity price risk management program;
- the approximate and maximum amount of forward sales;
- Exxel’s acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- Exxel’s goal to sustain or grow production and reserves through prudent management and acquisitions;
- the emergence of accretive growth opportunities;
- Exxel’s ability to benefit from the combination of growth opportunities and the ability to grow through the capital markets;
- the quantity of any oil and gas reserves;
- treatment under governmental regulatory regimes and tax laws;
- the performance characteristics of the Company’s oil and gas properties; and
- realization of the anticipated benefits of acquisitions and dispositions.

Some of the risks and other factors, which could cause results to differ materially from those expressed in the forward-looking statements contained in this short form prospectus and the documents incorporated by reference herein include, but are not limited to:

- general economic conditions in Canada, the United States and globally;
- industry conditions, including fluctuations in the price of oil and gas;
- governmental regulation of the oil and gas industry, including environmental regulation;
- fluctuation in foreign exchange or interest rates;
- liabilities inherent in oil and gas operations;
- geological, technical, drilling and processing problems;
- unanticipated operating events which can reduce production or cause production to be shut-in or delayed;

- failure to obtain industry partner and other third party consents and approvals, when required;
- stock market volatility and market valuations;
- competition for, among other things, capital, acquisition of reserves, undeveloped land and skilled personnel;
- the need to obtain required approvals from regulatory authorities; and
- the other factors considered under “Risk Factors”.

In addition, please note that any statements relating to “reserves” or “resources” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described can be profitably produced in the future.

These forward-looking statements are made as of the date of this short form prospectus, or in the case of any document incorporated by reference herein, as of the date of such document, and the Company disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

CURRENCY AND EXCHANGE RATES

In this short form prospectus, unless otherwise noted herein, references to \$ are to Canadian dollars, and references to US\$ are to U.S. dollars. The Company’s operations, including its U.S. operations conducted through its wholly-owned subsidiary, are of an integrated nature and, accordingly, the temporal method of foreign currency translation is used for conversion of foreign-denominated amounts into U.S. dollars. Certain assets and liabilities are translated into U.S. dollars at the rates prevailing on the transaction dates. Revenues and expenses arising from foreign currency transactions are translated into U.S. dollars at the average rate for the year. Exchange gains and losses are recorded as income or expense in the year in which they occur.

The noon rate of exchange on October 31, 2006, as reported by the Bank of Canada, for the conversion of Canadian dollars into U.S. dollars was \$1.1227 per US\$1.00.

FINANCIAL INFORMATION

The financial statements of the Company incorporated herein by reference are reported in U.S. dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

ELIGIBILITY FOR INVESTMENT

In the opinion of Aird & Berlis LLP, counsel to the Company, and of Wildeboer Dellelece LLP, counsel to the Agents, the Common Shares and the Warrants, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, provided, in the case of the Warrants, that the Company deals at arm’s length with each person who is an annuitant, beneficiary, employer or subscriber under the governing plan of such trust.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of the Company at 609 West Hastings Street, 11th Floor, Vancouver, British Columbia, Canada V6B 4W4, telephone (604) 331-3396. These documents are also available through the Internet on the System for Electronic Document Analysis and Retrieval (“SEDAR”), which can be accessed online at www.sedar.com.

The following documents, filed with the securities commissions or similar authorities in Canada, are specifically incorporated by reference in and form an integral part of this short form prospectus:

- (a) the amended initial annual information form of the Company dated August 31, 2006 for the year ended December 31, 2005 (the “AIF”);
- (b) the Company’s amended audited consolidated financial statements for the period ended December 31, 2005 with comparative financial statements for the period ended May 31, 2005, together with the auditor’s report thereon and notes thereto, and the amended management’s discussion and analysis of the results of operations and financial condition relating thereto;
- (c) the Company’s audited consolidated financial statements for the year ended May 31, 2005 with comparative financial statements for the year ended May 31, 2004, together with the auditor’s report thereon and notes thereto, and the amended management’s discussion and analysis of the results of operations and financial condition relating thereto;
- (d) the Company’s amended interim consolidated financial statements for the six months ended June 30, 2006 and May 31, 2005 together with the notes thereto, and amended management’s discussion and analysis of results of operations and financial condition relating thereto;
- (e) the material change report of the Company dated October 26, 2006 with respect to the filing of the Company’s amended management’s discussion and analysis of results of operations and financial condition relating to the period ended May 31, 2005, amended audited consolidated financial statements for the period ended December 31, 2005 and May 31, 2005 together with the notes thereto and amended management’s discussion and analysis of results of operations and financial condition relating thereto, amendments to the management’s discussion and analysis of results of operations and financial condition relating to the period ended June 30, 2006 and the filing of the AIF;
- (f) the material change report of the Company dated October 24, 2006 with respect to the termination by Galaxy Energy Corporation (“Galaxy”) of a non-binding letter of intent between the Company and Galaxy relating to the potential acquisition by Exxel Energy (USA) Inc., a wholly-owned subsidiary of the Company (“Exxel USA”), of the remaining 25% of the Rifle Creek Project (as hereinafter defined) not currently owned by the Company;
- (g) the material change report of the Company dated October 13, 2006 with respect to the approval of the Company’s stock option plan, the release of certain Common Shares from the terms of a TSXV Value Escrow Agreement, the entering of a shareholder pooling agreement by certain shareholders of the Company and Computershare Investor Services Inc. and the filing of the Company’s amended interim consolidated financial statements for the six months ended June 30, 2006 and May 31, 2005 together with the notes thereto, and amended management’s discussion and analysis of results of operations and financial condition relating thereto;
- (h) the material change report of the Company dated August 9, 2006 with respect to the Company entering into a non-binding letter of intent with Galaxy setting out the terms of an agreement pursuant to which Exxel USA would pay US\$50,000,000, subject to certain adjustments, to acquire the remaining 25% of the Rifle Creek Project not currently owned by the Company;
- (i) the material change report of the Company dated August 2, 2006 with respect to, among other things, the appointment of a new management team and related matters (the “August 2 Report”);
- (j) the material change report of the Company dated May 8, 2006 with respect to the May Closing (as such term is defined in the AIF);
- (k) the material change report of the Company dated May 1, 2006 with respect to the April Closing (as such term is defined in the AIF);

- (l) the material change report of the Company dated February 22, 2006 with respect to the Macquarie Private Placement (as such term is defined in the AIF);
- (m) the material change report of the Company dated January 3, 2006 with respect to the Subdivision (as hereinafter defined);
- (n) the management information circular of the Company dated August 2, 2006 with respect to the annual general meeting of shareholders held on September 7, 2006;
- (o) the amended statement on reserves data and other oil and gas information dated April 7, 2006;
- (p) the statement on reserves data and other oil and gas information dated April 7, 2006;
- (q) the report on reserves data prepared by McDaniel & Associates Consulting Ltd. dated April 7, 2006, with an effective date of December 31, 2005; and
- (r) the report of management and directors on oil and gas disclosure dated April 28, 2006.

Any document of the type referred to above (excluding confidential material change reports) filed by the Company with the securities commissions or similar authorities in Canada after the date of this short form prospectus and prior to the termination of this Offering shall be deemed to be incorporated by reference in this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this short form prospectus is deemed to be modified or superseded, for the purposes of this short form prospectus, to the extent that a statement contained in this short form prospectus or in another subsequently filed document which also is or is deemed to be incorporated by reference in this short form prospectus modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

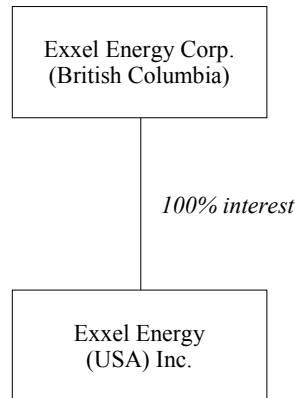
SUMMARY DESCRIPTION OF THE BUSINESS

The Company is an international energy company engaged in the acquisition, exploration and development of oil and gas leasehold properties located in the states of Colorado, Nevada and Washington, USA, and the province of Alberta, Canada. The Company's primary focus is the identification and development of unconventional gas prospects. Exxel's registered office is located at 1620-401 West Georgia Street, Vancouver, British Columbia, Canada V6B 5A1 and its head office is located at 11th Floor, 609 West Hastings Street, Vancouver, British Columbia, Canada V6B 4W4.

Exxel was incorporated on June 11, 1987, pursuant to the laws of British Columbia by the registration of memorandum and articles with the British Columbia Registrar of Companies. On or about November 4, 2004, Exxel's transition application under the new *Business Corporations Act* (British Columbia) was filed and accepted.

Exxel USA was incorporated pursuant to the laws of the State of Nevada, USA, on June 14, 2005.

The following organizational chart depicts the organization of the Company as at the date hereof:



During September 2003 the TSXV accepted for filing certain documentation pertaining to the Garrington Project (as hereinafter defined) and reactivated Exxel as a TSXV Tier 2, oil and gas issuer.

In December 2005, Exxel announced its intention to subdivide the issued and outstanding Common Shares in Exxel's capital on a 5 for 1 basis (the "Subdivision") and such Common Shares commenced trading on the TSXV on a split basis at the open of trading on February 8, 2006. All references to the Common Shares in the capital of Exxel pre-Subdivision are referred to as "Pre-Subdivision Shares". Certain disclosure relating to Exxel's issued and outstanding securities has been disclosed using post-Subdivision amounts notwithstanding that the matters related thereto occurred pre-Subdivision.

On January 27, 2006 the board of directors of Exxel determined to change Exxel's year end from May 31 to December 31.

