July 14, 2006

Zapata Energy Corporation
500, 435 – 4th Avenue S.W.
Calgary, Alberta T2P 3A8

Attention: Mr. Lloyd Driscoll, Chairman and Chief Executive Officer

Offering of 770,000 Flow-Through Common Shares

CIBC World Markets Inc. (the "**Underwriter**") understands that Zapata Energy Corporation (the "**Corporation**") proposes to issue and sell 770,000 common shares of the Corporation ("**Common Shares**") on a "flow-through" basis at a price of $9.15 per Common Share (the 770,000 Common Shares offered hereby are referred to as the "**Firm Flow-Through Shares**").

In addition, the Corporation hereby grants to the Underwriter an option (the "**Over-Allotment Option**") to act as sole and exclusive agent to offer for sale up to 105,000 additional Common Shares on a "flow-through" basis (the "**Over-Allotment Securities**"), at the offering price of $9.15 per Over-Allotment Security. The Over-Allotment Option may be exercised in whole or in part from time to time by the Underwriter by giving notice in writing at any time up until 30 days after the Closing Date (as hereinafter defined), specifying the number of Over-Allotment Securities to be purchased and the date of the Over-Allotment Closing Date (as hereinafter defined). Upon the exercise of the Over-Allotment Option, the Corporation shall issue and sell as directed by the Underwriter, in accordance with and subject to the provisions of this Agreement (as hereinafter defined), that number of Over-Allotment Securities indicated in such Underwriter's notice on the Over-Allotment Closing Date (as hereinafter defined).

As used in this Agreement "**Flow-Through Shares**" means the Firm Flow-Through Shares and, to the extent the Over-Allotment Option has been or may still be validly exercised, also includes the Over-Allotment Securities.

Subject to the terms and conditions hereof the Underwriter hereby agrees, and the Corporation appoints the Underwriter as its sole and exclusive agent, to offer the Flow-Through Shares for sale on the Closing Date in the Qualifying Provinces at a price of $9.15 per Flow-Through Share, and to use its reasonable best efforts to secure subscriptions therefore; provided that, if less than 770,000 Flow-Through Shares are sold by the Underwriter as Agent, the Underwriter hereby agrees to purchase that number of Flow-Through Shares as together with the number of Flow-Through Shares sold by the Underwriter as Agent aggregates 770,000 Flow-Through Shares, in each case at $9.15 per Flow-Through Share.

Section 1 Definitions

In this agreement (this "**Agreement**"):

(a) "**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

(b) "**AIF**" means the annual information form of the Corporation dated May 8, 2006 for the year ended December 31, 2005, including the Corporation's Statement of Oil and Gas Reserves Data and Other Oil and Gas Information for the Year Ended December 31, 2005 incorporated by reference therein;

(c) "**Applicable Securities Laws**" means all applicable securities, corporate and other laws, rules, regulations, notices and policies in the Qualifying Provinces;

(d) "**ASC**" means the Alberta Securities Commission;

(e) "**Business Day**" means a day which is not Saturday, Sunday or a legal holiday in Calgary, Alberta;

(f) "**Canadian Exploration Expense**" or "**CEE**" means Canadian exploration expense as described in the definition of "Canadian exploration expense" in subsection 66.1(6) of the Tax Act;

(g) "**Closing Date**" means August 3, 2006 or such other date as the Underwriter and the Corporation may agree, but in any event not later than August 31, 2006;

(h) "**Closing Time**" means 6:30 a.m. (Calgary time), or such other time on the Closing Date as the Underwriter and the Corporation may agree;

(i) "**Commitment Amount**" means the amount equal to $9.15 multiplied by the number of Flow-Through Shares subscribed and paid for pursuant to the Subscription Agreements;

(j) "**Corporation's auditors**" means Collins Barrow Calgary LLP, chartered accountants, Calgary, Alberta, auditors of the Corporation;

(k) "**Corporation's counsel**" means Blake, Cassels & Graydon LLP, or such other legal counsel as the Corporation, with the consent of the Underwriter, may retain;