Effective July 31, 2006, the Common Shares commenced trading on Tier 1 of the TSXV.

Properties

Rifle Creek, Garfield County, Colorado

The Company owns certain interests, and has the right to acquire further interests, in oil and gas leases and related assets located in the Rifle Creek area of the Piceance Basin, Garfield County, Colorado, U.S.A. (the "Rifle Creek Project"). As at the date hereof, as described in further detail below, the Rifle Creek Project is comprised of a working interest in approximately 6,300 net mineral acres.

Rifle Creek Agreement

The Company acquired its interests and rights in the Rifle Creek Project under an assignment agreement dated March 16, 2005 (the "Rifle Creek Agreement"), entered into between the Company and Marc A. Bruner ("Bruner") in respect of 4,000 net mineral acres (collectively, the "Initial Acres"). The Rifle Creek Agreement had the effect of assigning to the Company Bruner's rights and obligations under two underlying agreements described below (together, the "Underlying Agreements") for the acquisition of certain oil and gas leasehold interests. No reserves have been assigned to the lease interests acquired by the Company under the Rifle Creek Agreement.

In April 2005, the transactions and arrangements associated with the Rifle Creek Agreement (the "Rifle Creek Transactions") were approved by the TSXV.

Apollo Agreement

The first of the Underlying Agreements assigned to the Company under the terms of the Rifle Creek Agreement (the “Apollo Agreement”) dated February 23, 2005, was entered into among Bruner and Apollo Energy LLC of Denver, Colorado and certain other parties (collectively, “Apollo”), who assembled and continue to assemble the contract acreage comprising the Rifle Creek Project. Under the Apollo Agreement, Apollo is obligated to continue acquiring leases in the area surrounding the Rifle Creek Project, beyond the Initial Acres (such additional acres hereinafter the “Additional Acres”), and receives additional consideration from the Company upon assigning the Additional Acres to the Company.

Dolphin Agreement

The second of the Underlying Agreements assigned to the Company under the terms of the Rifle Creek Agreement (the “Dolphin Agreement”) dated March 16, 2005, was entered into between Bruner and Dolphin Energy Corporation (“Dolphin”) of Denver, Colorado (a wholly-owned subsidiary of Galaxy). Under the Dolphin Agreement, Bruner promised to pay US\$5,000,000 on or before April 7, 2005 to acquire a 41.67% working interest in the Initial Acres (the “Bruner Obligation”). As a result of the Dolphin Agreement being assigned to the Company under the Rifle Creek Agreement, the Bruner Obligation became an obligation of the Company.

On September 1, 2005, the Company and Dolphin entered into an amendment to the Dolphin Agreement which provided that the parties would adjust their respective undivided working interest in all of the Rifle Creek acreage from the above-described 41.67% held by the Company and 58.33% held by Dolphin, respectively, to 75% held by the Company and 25% held by Dolphin, respectively. The amendment provided that this would be accomplished by Dolphin maintaining its investment in the project at US\$7,000,000 until such time as Exxel expends US\$21,000,000 for acquisition and operating costs associated with the Rifle Creek Project. After such point in time, the Company and Dolphin shall each be responsible for bearing its respective share of costs of the Rifle Creek Project. As at the date hereof, the Company had expended a total of US\$22,530,039 on such acquisition and operating costs. Dolphin is the initial operator and receives a management fee equivalent to 10% of the actual cost of drilling and completing wells for production and all direct charges as defined in the applicable operating agreement. At any time after April 8, 2008, the Company has the right to replace Dolphin as operator if it can demonstrate that Dolphin is not conducting operations in a reasonable and prudent manner in accordance with industry standards.

Dolphin/Apollo Agreement

In a transaction associated with the Rifle Creek Agreement, Dolphin acquired an undivided 58.33% working interest in the Initial Acres under a separate agreement between Dolphin and Apollo (the “Dolphin/Apollo Agreement”) dated February 22, 2005.

Under the Dolphin/Apollo Agreement, Dolphin paid US\$7,000,000 for its percentage of the aforementioned working interest. The terms of the Dolphin/Apollo Agreement are similar to those of the Apollo Agreement, except that Dolphin originally did not have any right to the Additional Acres. Dolphin acquired such right to acquire Additional Acres under the Dolphin Agreement.

Additional Rights and Obligations

Under the Rifle Creek Agreement, the Company had the option to pay a further US\$2,000,000 into a third party escrow account on July 1, 2005 and a further US\$5,000,000 on or before August 1, 2005, which date was subsequently amended to December 1, 2005, such funds to be used to acquire the Additional Acres. The Company exercised such option and by September 1, 2005 the Company had paid an aggregate of US\$7,000,000 into the requisite escrow account. The aforementioned funds were used for the acquisition of the Additional Acres.

The Company is also obligated under the Rifle Creek Agreement to drill, jointly with Dolphin, a total of 10 wells on the acreage acquired by the Company. Pursuant to the terms of the Rifle Creek Agreement, the first well was to commence by November 1, 2005, which date was subsequently amended to December 31, 2005, and the other nine wells were to be commenced by August 22, 2006. Each well is required to be drilled to a depth sufficient to test the

entire Williams Fork formation to the top of the Rollins formation, or to a depth of 10,000 feet, whichever is the lesser. The Company and Dolphin are jointly and severally obligated to pay to Apollo US\$500,000 per well for any wells the parties fail to drill. As at the date hereof, the Company and Dolphin have commenced the drilling of, or participated in, eight wells. Force Majeure, rig availability, and other issues resulted in delays to the commencement of drilling on the two remaining wells.

Royalties and Consideration

Upon assignment from Apollo to the Company and Dolphin, Apollo reserved an overriding royalty interest in all the Rifle Creek Project oil and gas leases acquired through Apollo equivalent to the difference between 20% and existing burdens, but not less than 2%. Accordingly, a lease with existing burdens of 20% would be subject to total royalties and overriding royalties of 22%, being a combined 78% net revenue interest payable to the Company and Dolphin in the 75/25 ratio, as described above. Where existing burdens on any lease are 18% or less prior to the inclusion of Apollo's overriding royalty, the net revenue interest to the Company and Dolphin will be a combined 80% payable to the Company and Dolphin in the applicable ratio. Bruner has reserved a further overriding royalty of 0.5%, of the interest acquired by the Company under the Rifle Creek Agreement (the "Bruner Royalty"), as partial consideration for assigning the benefit of the Apollo Agreement and the Dolphin Agreement to the Company under the Rifle Creek Agreement.

Once the Company and Dolphin have recovered 100% of their specified acquisition and operating costs out of revenues from production on the Rifle Creek Project, Apollo has the right under the Dolphin/Apollo Agreement and the Apollo Agreement to back in for a working interest in all of the Rifle Creek Project acreage acquired as at the date thereof through Apollo equivalent to 12.5% of the combined interests of the Company and Dolphin, excluding the Bruner Royalty.

In addition to the Bruner Royalty, as consideration for assigning to the Company his interest under the Apollo Agreement and the Dolphin Agreement, the Company issued to Bruner 15,000,000 Common Shares and 2,500,000 Common Share purchase warrants (the "Bruner Warrants"), each Bruner Warrant entitling Bruner to purchase one Common Share at a price of \$0.10 per Common Share exercisable on or before April 11, 2007, subject to adjustment in certain events.

Prior to entering into the Rifle Creek Transactions, Bruner, Dolphin and Apollo were all at arm's length to the Company.

Great Basin, Nevada Oil and Gas Fairway, Nevada

In June 2005, the Company entered into an agreement (the "Fairway Agreement") with Chamberlain Exploration Development and Research Stratigraphic Corporation ("Cedar Strat"), a private Nevada corporation, to acquire initially a 100% working interest in oil and gas leases covering approximately 33,000 net mineral acres (collectively the "Initial Fairway Leases") in the Nevada Oil and Gas Fairway, Nevada, U.S.A (the "Fairway Project"). Pursuant to the terms of the Fairway Agreement, Cedar Strat has continued to assemble acreage for Exxel's benefit within two areas of interest and has assembled additional net mineral acres (collectively, the "Additional Fairway Leases" and together with the "Initial Fairway Leases", the "Fairway Leases"). No reserves have been assigned to the lease interests acquired by the Company under the Fairway Agreement.

As consideration under the Fairway Agreement, Exxel has paid Cedar Strat US\$2,800,000 to acquire its interest in the Initial Fairway Leases and certain Additional Fairway Leases. With the Initial Fairway Leases and the Additional Fairway Leases acquired to date, Exxel's leasehold interests in the Fairway Project total more than 197,000 acres. In addition, pursuant to the terms of the Fairway Agreement, the Company was required to pay Cedar Strat a further US\$800,000 by November 30, 2006 (the "Additional Payment") to acquire the additional acreage assembled by Cedar Strat by that date.

Additionally, pursuant to the terms of the Fairway Agreement, Cedar Strat has retained an overriding royalty interest in all the acquired acreage equivalent to the difference between third party royalties under the Fairway Leases (which are primarily federal leases with a 12.5% royalty) and 78%, thereby resulting in an average overriding

royalty of approximately 9.5%. Also, Cedar Strat will receive a 20% working interest (the “CStrat Working Interest”) in the Fairway Leases assigned to the Company, after the Company has recovered its acquisition and operating costs. The Company has the right to buy back up to 50% of the CStrat Working Interest, to be exercised upon commencement of drilling in specified areas identified in the Fairway Agreement.

Under the Fairway Agreement the Company, as the initial project operator, was committed to drill four wells on the Fairway Project by the following deadlines (each a “Drilling Deadline”): the first by May 31, 2007, the second by May 31, 2008, the third by May 31, 2009 and the fourth by May 31, 2011. Default penalties for failure to drill the commitment wells ranged from US\$100,000 to US\$500,000 (collectively, the “Fairway Default Payments”).

Pursuant to an agreement dated March 30, 2006 amending the Fairway Agreement (the “Fairway Amendment Agreement”), each Drilling Deadline has been extended by 18 months, the Fairway Default Payments are no longer payable by the Company, and no interests are relinquished to Cedar Strat in the event that commitment wells are not drilled. The Fairway Amendment Agreement also provides for the Company and Cedar Strat to collectively employ their best efforts to sell to a third party any interests upon which the Company elects not to drill any commitment well, with the proceeds being distributed first to the Company as to 75% of its cost incurred with respect to the interest sold, and 50/50 thereafter.

As consideration for Cedar Strat executing the Fairway Amendment Agreement, the Company agreed to pay the Additional Payment by March 31, 2006, which amount was paid in full on March 30, 2006, as well as agreeing to lend Cedar Strat the sum of US\$200,000 under a promissory note due November 30, 2006, bearing simple interest of 7.75%. As at the date hereof, an aggregate of US\$200,000 plus accrued interest remains owing to the Company from Cedar Strat.

Garrington Area, Alberta

Pursuant to an agreement dated May 7, 2005 (the “Garrington Agreement”), the Company, Mystique Energy, Inc. (“Mystique”) and Strikewell Capital Corp. (“Strikewell”), a company wholly-owned by John R. Hislop, Chairman of the board of directors of Exxel (the “Chairman”), agreed to pool their interests with the Company to complete production testing on the Company’s property relating to the Cardium formation in the Garrington Area, southern Alberta, Canada (the “Garrington Project”). The parties would together own the upper and lower rights, Mystique as to 50%, the Company as to 25% and Strikewell as to 25%. To test the Cardium formation, the Company and Mystique each paid 50% of the completion and evaluation costs, being US\$110,300 in total for the Company’s portion of such costs. Strikewell did not contribute as it was contributing its proportional share of existing production from the Glauconitic zone below the Cardium formation in the wellbore and allowing the use of the wellbore to gain access to the Cardium formation. At the time, the Glauconitic zone was plugged back to facilitate the Cardium test. The work referred to in the foregoing was completed and the work related to the Cardium formation was successfully completed such that the well became a producing oil well in late June 2003.

In December 2003, the Company participated as to its 25% share of the costs related to operations intended to commingle the former producing lower Glauconitic zone with the producing Cardium formation. The operator was unable to remove the set plug existing between the two zones and the effort to commingle was abandoned. The Company’s share of costs related to the unsuccessful commingling effort was an aggregate of approximately US\$30,000. The Cardium zone was placed back on production at the end of 2003.

In May 2004, the Company again participated as to its 25% share of costs related to operations intended to remove the set plug to commingle the lower Glauconitic zone with the producing Cardium formation, however the efforts were again unsuccessful. The Cardium zone was placed back on production following the operations. The Company and its partners intend to continue to produce the Cardium zone and will review and reconsider re-entering the wellbore and attempting to remove the bridge plug between Glauconitic and Cardium productive zones at a future date.

In September 2004, the Company gave its consent to participate in the drilling of a new well, the 11-16-34-3 W5M, targeting the Cardium formation on one of its leases in the Garrington Project (the “Garrington Lease”). The Company owns a 50% interest in the Garrington Lease and Mystique owns the remaining 50% interest. The Company’s share of costs to drill and case the wellbore was US\$305,500. An additional US\$198,390 was required

to complete and tie-in the wellbore. Operations did not commence until September 2005 and the well was drilled and cased as a potential oil well and subsequently completed in October 2005. The well was successfully tied into local battery and gas compression facilities in late January 2006. Through June 2006 the well has produced approximately 4,611 barrels of oil and 7.9 million cubic feet of natural gas of which Exxel's share of production before royalties is 50%.

As a result of the foregoing, the Company currently owns interests in two producing wells, 02/11-16-034-03-W5 and 00/04-20-034-03-W5, in the Garrington Project.

Columbia River Basin, Washington

Beginning in November 2005, Exxel acquired leasehold interests with oil and gas mineral rights to federal, fee and state-owned lands in the Columbia River Basin of central Washington State, U.S.A. (the "Columbia River Project"). In several separate ongoing acquisition programs the Company has acquired approximately 325,000 net mineral acres in the area as at the date hereof. The leasehold interests are undeveloped and the Company's working interest is 100%. No reserves have been assigned to the lease interests acquired by the Company in connection with the Columbia River Project.

USE OF PROCEEDS

The estimated net proceeds to the Company from the sale of the Units will be approximately \$18,300,001 after deducting the Agents' Fee and the Advisory Fee, and the estimated expenses of the Offering. If the Agents' Option is exercised in full, the net proceeds of the Offering, after deducting the Agents' Fee, the Advisory Fee and expenses of the Offering, are estimated to be approximately \$21,127,501. The Company intends to use the estimated net proceeds of the Offering, assuming no exercise of the Agents' Option, as follows:

- (a) an aggregate of \$9,000,000 for the drilling and completion of four wells and for the acquisition of transmission facilities on the Rifle Creek Project;
- (b) an aggregate of \$6,500,000 for the acquisition of certain geological and geophysical information and the acquisition of certain additional acreage on the Columbia River Project; and
- (c) \$2,800,001 for working capital and general corporate purposes.

The amount actually expended for the purposes described above could vary significantly depending upon, among other things, the progress of the Company's drilling programs, regulatory approvals, technological advances and the Company's operating and capital needs from time to time.

DIVIDENDS

Exxel has not declared any dividends on the Common Shares. The board of directors of Exxel currently anticipates retaining earnings to finance the growth and development of the business of Exxel. Any future determination to pay dividends will be at the discretion of the board of directors of Exxel and will depend upon Exxel's financial condition, results of operations, capital requirements and such other factors as the board of directors of Exxel deems relevant.

CONSOLIDATED CAPITALIZATION

The following table sets forth the Company's consolidated capitalization as of the dates indicated, adjusted to give effect to the material changes in the share and loan capital of the Company since December 31, 2005, the date of the audited financial statements of the Company's most recently completed financial year. The table should be read in conjunction with the audited financial statements of the Company, including the notes thereto, and management's discussions and analysis incorporated by reference in this short form prospectus.

	As at December 31, 2005	As at June 30, 2006	As at June 30, 2006 After Giving Effect to the Offering ⁽¹⁾⁽²⁾
	(audited)	(unaudited)	(unaudited)
Long-term Debt	Nil	Nil	Nil
Shareholders' Equity			
Common Shares (Authorized – unlimited)	US\$28,197,066 (69,251,005 shares)	US\$49,750,408 (81,251,005 shares)	US\$66,145,320 (86,965,291 shares)
Warrants (Unexercised)	Nil Nil	Nil Nil	Nil (2,857,143)
Bruner Warrants (Unexercised)	Nil (2,500,000)	Nil (2,500,000)	Nil (2,500,000)
Rubicon Warrants ⁽³⁾ (Unexercised)	Nil (4,500,000)	Nil Nil ⁽⁴⁾	Nil Nil
Gemini Warrants ⁽⁵⁾ (Unexercised)	Nil (10,000,000)	Nil (7,500,000) ⁽⁶⁾	Nil (7,500,000) ⁽⁷⁾
April Unit Warrants ⁽⁸⁾ (Unexercised)	Nil Nil	Nil (4,000,000)	Nil (4,000,000)
April Compensation Warrants ⁽⁹⁾ (Unexercised)	Nil Nil	Nil (120,000)	Nil (120,000)
May Unit Warrants ⁽¹⁰⁾ (Unexercised)	Nil Nil	Nil (1,000,000)	Nil (1,000,000)
May Compensation Warrants ⁽¹¹⁾ (Unexercised)	Nil Nil	Nil (30,000)	Nil (30,000)
Stock Options ⁽¹²⁾	US\$369,762 (500,000)	US\$369,762 (500,000)	US\$369,762 (500,000)
First Options ⁽¹³⁾	Nil Nil	Nil Nil	Nil Nil
Second Options ⁽¹⁴⁾	Nil Nil	Nil Nil	Nil Nil
Total Capitalization	US\$28,566,828	US\$50,120,170	US\$66,515,082

Notes:

- (1) After deducting the Agents' Fee, the Advisory Fee and estimated expenses of the Offering.
(2) Assuming no exercise of the: (i) Agents' Option; (ii) Warrants; and (iii) Agents' Warrants.