(l) "**Documents**" means, collectively, the documents incorporated by reference in the Prospectuses and any Supplementary Material including, without limitation:

    (i) the AIF;

    (ii) the comparative consolidated annual financial statements of the Corporation and the notes thereto for the years ended December 31, 2005 and December 31, 2004, together with the report of the auditors thereon;

    (iii) management's discussion and analysis of the financial condition and results of operations of the Corporation for the year ended December 31, 2005;

    (iv) the unaudited comparative consolidated interim financial statements of the Corporation for the three months ended March 31, 2006;

    (v) management's discussion and analysis of financial condition and results of operations Corporation for the three months ended March 31, 2006; and

    (vi) the information circular of the Corporation dated May 8, 2006 relating to the annual general and special meeting of shareholders of the Corporation held on June 8, 2006.

(m) "**Due Diligence Session**" shall have the meaning set forth in paragraph 3(d) of this Agreement;

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

(o) "**Expenditure Period**" means the period commencing on the date of acceptance of the Subscription Agreements and ending on the earlier of:

(i) the date on which the Commitment Amount has been fully expended in accordance with the terms of the Subscription Agreements; and

(ii) December 31, 2007;

(p) "**Financial Statements**" means, collectively, the audited comparative financial statements of the Corporation as at and for the year ended December 31, 2005, together with the notes thereto and the auditors' report thereon, the unaudited interim comparative financial statements of the Corporation as at and for the three months ended March 31, 2006;

(q) "**MRRS**" means the mutual reliance review system provided for by National Policy 43-201 of the Canadian Securities Administrators, as amended or replaced;

(r) "**NI 44-101**" means National Instrument 44-101 of the Canadian Securities Administrators, as amended or replaced;

(s) "**Over-Allotment Closing Date**" means the date specified by the Underwriter for the purchase and sale of the Over-Allotment Securities, which shall be no less than three Business Days after the notice of exercise of the Over-Allotment Option is delivered to the Corporation;

(t) "**Over-Allotment Closing Time**" means 6:30 a.m. (Calgary time) on the Over-Allotment Closing Date or such other time, on the Over-Allotment Closing Date, as the Underwriter and the Corporation may agree;

(u) "**Over-Allotment Option**" has the meaning assigned thereto above;

(v) "**Over-Allotment Securities**" has the meaning assigned thereto above;

(w) "**Preliminary Prospectus**" means the preliminary short-form prospectus of the Corporation to be dated July 14, 2006 and any amendments thereto, in respect of the distribution of the Flow-Through Shares, including the documents incorporated by reference therein;

(x) "**Prospectus**" means the (final) short form prospectus of the Corporation and any amendments thereto, in respect of the distribution of the Flow-Through Shares, including the documents incorporated by reference therein;

(y) "**Prospectuses**" means, collectively, the Preliminary Prospectus and the Prospectus;

(z) "**Public Record**" means all information filed by or on behalf of the Corporation and its predecessor entities with the Securities Commissions, including without limitation, the Documents, the Prospectuses, any Supplementary Material and any other information filed with any Securities Commission in compliance, or intended compliance, with any Applicable Securities Laws;

(aa) "**Qualifying Expenditures**" means CEE that may be renounced to a subscriber of Flow-Through Shares with an effective date or dates no later than December 31, 2006 pursuant to the Tax Act;

(bb) "**Qualifying Provinces**" means each of the provinces of Canada except Quebec;

(cc) "**Securities Commissions**" means the securities commissions or similar regulatory authorities in the Qualifying Provinces;

(dd) "**Selling Dealer Group**" means the dealers and brokers, other than the Underwriter, who participate in the offer and sale of the Flow-Through Shares pursuant to this agreement;

(ee) "**subsidiary**" has the meaning assigned thereto in the *Securities Act* (Alberta);

(ff) "**Sproule**" means Sproule Associates Limited;

(gg) "**Sproule Report**" means the independent engineering evaluation of the Corporation's oil, natural gas liquids and natural gas reserves prepared by Sproule dated April 3, 2006 and effective December 31, 2005;