- (3) In connection with the Rubicon Private Placement (as such term is defined in the AIF), Rubicon Master Fund acquired 4,500,000 Rubicon Warrants (as such term is defined in the AIF), each Rubicon Warrant entitling the holder thereof to purchase one Common Share at a price of US\$1.50 per Common Share at any time on or before September 21, 2007, subject to adjustment in certain events.
- (4) On February 28, 2006, 4,500,000 Rubicon Warrants were exercised.
- (5) In connection with the Gemini Private Placement (as such term is defined in the AIF), Gemini Energy Corp. acquired 10,000,000 Gemini Warrants (as such term is defined in the AIF) each Gemini Warrant entitling the holder thereof to purchase one Common Share at a price of US\$1.00 per Common Share at any time on or before August 18, 2010, subject to adjustment in certain events.
- (6) On February 2, 2006, 2,500,000 Gemini Warrants were exercised.
- (7) Subsequent to June 30, 2006, an additional 4,500,000 Gemini Warrants were exercised.
- (8) In connection with the Macquarie Private Placement, subscribers acquired an aggregate of 4,000,000 April Unit Warrants (as such term is defined in the AIF), each four April Unit Warrants entitling the holder thereof to purchase one Common Share at a price of \$3.75 per Common Share at any time on or before April 25, 2011, subject to adjustment in certain events.
- (9) In connection with the April Closing, Macquarie Securities (USA) Inc. received 120,000 April Compensation Warrants (as such term is defined in the AIF), each April Compensation entitling the holder thereof to purchase one Common Share at a price of \$3.00 per Common Share at any time on or before April 25, 2011, subject to adjustment in certain events.
- (10) In connection with the Macquarie Private Placement, subscribers acquired an aggregate of 1,000,000 May Unit Warrants (as such term is defined in the AIF), each four May Unit Warrants entitling the holder thereof to purchase one Common Share at a price of \$3.75 per Common Share at any time on or before May 4, 2011, subject to adjustment in certain events.
- (11) In connection with the May Closing, Canaccord Capital Corporation received 30,000 May Compensation Warrants (as such term is defined in the AIF), each May Compensation Warrant entitling the holder thereof to purchase one Common Share at a price of \$3.00 per Common Share at any time on or before May 4, 2011.
- (12) Such options were issued prior to implementation of the 2006 Plan (as such term is defined in the AIF). The value of such options was calculated using the Black-Scholes option pricing model.
- (13) Each of the First Options (as such term is defined in the August 2 Report) entitles the holder thereof to purchase a Common Share at an exercise price of \$4.00 per Common Share at any time on or before July 27, 2016.
- (14) Each of the Second Options (as such term is defined in the August 2 Report) entitles the holder thereof to purchase a Common Share at an exercise price of \$4.00 per Common Share at any time on or before July 27, 2011.

PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement, the Agents have agreed to act as agents to offer for sale the Units at the Offering Price in each of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia on a “reasonable commercial efforts” basis, if as and when issued by the Company, in accordance with the terms of the Agency Agreement. While the Agents have agreed to use reasonable commercial efforts to sell the Units, on a several basis, they are not obligated to purchase any Units. The obligations of the Agents under the Agency Agreement are conditional and may be terminated in their discretion on the basis of their assessment of the state of the financial markets and in certain stated circumstances, including any material adverse change in the business, affairs or financial condition of the Company.

Pursuant to the Agency Agreement, the Agents will receive a cash commission equal to 5.5% of the gross proceeds of the Offering (\$0.19 per Unit, for an aggregate cash commission of \$1,100,000). The Agents will also receive the Agents’ Warrants to purchase that number of Common Shares as is equal to 2.5% of the number of Units sold pursuant to the Offering. Each Agents’ Warrant will entitle the holder thereof to acquire one Common Share at the Offering Price until the date which is 24 months following the Closing Date. The grant of the Agents’ Warrants is qualified by this short form prospectus. In addition to the Agents’ Fee and pursuant to the Agency Agreement, MGI Securities Inc. will receive an Advisory Fee equal to 0.25% of the gross proceeds of the Offering (\$0.01 per Common Share, for an aggregate cash Advisory Fee of \$50,000 assuming no exercise of the Agents’ Option).

The Company has granted to the Agents the Agents’ Option, exercisable in whole or in part at the sole discretion of the Agents up to 48 hours prior to the Closing Date, to arrange for the sale of up to an additional 857,144 Units at the Offering Price. If the Agents’ Option is exercised in full, the total Price to the Public, Agents’ Fee and Advisory Fee, and Net Proceeds to the Company will be \$23,000,005, \$1,322,500 and \$21,677,505, respectively, before deducting the estimated expenses of the Offering. This short form prospectus qualifies the distribution of any Common Shares and Warrants comprising the Units issued on exercise of the Agents’ Option.

The Warrants will be created and issued pursuant to the terms of a warrant indenture (the “Warrant Indenture”) to be dated as of the Closing Date between the Company and Computershare Trust Company of Canada, as warrant agent thereunder (the “Warrant Agent”). Each Warrant will entitle the holder thereof to purchase one Warrant Share at an exercise price of \$4.00 per Warrant Share at any time until 5:00 p.m. (Vancouver time) on the date that is 18 months from the Closing Date, after which time the Warrants will expire and be void and of no value. The Warrant

Indenture will contain provisions designed to protect the holders of Warrants against dilution upon the happening of certain events. No fractional Common Shares will be issued upon exercise of any Warrants.

Unless the context otherwise requires, references herein to “Offering” or “Units” assumes the exercise of the Agents’ Option in full.

In connection with the Offering, the Agents may effect transactions that maintain the market price of the Common Shares at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Pursuant to the policy statements and/or rules of the relevant securities commissions or similar authorities, the Agents may not, beginning two trading days prior to the date that the Offering Price of the Common Shares qualified for distribution under this short form prospectus was determined and ending on the date the selling process ends and all stabilization arrangements relating to the Common Shares are terminated, bid for or purchase any Common Shares or attempt to induce or cause any person to do so. The foregoing restriction is subject to certain exceptions. These exceptions include a bid or purchase: (i) permitted under the rules of the TSXV; (ii) relating to market stabilization and passive market-making activities; or (iii) made for and on behalf of a customer where the order was not solicited during the restricted period described above, provided that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares.

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that certificates representing the Common Shares and Warrants will be available for delivery at the closing of the Offering.

The Offering Price was determined based upon arm’s length negotiations between the Company and the Agents.

The TSXV has conditionally approved the listing of the Common Shares and the Warrant Shares to be distributed under this short form prospectus, including the Common Shares issuable upon the exercise of the Agents’ Warrants. Listing will be subject to the Company fulfilling all of the listing requirements of the TSXV.

The Common Shares, the Warrants and the Warrant Shares issuable upon the exercise of the Warrants have not been and will not be registered under the 1933 Act, or any state securities laws. Accordingly, the Common Shares, the Warrants and the Warrant Shares may not be offered or sold within the United States (as such term is defined in Regulation S under the 1933 Act) except in transactions exempt from the registration requirements of the 1933 Act. The Agency Agreement enables the Agents to offer or sell the Units in the United States or to, or for the account or benefit of U.S. Persons pursuant to the Agency Agreement to persons that are (1) Accredited Investors that the Agents or their U.S. Affiliates have arranged to purchase the Units from the Company pursuant to Rule 506 of Regulation D under the 1933 Act, or (2) Qualified Institutional Buyers to which Agents or their U.S. Affiliates are reselling Units as principal pursuant to Rule 144A. This short form prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of the Units. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Common Shares, the Warrants and the Warrant Shares issuable upon the exercise of the Warrants offered hereby within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act unless such offer is made pursuant to an exemption under Rule 144A under the 1933 Act.

The Company has agreed not to issue any Common Shares or any securities convertible into or exchangeable for or exercisable to acquire Common Shares for a period of 90 days following the Closing Date other than in conjunction with: (i) the grant or exercise of stock options and other similar issuances pursuant to the share incentive plan of the Company and other share compensation arrangements; (ii) outstanding warrants; (iii) as full or partial consideration for an acquisition by the Company; or (iv) in connection with an offering of securities completed at an issue price per security of not less than the Offering Price.

Certain directors, officers and principal shareholders of the Company have agreed with the Agents that they will not sell, transfer, assign, pledge or otherwise dispose of any securities of the Company owned, directly or indirectly by

such directors, officers or shareholders, for a period of 90 days following the Closing Date, without the prior written consent of MGI Securities Inc. and Mirabaud Securities Limited, on behalf of the Agents, such consent not to be unreasonably withheld.

The Agency Agreement also provides that the Company will indemnify the Agents and their directors, officers, employees and agents against certain liabilities and expenses or will contribute to payments that the Agents may be required to make in respect thereof.

Clifford V. Adams, a Director and the Chief Executive Officer and President of the Company, Michael Lou, the Executive Vice President and Chief Financial Officer of the Company, and Victor Barcot, the Executive Vice President Business Development and Investor Relations of the Company, were each employed by Macquarie Securities (USA) Inc. (or an affiliate thereof) immediately prior to joining the Company. Consequently, the Company may be a connected issuer of Macquarie Securities (USA) Inc., one of the Agents, for the purposes of applicable securities laws. See “Relationship between the Company and Macquarie Securities (USA) Inc.”

DESCRIPTION OF SECURITIES TO BE DISTRIBUTED

Common Shares

Exxel is authorized to issue an unlimited number of Common Shares, of which as of October 31, 2006, there were 85,766,005 issued and outstanding Common Shares. Holders of Common Shares are entitled to receive notice of any meetings of shareholders of Exxel, and to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all directors standing for election. Holders of Common Shares are entitled to receive on a pro rata basis such dividends, if any, as and when declared by Exxel's board of directors at its discretion from funds legally available therefor, and upon the liquidation, dissolution or winding up of Exxel are entitled to receive on a pro rata basis the net assets of Exxel after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to, or on a pro rata basis with, the holders of Common Shares with respect to dividends or liquidation. The Common Shares do not carry any preemptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

Warrants

The Warrants will be issued in registered form under and be governed by the terms of the Warrant Indenture. The Company intends to appoint the principal transfer offices of Computershare Trust Company of Canada (the “Warrant Agent”) Vancouver, British Columbia and Toronto, Ontario as the locations at which Warrants may be surrendered for exercise or transfer. The following is a summary of certain anticipated provisions of the Warrant Indenture does not purport to be complete and is qualified in its entirety by reference to the provisions of the Warrant Indenture.

The Common Shares and the Warrants comprising the Units will separate immediately upon closing of the Offering. Each Warrant will entitle the holder to purchase one Warrant Share at a price of \$4.00. The exercise price and the number of Common Shares issuable upon exercise are both subject to adjustment in certain circumstances as more fully described below. Warrants will be exercisable at an exercise price of \$4.00 per Warrant Share at any time until 5:00 p.m. (Vancouver time) on the date that is 18 months from the Closing Date, after which time the Warrants will expire and become null and void. Under the Warrant Indenture, the Company will be entitled to purchase in the market, by private contract or otherwise, all or any of the Warrants then outstanding, and any Warrants so purchased will be cancelled.

The exercise price for the Warrants is payable in Canadian dollars.

The Warrant Indenture will provide for adjustment in the number of Common Shares issuable upon the exercise of the Warrants and/or the exercise price per Common Share upon the occurrence of certain events, including:

- (a) the issuance of Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all of the holders of the Common Shares as a stock dividend or other distribution (other than a “dividend paid in the ordinary course”, as defined in the Warrant Indenture, or a distribution of Common Shares upon the exercise of the Warrants or pursuant to the exercise of directors, officers or employee stock options granted under the Company’s stock option plans);
- (b) the subdivision, redivision or change of the Common Shares into a greater number of shares;
- (c) the reduction, combination or consolidation of the Common Shares into a lesser number of shares;
- (d) the issuance to all or substantially all of the holders of the Common Shares of rights, options or warrants under which such holders are entitled, during a period expiring not more than 45 days after the record date for such issuance, to subscribe for or purchase Common Shares, or securities exchangeable for or convertible into Common Shares, at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the “current market price”, as defined in the Warrant Indenture, for the Common Shares on such record date; and
- (e) the issuance or distribution to all or substantially all of the holders of the Common Shares of shares of any class other than the Common Shares, rights, options or warrants to acquire Common Shares or securities exchangeable or convertible into Common Shares, of evidences of indebtedness or cash, securities or any property or other assets.

The Warrant Indenture will also provide for adjustment in the class and/or number of securities issuable upon the exercise of the Warrants and/or exercise price per security in the event of the following additional events: (i) reclassifications of the Common Shares; (ii) consolidations, amalgamations, plans of arrangement or mergers of the Company with or into another entity (other than consolidations, amalgamations, plans of arrangement or mergers which do not result in any reclassification of the Common Shares or a change of the Common Shares into other shares); or (iii) the transfer (other than to one of the Company’s subsidiaries) of the undertaking or assets of the Company as an entirety or substantially as an entirety to another corporation or other entity.

No adjustment in the exercise price or the number of Common Shares purchasable upon the exercise of the Warrants will be required to be made unless the cumulative effect of such adjustment or adjustments would change the exercise price by at least 1% or the number of Common Shares purchasable upon exercise by at least one one-hundredth of a Common Share.

The Company will also covenant in the Warrant Indenture that, during the period in which the Warrants are exercisable, it will give notice to holders of Warrants of certain stated events, including events that would result in an adjustment to the exercise price for the Warrants or the number of Common Shares issuable upon exercise of the Warrants, at least 14 days prior to the record date or effective date, as the case may be, of such event.

No fractional Common Shares will be issuable upon the exercise of any Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Warrants will not have any voting or pre-emptive rights or any other rights which a holder of Common Shares would have.

From time to time, the Company and the Warrant Agent, without the consent of the holders of Warrants, may amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interests of the holders of the Warrants may only be made by “extraordinary resolution”, which is defined in the Warrant Indenture as a resolution either (i) passed at a meeting of the holders of Warrants at which there are holders of Warrants present in person or represented by proxy representing at least 10% of the aggregate number of the then outstanding Warrants and passed by the affirmative vote of holders of Warrants representing not less than 66⅔% of the aggregate number of all the then outstanding Warrants represented at the meeting and voted on the poll upon such resolution or (ii) adopted by an instrument in

writing signed by the holders of Warrants representing not less than 66⅔% of the aggregate number of all the then outstanding Warrants.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

General

In the opinion of Aird & Berlis LLP, counsel to the Company, and Wildeboer Dellece LLP, counsel to the Agents, the following is a summary of the principal Canadian federal income tax considerations generally applicable to subscribers of Units under the Offering.

This summary is based upon the current provisions of the *Income Tax Act* (Canada), together with regulations thereto (collectively, the “Tax Act”), counsel’s understanding of the prevailing administrative policies and assessing practices of the Canada Revenue Agency (the “CRA”) and all specific proposals to amend the Tax Act publicly announced by the Minister of Finance (Canada) prior to the date hereof (the “Tax Proposals”). This summary does not otherwise take into account or anticipate any changes to the law, administrative policies or assessing practices, whether by way of judicial, governmental, legislative decision or action, nor does it take into consideration any provincial, territorial or foreign tax legislation or considerations. It is assumed that the Tax Proposals will be enacted as currently proposed and that there will be no relevant amendments to any governing law. However, no assurance can be given that the Tax Proposals will be enacted in their present form, if at all, or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

This summary is applicable to investors who, for the purposes of the Tax Act and at all relevant times, are residents of Canada, hold or will hold the securities comprising the Units (collectively, the “Unit Securities”) as capital property, deal at arm’s length and are not affiliated with the Company and do not use or hold, and are not deemed to use or hold the Unit Securities in, or in the course of, carrying on a business or as an adventure in the nature of trade.

This summary does not apply to an investor (i) that is a “financial institution” within the meaning of the “mark-to-market” rules contained in the Tax Act; (ii) that is a partnership; or (iii) that is a trust.

This summary is a of a general nature only and is not intended, nor should it be construed, to be legal or tax advice to any particular investor. Accordingly, each investor should consult the investor’s own tax advisors with respect to the tax consequences of acquiring, holding or disposing of securities of the Company based on the investor’s own particular circumstances.

Allocation of Purchase Price for Unit Securities

A holder will be required to allocate the cost of each Unit purchased under the Offering on a reasonable basis between the Common Shares and Warrants comprised therein, in order to determine their respective cost to the holder for purposes of the Tax Act. The Company has allocated \$3.50 of the subscription price of each Unit to the Common Share and a nil amount to the Warrant issued in respect of each Unit. Although the Company believes these allocations to be reasonable, they are not binding on the CRA.

Exercise of Warrants Generally

No gain or loss is realized on the exercise or deemed exercise of Warrants generally. If and when the Warrants are exercised, the holder’s initial cost of the Common Shares acquired thereby generally will be the aggregate of the holder’s adjusted cost base of the exercised Warrants and the exercise price paid for the Common Shares. The adjusted cost base of a Warrant to a holder will be the aggregate of the adjusted cost base of all Warrants held by a holder at a particular time (whether acquired under this offering or otherwise) divided by the number of Warrants then held by such holders as capital property.

Dividends on Common Shares

A holder who is an individual (other than a trust) who receives or is deemed to receive dividends on the Common Shares will be required to include them in computing the holder's income and will be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received from a corporation resident in Canada for purposes of the Tax Act. On June 29, 2006, proposed amendments to the Tax Act were released to increase the dividend tax credit on certain "eligible dividends". There is no assurance that such amendments will be enacted.

A holder that is a corporation which receives or is deemed to receive dividends on the Common Shares will be required to include them in computing the holder's income and, subject to certain special rules and limitations, will normally be able to deduct the amount of such dividends in computing the holder's taxable income.

A holder that is a "private corporation", as defined in the Tax Act, or any other corporation resident in Canada and controlled or deemed to be controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), may be liable under Part IV of the Tax Act to pay a refundable tax of 33½ per cent of dividends received or deemed to be received on the Common Shares to the extent that such dividends are deductible in computing the holder's taxable income.

A holder that is a "Canadian controlled private corporation", as defined in the Tax Act, throughout the relevant taxation year may be liable to pay an additional refundable tax of 6½ per cent on dividends or deemed dividends on Common Shares that are not deductible in computing the holder's taxable income.

Expiry of Warrants

If a Warrant expires, the holder will realize a capital loss equal to the holder's adjusted cost base thereof at the time of its expiry. One-half of such capital loss may be deducted by the holder from taxable capital gains realized in the year of disposition, and to the extent not so deducted, may be applied to reduce taxable capital gains in any subsequent taxation year or in any of the three preceding taxation years.

Adjusted Cost Base of Common Shares

Each Common Share acquired on the exercise of a Warrant will initially have an adjusted cost base equal to the aggregate subscription price allocable to such share and, where applicable, the adjusted cost base of the Warrant exercised to acquire such share.

The adjusted cost base of a Common Share owned by a particular holder at any time (whether acquired under this Offering, or otherwise) will be the aggregate of the adjusted cost base to that holder of all Common Shares owned by that holder at that time as capital property divided by the number of Common Shares then held by such holder as capital property.

Disposition of Common Shares or Warrants

A disposition or deemed disposition of a Common Share or a Warrant (other than upon the exercise or expiry thereof) will generally result in the holder realizing a capital gain (or capital loss) equal to the amount by which the holder's proceeds of disposition, less reasonable costs of disposition, are greater (or less) than the holder's adjusted cost base of the particular Common Share or Warrant, as the case may be.

Generally, one-half of any capital gain realized by a holder will be required to be included as a taxable capital gain in computing income of the year of disposition and one-half of any capital loss realized by a holder will be deductible as an allowable capital loss against taxable capital gains realized in the year of disposition. Subject to certain detailed rules set out in the Tax Act, allowable capital losses may be carried back three years and forward indefinitely until fully utilized.