(hh) "**Subscription Agreements**" means the subscription and renunciation agreements, in a form satisfactory to the Corporation's counsel and the Underwriter's counsel, acting reasonably, to be entered into at the Closing Time and the Over-Allotment Closing Time, as applicable, between the Corporation and the Underwriter, as agent for and on behalf of certain subscribers;

(ii) "**Supplementary Material**" means, collectively, any amendment to the Preliminary Prospectus or Prospectus, any amended or supplemented Preliminary Prospectus or Prospectus or any ancillary material, information, evidence, return, report, application, statement or document which may be filed by or on behalf of the Corporation under Applicable Securities Laws;

(jj) "**Tax Act**" means the *Income Tax Act* (Canada) and the regulations thereunder, in each case as amended;

(kk) "**Underwriter's counsel**" means Stikeman Elliott LLP, or such other legal counsel as the Underwriter, with the consent of the Corporation, may retain; and

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

Section 2 Underwriting Fee

In consideration for its services in underwriting the distribution of and purchasing the Firm Flow-Through Shares, the Corporation agrees to pay the Underwriter a fee (the "**Underwriting Fee**") of: (a) at the Closing Time of $0.59475 per Firm Flow-Through Share (being an aggregate amount of $457,957.50) at the Closing Time; and (b) $0.59475 per Over-Allotment Security sold by the Corporation hereunder at the Over-Allotment Closing Time. The Underwriting Fee may, at the sole option of the Underwriter, be deducted from the aggregate gross proceeds of the sale of the Flow-Through Shares or Over-Allotment Securities, as applicable, and withheld for the account of the Underwriter. In the event that Canada Revenue Agency determines that Goods and Services Tax provided for in the *Excise Tax Act* (Canada) is exigible on the Underwriting Fee, the Corporation agrees to pay the amount of Goods and Services Tax forthwith upon the request of the Underwriter. The Corporation also agrees to pay the Underwriter's expenses as set forth in Section 10.

Section 3 Qualification for Sale

(a) The Corporation represents and warrants to the Underwriter that it is eligible to file a short form prospectus as described in NI 44-101 for the distribution of the Flow-Through Shares.

(b) The Corporation shall:

(i) not later than July 18, 2006, have prepared and filed the Preliminary Prospectus and other documents required under the Applicable Securities Laws with the Securities Commissions and designated the ASC as the principal regulator;

(ii) have obtained from the ASC a preliminary MRRS decision document dated not later than July 18, 2006, evidencing that a receipt has been issued for the Preliminary Prospectus in each Qualifying Province;

(iii) forthwith after any comments with respect to the Preliminary Prospectus have been received from the Securities Commissions:

(A) but not later than July 26, 2006 (or such later date as may be agreed to in writing by the Corporation and the Underwriter), have prepared and filed the Prospectus and other documents required under the Applicable Securities Laws with the Securities Commissions; and

(B) have obtained from the ASC a final MRRS decision document dated not later than July 26, 2006 (or such later date as may be agreed to in writing by the Corporation and the Underwriter), evidencing that a receipt has been issued for the Prospectus in each Qualifying Province, or otherwise obtained a receipt for the Prospectus from each of the Securities Commissions;

and otherwise fulfilled all legal requirements to enable the Flow-Through Shares to be offered and sold to the public in each of the Qualifying Provinces through the Underwriter or any other investment dealer or broker registered in the applicable Qualifying Province; and

(iv) until the completion of the distribution of the Flow-Through Shares, promptly take all additional steps and proceedings that from time to time may be required under the Applicable Securities Laws in each Qualifying Province to continue to qualify the Flow-Through Shares for distribution or, in the event that the Flow-Through Shares have, for any reason, ceased to so qualify, to again qualify the Flow-Through Shares for distribution.

(c) Prior to the filing of the Prospectuses and, during the period of distribution of the Flow-Through Shares, prior to the filing with any Securities Commissions of any Supplementary Material, the Corporation shall have allowed the Underwriter and the Underwriter's counsel to participate fully in the preparation of, and to approve the form of, such documents and to have reviewed any documents incorporated by reference therein.