If the holder is a corporation, a capital loss realized on the disposition of Common Shares may be reduced by the amount of dividends received or deemed to have been received by the holder on such shares to the extent and under the circumstances described in the Tax Act.

A holder that is a “Canadian-controlled private corporation”, as defined in the Tax Act, may be liable to pay an additional refundable tax of 6⅔ percent on its aggregate investment income, including taxable capital gains.

RISK FACTORS

The Units offered pursuant to this short form prospectus involve a high degree of risk. In addition to the other information in this short form prospectus and in the documents incorporated by reference herein, the following risk factors should be carefully considered before investing in the Units. If any of the risks described below occur, the business, financial condition and results of operations of the Company could be materially adversely affected. If this were to occur, the market price or value of the Common Shares could decline, and all or part of an investment in the Units offered hereby could be lost.

Risks Relating to the Company’s Business

Risk of Foreign Operations: Some of the Company’s oil and gas operations and assets are located in the United States. As a result, they are subject to political, economic and other uncertainties for reasons that include:

- changes in energy policies or the personnel administering them;
- expropriation of property without fair compensation;
- cancellation or modification of contract rights;
- foreign exchange restrictions;
- currency fluctuations;
- royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which the Company’s operations are conducted; and
- risks of loss due to civil strife and acts of war.

The Company’s international operations may also be adversely affected by laws and policies of Canada affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with the Company’s foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada or enforcing Canadian judgments in such other jurisdictions. The Company may also be hindered or prevented from enforcing the Company’s rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. In addition, the Company’s existing joint ventures were formed pursuant to, and the Company’s operations are governed by, a number of legal and contractual relationships. The effectiveness of and enforcement of these contracts and relationships with parties in these jurisdictions cannot be assured. Consequently, the Company’s foreign exploration, development and production activities could be substantially affected by factors beyond the Company’s control, any of which could have a materially adverse effect on the Company and the Company’s business.

Property Defects: The Company uses its reasonable efforts to obtain title opinions with respect to the Company’s properties on which wells are to be drilled. The Company also obtains informal title reports before acquiring its leases. Nevertheless, no assurances can be given that title defects do not exist. The properties may be subject to prior unregistered agreements, native land claims or transfers which have not been recorded or detected through title research. Additionally, the land upon which the Company holds leases may not have been surveyed; therefore, the precise area and location of such interests may be subject to challenge. If title defects do exist, it is possible that the Company may lose all or a portion of the Company’s rights, title, estate and interest in and to the asset.

Need to Manage Growth: The Company could experience rapid growth in production, revenues, personnel, complexity of administration and in other areas. There can be no assurance that the Company will be able to manage the impact that growth could place on the Company’s administrative infrastructure, systems and controls. If the Company is unable to manage future growth effectively, the Company’s business, operations and operating results and financial condition may be materially adversely affected.

Dependence on Key Personnel/Employees: Other than Mr. Clifford V. Adams, President and Chief Executive Officer, Mr. Michael Lou, EVP of Finance and Chief Financial Officer and Mr. Victor Barcot, EVP of Business Development and Investor Relations, the Company does not have any full time employees and the Company is dependent on its ability to hire and retain highly skilled and qualified personnel. Therefore, the loss of the aforementioned persons and technical personnel or its inability to attract and retain experienced technical personnel could adversely affect the Company's ability to operate.

The success of the Company's projects depends, in part, on the Company's ability to attract and retain experienced petroleum engineers, geologists and other key personnel. From time to time, competition for experienced engineers and geologists is intense. If the Company cannot retain these personnel or attract additional experienced personnel, its ability to compete in the geographic regions in which the Company conducts operations could be harmed.

Conflicts of Interests: In addition to their interest in the Company, the Company's management and directors currently engage, and intend to continue to engage in the future, in the oil and gas business independently of the Company. As a result, conflicts of interest between the Company and the Company's management and directors may arise.

Insurance: The Company does not maintain 'key man' insurance. The loss of service of any key personnel could have a material adverse effect on the Company's business operations and operating results and financial condition.

The Company does not intend to insure against all risks. The Company intends to maintain insurance, to the extent available in Canada and the US, against various losses and liabilities arising from operations in accordance with customary industry practices and in amounts that management believes to be prudent. Losses and liabilities arising from uninsured and underinsured events or in amounts in excess of existing insurance coverage could have a material adverse effect on the Company's business, financial condition or results of operations. The Company's oil and gas exploration and production activities will be subject to hazards and risks associated with drilling for, producing and transporting oil and gas, and any of these risks can cause substantial losses resulting from:

- environmental hazards, such as uncontrollable flows of natural gas, oil, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck oil field drilling, and service tools and casing collapse;
- fires and explosions;
- personal injuries and death;
- regulatory investigations and penalties; and
- natural disasters.

Any of these risks could have a material adverse effect on the Company's business, operations and operating results and financial condition. The Company might elect not to obtain insurance if it believes that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, it could have material adverse effect on the Company's business, operations and operating results and financial condition.

Potential for Substantial Dilution: It is possible that in order to obtain additional funds as needed, the Company may sell additional securities including Common Shares or some form of convertible debt instruments, which may result in a substantial dilution of the equity interests of the Company's existing shareholders at the time.

Value of Common Shares: The value of the Common Shares might be affected by matters not related to the Company's own operating performance for reasons that include the following:

- general economic conditions in Canada, the United States and globally;
- industry conditions, including fluctuations in the price of oil and gas;
- governmental regulation of the oil and gas industry, including environmental regulation;
- fluctuation in foreign exchange or interest rates;
- liabilities inherent in oil and gas operations;

- geological, technical, drilling and processing problems;
- unanticipated operating events which can reduce production or cause production to be shut-in or delayed;
- failure to obtain industry partner and other third party consents and approvals, when required;
- stock market volatility and market valuations;
- competition for, among other things, capital, acquisition of reserves, undeveloped land and skilled personnel;
- the need to obtain required approvals from regulatory authorities;
- political conditions in oil and gas producing regions;
- revenue and operating results failing to meet expectations in any particular period;
- investor perception of the oil and gas industry;
- limited trading volume of Common Shares;
- change in environmental and other governmental regulations;
- announcements relating to the Company's business or the business of its competitors;
- the Company's liquidity; and
- the Company's ability to raise additional funds.

In the past, companies that have experienced volatility in their value have been the subject of securities class action litigation. The Company might become involved in securities class action litigation in the future. Such litigation often results in substantial costs and diversion of management's attention and resources and could have a material adverse effect on the Company's business, operations and results of operations and financial condition.

Potential to Incur Debt: It is possible the Company might incur debt in order to fund its exploration and development activities, which would continue to reduce its financial flexibility and could have a material adverse effect on the Company's business, operations and results of operations and financial condition. General economic conditions, oil and gas prices and financial, business and other factors affect the Company's operations and future performance. Many of these factors are beyond the Company's control. No assurances can be made that the Company will be able to generate sufficient cash flow to pay the interest on its debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt. Factors that will affect its ability to raise cash through an offering of Common Shares or a refinancing of its debt include financial market conditions, the value of its assets and performance at the time the Company needs capital. No assurances can be made that the Company will have sufficient funds to make such payments. If the Company does not have sufficient funds and is otherwise unable to negotiate renewals of its borrowings or arrange new financing, it might be required to sell significant assets. Any such sale could have a material adverse effect on the Company's business, operations and results of operations and financial condition.

Financial Considerations: The Company's decision as to whether the Company's properties contain commercial oil and gas deposits and whether these should be brought into production will require substantial funds and depend upon the results of exploration programs and feasibility studies and the recommendations of duly qualified engineers, geologists or both. This decision will involve consideration and evaluation of several significant factors including but not limited to:

- costs of bringing a property into production, including exploration and development work, preparation of production feasibility studies, and construction of production facilities;
- availability and costs of financing;
- ongoing costs of production;
- market prices for the oil and gas to be produced;
- environmental compliance regulations and restraints; and
- political climate, governmental regulation and control.

As well, the Company's future growth depends on its ability to make large capital expenditures for the exploration and development of natural gas and oil properties. Future cash flows and the availability of financing will be subject to a number of variables, such as:

- the success of the Company's projects;
- success in locating and producing new reserves; and
- prices of oil and gas.

Additional financing sources may be required in the future to fund developmental and exploratory drilling. Issuing equity securities to satisfy the Company's financial requirements could cause substantial dilution to its existing stockholders. Additional debt financing could lead to:

- a substantial portion of operating cash flow being dedicated to the payment of principal and interest;
- the Company being more vulnerable to competitive pressures and economic downturns; and
- restrictions on the Company's operations.

Financing might not be available in the future, or the Company might not be able to obtain necessary financing on acceptable terms, if at all. If sufficient capital resources are not available, the Company might be forced to curtail drilling and other activities or be forced to sell some assets on an untimely or unfavourable basis, which would have a material adverse effect on the Company's business, financial condition and results of operations.

Currency Fluctuations: The Company maintains the Company's deposit amounts in US and Canadian currencies and are therefore subject to currency fluctuations which may materially affect the Company's financial position and results.

Hedging: Although Exxel does not currently enter into hedging agreements to manage currency risk, Exxel may in the future enter into agreements to receive fixed prices on its oil and gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Exxel will not benefit from such increases. Similarly, from time to time Exxel may enter into agreements to fix the exchange rate of Canadian to U.S. dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the U.S. dollar; however, if the Canadian dollar declines in value compared to the U.S. dollar, Exxel will not benefit from the fluctuating exchange rate.

Potential Acquisitions: Acquisitions of producing and undeveloped properties have been an important part of the Company's growth. The Company expects that acquisitions will also contribute to its future growth. The Company is continually assessing potential acquisitions. However, until such time as the Company enters into a definitive purchase and sale agreement with respect to a particular acquisition there can be no assurance that any particular acquisition will be completed. Moreover, even once a definitive purchase and sale agreement has been entered into, such an agreement will typically contain conditions that must be fulfilled prior to closing and the fulfillment of many of these conditions is beyond the control of the Company. As a result, the Company can make no assurance that any particular acquisition will be completed until such time as the closing of such acquisition occurs.

Additionally, successful acquisitions require an assessment of a number of factors, including recoverable reserves, exploration or development potential, future oil and gas prices, operating costs, and potential environmental and other liabilities. The process of assessing these factors is complex, requiring significant decisions and assumptions in the evaluation of available information and the accuracy of such assumptions is inherently imprecise. In connection with the Company's assessments, the Company performs an engineering, geological and geophysical review of the acquired properties, which the Company believes is generally consistent with industry practices. However, such a review may not permit the Company to become sufficiently familiar with the properties to fully assess their deficiencies and capabilities. The Company does not physically inspect every well. Even when the Company inspects a well, the Company may not always be able to discover structural, subsurface and environmental problems that may be even more limited. Often the Company is not entitled to contractual indemnification for preclosing liabilities, including environmental liabilities associated with acquired properties.

Risks Relating to the Industry

Potential Profitability of Oil and Gas Ventures Depends Upon Factors Beyond the Company's Control: The potential profitability of oil and gas properties is dependent upon many factors that are beyond the Company's

control. For instance, world prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging, controls, or any combination of these and other factors, and respond to changes in domestic, international, political, social, and economic environments. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not impossible, to project. These changes and events may materially affect the Company's financial performance.

A productive well may become uneconomic in the event water or other deleterious substances are encountered which impair or prevent the production of oil and gas from the well. In addition, production from any well may be unmarketable if it is impregnated with water or other deleterious substances. The marketability of oil and gas that the Company may acquire or discover could be affected by numerous factors beyond the Company's control. These factors include the proximity and capacity of oil and gas pipelines and processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production, adverse weather conditions and environmental protection. The extent of these factors cannot be accurately predicted and the combination of these factors may result in the Company's not receiving an adequate return on invested capital.

Market Conditions: The marketability of the Company's production depends in part upon the availability, proximity and capacity of pipelines, gathering systems and processing facilities. This dependence is heightened where this infrastructure is less developed. If drilling results are positive in certain areas where the Company's projects are located, a new gathering system may need to be built to handle the potential volume of gas produced. The Company might be required to shut-in wells, at least temporarily, for lack of a market or because of the inadequacy or unavailability of transportation facilities. If that were to occur, the Company would be unable to realize revenue from those wells until arrangements were made to deliver production to market.

The Company's ability to produce and market oil and gas is affected and also may be harmed by:

- the lack of pipeline transmission facilities or carrying capacity;
- government regulation of oil and gas production;
- government transportation, tax and energy policies;
- changes in supply and demand; and
- general economic conditions.

Any change in such factors could materially adversely affect the Company's business, operations and results of operations and financial condition.

Decline in Oil and Gas Prices: The Company's revenues, operating results and future rate of growth are substantially dependent upon the prevailing prices of, and demand for, oil and gas. Declines in the prices of, or demand for, oil and gas may adversely affect the Company's business, operations and results of operations and financial condition. Lower oil and gas prices may also reduce the amount of oil and gas that the Company can produce economically. Historically, oil and gas prices and markets have been volatile and they are likely to continue to be volatile in the future. A decrease in oil and gas prices will not only reduce revenues and profits, but will also reduce the quantities of reserves that are commercially recoverable and may result in charges to earnings for impairment of the value of these assets. If oil and gas prices decline significantly for extended periods of time in the future, the Company might not be able to generate enough cash flow from operations to meet its obligations and make planned capital expenditures. Oil and gas prices are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, oil or gas, market uncertainty and a variety of additional factors that are beyond the Company's control. Among the factors that could cause this fluctuation are:

- change in global supply and demand for oil and gas;
- levels of production and other activities of the Organization of Petroleum Exporting Countries, and other oil and gas producing nations;
- market expectations about future prices;
- the level of global oil and gas exploration, production activity and inventories;
- political conditions, including embargoes, in or affecting other oil and gas producing activity; and
- the price and availability of alternative fuels.

Lower oil and gas prices may not only decrease the Company's revenues on a per unit basis, but also may reduce the amount of oil and gas that it can produce economically. A substantial or extended decline in oil prices may materially adversely affect the Company's business, financial condition and results of operations.

Competitiveness of the Oil and Gas Industry: The gas industry is intensely competitive. The Company competes with numerous individuals and companies, including many major and independent Canadian-based, U.S.-based and foreign companies doing business in Canada and the United States in each of the following areas:

- seeking oil and gas exploration licences and production licences in Canada and the United States;
- acquiring desirable producing properties or new leases for future exploration;
- marketing oil and gas production;
- integrating new technologies; and
- acquiring the equipment and expertise necessary to develop and operate properties.

Many of the Company's competitors have substantially greater financial, managerial, technological and other resources. These companies might be able to pay more for exploratory prospects, and productive oil and gas properties and prospects than the Company's financial or human resources permit. To the extent competitors are able to pay more for properties than the Company is paying, it will be at a competitive disadvantage. Further, many competitors may enjoy technological advantages and may be able to implement new technologies more rapidly. Accordingly, there is a high degree of competition for desirable leases, suitable properties for drilling operations and necessary drilling equipment, as well as for access to funds. There can be no assurance that the necessary funds can be raised or that any projected work will be completed.

The Company's ability to explore for oil and gas prospects and to acquire additional properties in the future will depend upon its ability to successfully conduct operations, implement advanced technologies, evaluate and select suitable properties and consummate transactions in this highly competitive environment.

Equipment: From time to time, drilling costs have sharply increased in various areas around the world and could do so again. The demand for and wage rates of qualified drilling rig crews generally rise in response to the increased number of active rigs in service and could increase sharply in the event of a shortage. Shortages of drilling and completion rigs, field equipment or qualified personnel could delay, restrict or curtail the Company's exploration and development operations, which may materially adversely affect the Company's business, financial condition and results of operations.

Fluctuating Price and Demand: The marketability of natural resources that the Company may acquire or discover may be affected by numerous factors beyond the Company's control. These factors include:

- market fluctuations in oil and gas pricing and demand;
- the proximity and capacity of natural resource markets and processing equipment;
- governmental regulations;
- land tenure;
- land use; and
- regulation concerning the importing and exporting of oil and gas and environmental protection regulations.

The impact of these factors cannot be accurately predicted, but the combination of these factors could have an adverse impact on the Company's business.

Regulation: The Company's operations are subject to federal, state, provincial and/or local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. The Company's operations are also subject to federal, state, provincial and/or local laws and regulations that seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment. The Company can give no assurance that environmental standards imposed by federal, provincial or local authorities will not be changed or that any such changes would not have material adverse

effects on the Company's activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on the Company and the Company's business. Additionally, the Company may be subject to liability for pollution or other environmental damages, which the Company may elect not to insure against due to prohibitive premium costs and other reasons.

Exploration for and exploitation, production and sale of oil and gas in the United States and Canada is subject to extensive national and local laws and regulations, including complex tax laws and environmental laws and regulations, and requires various permits and approvals from various governmental agencies. If these permits are not issued or unfavourable restrictions or conditions are imposed on the Company's drilling activities, it might not be able to conduct its operations as planned. Alternatively, failure to comply with these laws and regulations, including the requirements of any permits, might result in the suspension or termination of operations and subject the Company to penalties. Compliance costs are significant. Further, these laws and regulations could change in ways that substantially increase the Company's costs and associated liabilities. As a result, existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations may materially adversely affect the Company's business, operations and results of operations and financial condition.

The actions, policies or regulations or changes thereto, of any government body or regulatory agency, or other special interest groups, may have a detrimental effect on the Company. Any or all of these situations may have a negative impact on the Company's ability to operate and make a profit.

Permits and Approvals: Various permits from government bodies are required for drilling operations to be conducted; no assurance can be given that such permits will be received. However, the Company might not be able to obtain necessary approvals from one or more government agencies, surface owners, or other third parties, for one or more of the following:

- surface use for seismic surveys;
- surface use for drilling activities;
- surface use for gathering lines, pipelines, or surface equipment;
- commencing one or more wells (that is, drilling permits); or
- sales of the product.

The Company's failure to obtain the necessary permits and approvals, to be granted new exploration licences, and/or failure to obtain sufficiently large production licences covering a sufficiently large area would prevent or limit the Company from continuing to explore and develop a significant portion of the oil and gas interests covered by the Company's projects.

Risks Associated with Drilling: Drilling operations generally involve a high degree of risk. The Company's future success depends on the success of its exploration, development and production activities in the Company's projects. These activities are subject to numerous risks beyond the Company's control, including:

- unusual or unexpected geological conditions;
- power outages;
- liability for pollution or hazards against which the Company cannot adequately insure or elects not to insure;
- labour disruptions;
- blow-outs;
- sour gas leakage;
- fire;
- inability to obtain suitable or adequate machinery;
- equipment;
- labour; or
- that the Company will not find any commercially productive oil and gas reservoirs.