(d) During the period from the date hereof until completion of the distribution of the Flow-Through Shares, the Corporation shall allow the Underwriter to conduct all due diligence which it may reasonably require in order to fulfil its obligations as Underwriter and in order to enable the Underwriter to responsibly execute the certificates required to be executed by it in the Prospectuses or in any Supplementary Material. Without limiting the generality of the foregoing, the Corporation shall make available its directors, senior management and audit committee and use its best efforts to make available its auditors and independent engineers to answer any questions which the Underwriter may have and to participate in one or more due diligence sessions to be held prior to the Closing Time or Over-Allotment Closing Time, as applicable (the "**Due Diligence Session**"). The Underwriter shall distribute a list of written questions to be answered in advance of such Due Diligence Session and the Corporation shall provide written responses to such questions and shall use its best efforts to have its auditors and independent engineers provide written responses to such questions in advance of the Due Diligence Session.

(e) The Corporation shall take or cause to be taken all such other steps and proceedings, including fulfilling all legal, regulatory and other requirements, as required under Applicable Securities Laws to qualify the Flow-Through Shares for distribution to the public in the Qualifying Provinces.

Section 4 Delivery of Prospectuses and Related Documents

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

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

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

(ii) copies of any documents incorporated by reference therein which have not previously been delivered to the Underwriter;

(b) as soon as they are available, copies of any Supplementary Material, signed as required by the Applicable Securities Laws and including, in each case, copies of any documents incorporated by reference therein which have not been previously delivered to the Underwriter; and

(c) prior to the filing of the Prospectus with the Securities Commissions, a "comfort letter" from the Corporation's auditors, dated the date of the Prospectus, addressed to the Underwriter and reasonably satisfactory in form and substance to the Underwriter and the Underwriter's counsel, to the effect that they have carried out certain procedures performed for the purposes of comparing certain specified financial information and percentages appearing in the Prospectus and the documents incorporated therein by reference with indicated amounts in the financial statements or accounting records of the Corporation and have found such information and percentages to be in agreement, which comfort letter shall be based on the Corporation's auditors' review having a cut-off date of not more than two Business Days prior to the date of the Prospectus.

Comfort letters similar to the foregoing shall be provided to the Underwriter with respect to any Supplemental Material and any other relevant document at the time the same is presented to the Underwriter for its signature or, if the Underwriter's signature is not required, at the time the same is filed with the Securities Commissions. All such letters shall be in form and substance acceptable to the Underwriter and the Underwriter's counsel, acting reasonably.

The deliveries referred to in paragraphs 4(a) and (b) shall also constitute the Corporation's consent to the use by the Underwriter and other members of the Selling Dealer Group of the Documents, the Prospectuses and any Supplementary Material in connection with the offering and sale of the Flow-Through Shares.

Section 5 Commercial Copies

(a) The Corporation shall, as soon as possible but in any event not later than:

(i) in the case of deliveries in Toronto, noon (local time at the place of delivery) on the Business Day following the date of the filing of the Preliminary Prospectus or the Prospectus, as the case may be, with the Securities Commissions and no later than noon (local time) on the first Business Day after the execution of any Supplementary Material in connection with the Prospectuses; and

(ii) in the case of deliveries in other locations, noon (local time at the place of delivery) on the second Business Day following the date of the filing of the Preliminary Prospectus or the Prospectus, as the case may be, with the Securities Commissions and no later than noon (local time) on the second Business Day after the execution of any Supplementary Material in connection with the Prospectuses,

cause to be delivered to the Underwriter, without charge, commercial copies of the Preliminary Prospectus, the Prospectus or such Supplementary Material in such numbers and in such cities as the Underwriter may reasonably request by oral or written instructions to the Corporation, the Corporation's counsel or the printer thereof given no later than the time when the Corporation authorizes the printing of the commercial copies of such documents; and

(b) The Corporation shall cause to be provided to the Underwriter such number of copies of any documents incorporated by reference in the Preliminary Prospectus, the Prospectus or any Supplemental Materials as the Underwriter may reasonably request.