The Company's decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. The cost of drilling, completing and operating wells is often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or prevent drilling operations, including:

- unexpected drilling conditions;
- pressure or irregularities in geological formations;
- equipment failures or accidents;
- pipeline and processing interruptions or unavailability;
- title problems;
- adverse weather conditions;
- lack of market demand for oil and gas;
- delays imposed by or resulting from compliance with environmental and other regulatory requirements;
- shortage of or delays in the availability of drilling rigs and the delivery of equipment; and
- reductions in oil and gas prices.

The Company's future drilling activities might not be successful, and drilling success rate overall or within a particular area could decline. The Company could incur losses by drilling unproductive wells. Although the Company has identified numerous potential drilling locations, no assurances can be made that the Company will ever drill them or will produce oil and gas from them or from any other potential drilling locations. Shut-in wells, curtailed production and other production interruptions may materially adversely affect the Company's business, financial condition and results of operations.

Uncertainty of Estimates of Resources/Reserves: Under applicable regulatory requirements, the Company will be required to identify and disclose as proved oil and gas reserves, estimated quantities of crude oil, natural gas and natural gas liquids. This geological and engineering data demonstrates with reasonable certainty the estimated quantities of crude oil, natural gas and natural gas liquids, which will be recoverable in future years from known reservoirs under existing economic and operating conditions. However, the process of estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. The assumptions required to be made include assumptions relating to:

- oil and gas prices;
- drilling and operating expenses;
- capital expenditures;
- ownership and title; and
- taxes and the availability of funds.

As a result, such estimates are inherently imprecise. Actual future production, oil and gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserved may vary substantially from the Company's estimations from year to year. Any significant variance in the assumptions could materially affect the estimated quantities and present values of reserves. For example, a material drop in oil and gas prices, or material increase in applicable taxes, will require management to reassess whether known reservoirs can continue to be reasonably judged as economically productive from one year to the next. In addition, the reserves may be subject to downward or upward revisions based upon production history, results of future exploration and development, prevailing oil and gas prices and other factors, many of which are beyond the Company's control. Actual oil and gas prices, future production, revenues, operating expenses, taxes and development expenditures will most likely vary from those estimated by the Company. Any significant variance could materially adversely affect the estimated quantities and present value of future net revenues set forth in the AIF and the other documents incorporated by reference herein. A reduction in oil and gas prices, for example, would reduce the value of resources and reduce the amount of oil and gas that could be economically produced, thereby reducing the quantity

of reserves. The Company might adjust estimates of resources / reserves to reflect production history, results of exploration and development, prevailing oil and gas prices and other factors, many of which are beyond the Company's control.

Further, undeveloped resources, by their nature, are significantly less certain than developed resources. The discovery, determination and exploitation of undeveloped resources require significant capital expenditures and successful drilling and exploration programs. The recovery of undeveloped resources requires significant capital expenditures and successful drilling operations. The Company's projects will require the Company to make significant capital expenditures to develop its resources. Although the Company has prepared estimates on certain of its oil and gas resources and the costs associated with these resources in accordance with industry standards, no assurances can be given that the estimated costs are accurate, that development will occur as scheduled or that the actual results will be as estimated. The Company might not be able to raise the capital it needs to develop these resources.

Declining Reserves: In general, the volume of production from oil and gas properties declines as reserves are depleted. The decline rates depend on reservoir characteristics and vary from steep declines to the relatively slow declines characteristic of long-lived fields in other regions. If the Company establishes reserves, of which there is no assurance, and is not successful in its subsequent exploration and development activities or in subsequently acquiring properties containing proved reserves, its proved reserves will decline as reserves are produced. The Company's future oil and gas production is highly dependent upon its ability to economically find, develop or acquire reserves in commercial quantities.

To the extent cash flow from operations is reduced, either by a decrease in prevailing prices for natural gas and oil or an increase in finding and development costs, and external sources of capital become limited or unavailable, the Company's ability to make the necessary capital investment to maintain or expand its asset base of oil and gas reserves would be impaired. Even with sufficient available capital, its future exploration and development activities may not result in additional proved reserves, and the Company might not be able to drill productive wells at acceptable costs.

Environmental Inspection: Inspections may not always be performed on every well, and environmental problems, such as groundwater contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, a seller may be unwilling or unable to provide effective contractual protection against all or part of those problems, and the Company often assumes environmental and other risks and liabilities in connection with the acquired properties.

INTEREST OF EXPERTS

Names of Experts

The names of the experts are as follows:

- (a) Aird & Berlis LLP, counsel to the Company;
- (b) Wildeboer Dellelece LLP, counsel to the Agents;
- (c) McDaniel & Associates Consulting Ltd., 2200-255 5 Avenue SW, Calgary, Alberta, Canada T2P 3G6;
- (d) Smythe Ratcliffe LLP, Chartered Accountants, 7th Floor, Marine Building, 355 Burrard Street, Vancouver, British Columbia, Canada V6C 2G8; and
- (e) Ernst & Young LLP, Chartered Accountants, Pacific Centre, 700 West Georgia Street, Vancouver, British Columbia, Canada V7Y 1C7.

Interests of Experts

None of Aird & Berlis LLP, Wildeboer Dellelece LLP, McDaniel & Associates Consulting Ltd., Smythe Ratcliffe LLP, Chartered Accountants or Ernst & Young LLP, Chartered Accountants, or any director, officer, employee or partner thereof, as applicable, received or has received a direct or indirect interest in the property of the Company or of any associate or affiliate of the Company. As at the date hereof, the directors, officers, employees and partners, as applicable, of each of the aforementioned companies and partnerships beneficially own, directly or indirectly in the aggregate less than one per cent of the securities of the Company. No director, officer, employee or partner, as applicable, of the aforementioned companies or partnerships is currently expected to be elected, appointed or employed as a director, officer or employee of the Company or of any associate or affiliate of the Company.

Both Smythe Ratcliffe LLP, Chartered Accountants, and Ernst & Young LLP, Chartered Accountants, are independent in accordance with the auditors' rules of professional conduct of the Institute of Chartered Accountants in British Columbia.

LEGAL MATTERS

Certain legal matters relating to the Offering will be passed upon on behalf of the Company by Aird & Berlis LLP and on behalf of the Agents by Wildeboer Dellelece LLP.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are Smythe Ratcliffe LLP, Chartered Accountants.

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. at its principal office in Vancouver, British Columbia, Canada.

CONFLICT OF INTEREST

Certain officers and directors of Exxel are directors or officers of other oil and gas exploration companies. Consequently, potential conflicts of interest may arise in the event that these companies compete in respect of the sale or option of oil and gas properties in which Exxel is or may be interested.

RELATIONSHIP BETWEEN THE COMPANY AND MACQUARIE SECURITIES (USA) INC.

Clifford V. Adams, a Director and the Chief Executive Officer and President of the Company, Michael Lou, the Executive Vice President and Chief Financial Officer of the Company, and Victor Barcot, the Executive Vice President Business Development and Investor Relations of the Company, were each employed by Macquarie Securities (USA) Inc. (or an affiliate thereof) immediately prior to joining the Company. Consequently, the Company may be a connected issuer of Macquarie Securities (USA) Inc., one of the Agents, for the purposes of applicable securities laws.

As at the date hereof, Macquarie Securities (USA) Inc. and its affiliates hold an aggregate of 4,000,000 Common Shares and 4,000,000 common share purchase warrants of the Company, each four warrants being exercisable to acquire one Common Share at an exercise price of \$3.75 per Common Share.

Macquarie Securities (USA) Inc. was not involved in the decision by the Company to distribute the Common Shares pursuant to the Offering, nor was the Offering requested or suggested to the Company by Macquarie Securities (USA) Inc.

The Company will not apply the net proceeds of the Offering for the benefit of Macquarie Securities (USA) Inc.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment to the prospectus. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

AUDITORS' CONSENT

We have read the short form prospectus of Exxel Energy Corp. ("Exxel") dated November 1, 2006 qualifying the distribution of up to 5,714,286 units of Exxel. We have complied with Canadian generally accepted standards for an auditors' involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the shareholders of Exxel on the consolidated balance sheet of Exxel as at December 31, 2005 and the consolidated statements of operations and deficit and cash flows for the seven-month period then ended. Our report is dated March 31, 2006.

(Signed) Smythe Ratcliffe LLP, Chartered Accountants
Vancouver, British Columbia, Canada
November 1, 2006

AUDITORS' CONSENT

We have read the short form prospectus (the "Prospectus") of Exxel Energy Corp. (the "Company") dated November 1, 2006 relating to the offering and distribution of up to 5,714,286 units of the Company at a price of \$3.50 per unit, where each unit is to be comprised of one common share in the capital of the Company, and one-half of one common share purchase warrant. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the Prospectus of our report to the shareholders of the Company on the balance sheet of the Company as at May 31, 2005 and the statements of operations, deficit and cash flows for year then ended. Our report is dated September 30, 2005.

(Signed) Ernst & Young LLP, Chartered Accountants
Vancouver, Canada
November 1, 2006

CERTIFICATE OF EXXEL ENERGY CORP.

Dated: November 1, 2006

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia.

(Signed) “Clifford Adams”
Clifford Adams
Chief Executive Officer

(Signed) “Michael Lou”
Michael Lou
Chief Financial Officer

On behalf of the Board of Directors of
Exxel Energy Corp.

(Signed) “Gordon Nielsen”
Gordon Nielsen
Director

(Signed) “John R. Hislop”
John R. Hislop
Director

CERTIFICATE OF THE AGENTS

Dated: November 1, 2006

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia.

MGI SECURITIES INC.

“Tony P. Loria”

By: *(Signed)* Tony P. Loria