Section 6 Material Change

(a) During the period of distribution of the Flow-Through Shares, the Corporation will promptly inform the Underwriter of the full particulars of:

(i) any material change (actual, anticipated or threatened) in or affecting the business, operations, capital, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of operations of the Corporation;

(ii) any change in any material fact contained or referred to in the Preliminary Prospectus, the Prospectus or any Supplementary Material; and

(iii) the occurrence or discovery of a material fact or event, which, in any such case, is, or may be, of such a nature as to:

(A) render the Preliminary Prospectus, the Prospectus or any Supplementary Material untrue, false or misleading in any material respect;

(B) result in a misrepresentation in the Preliminary Prospectus, the Prospectus or any Supplementary Material; or

(C) result in the Preliminary Prospectus, the Prospectus or any Supplementary Material not complying in any material respect with the Applicable Securities Laws,

provided that if the Corporation is uncertain as to whether a material change, change, occurrence or event of the nature referred to in this paragraph has occurred, the Corporation shall promptly inform the Underwriter of the full particulars of the occurrence giving rise to the uncertainty and shall consult with the Underwriter as to whether the occurrence is of such nature prior to making any filing referred to in paragraph 6(c).

(b) During the period of distribution of the Flow-Through Shares, the Corporation will promptly inform the Underwriter of the full particulars of:

(i) any request of any Securities Commission for any amendment to the Preliminary Prospectus, the Prospectus or any other part of the Public Record or for any additional information;

(ii) the issuance by any Securities Commission or similar regulatory authority, any stock exchange or any other competent authority of any order to cease or suspend trading of any securities of the Corporation or of the institution or threat of institution of any proceedings for that purpose; and

(iii) the receipt by the Corporation of any communication from any Securities Commission or similar regulatory authority, any stock exchange or any other competent authority relating to the Preliminary Prospectus, the Prospectus, any other part of the Public Record or the distribution of the Flow-Through Shares.

(c) The Corporation will promptly comply to the reasonable satisfaction of the Underwriter and the Underwriter's counsel with Applicable Securities Laws with respect to any material change, change, occurrence or event of the nature referred to in paragraphs 6(a) or (b) above and the Corporation will prepare and file promptly at the Underwriter's request any amendment to the Prospectuses or Supplementary Material as may be required under Applicable Securities Laws; provided that the Corporation shall have allowed the Underwriter and the Underwriter's counsel to participate fully in the preparation of any Supplementary Material, to have reviewed any other documents incorporated by reference therein and conduct all due diligence investigations which the Underwriter may reasonably require in order to fulfill its obligations as Underwriter and in order to enable the Underwriter to responsibly execute the certificate required to be executed by it in, or in connection with, any Supplementary Material, such approval not to be unreasonably withheld and to be provided in a timely manner. The Corporation shall further promptly deliver to the Underwriter and the Underwriter's counsel a copy of each Supplementary Material as filed with the Securities Commissions, and of opinions and letters with respect to each such Supplementary Material substantially similar to those referred to in Section 4 above.

(d) During the period of distribution of the Flow-Through Shares, the Corporation will promptly provide to the Underwriter, for review by the Underwriter and the Underwriter's counsel, prior to filing with the Securities Commissions:

(i) any financial statement of the Corporation;

(ii) any proposed document, including without limitation any amendment to the AIF, new annual information form, material change report, interim report, or information circular, which may be incorporated, or deemed to be incorporated, by reference in the Prospectuses; and

(iii) any press release of the Corporation,

and provide to the Underwriter, for review by the Underwriter and the Underwriter's counsel any draft or final report with respect to the crude oil, natural gas liquids and natural gas reserves, or value, attributable to the Corporation's properties prepared by Sproule or any other independent engineer as soon as practicable following receipt thereof by the Corporation.

Section 7 Representations and Warranties of the Corporation

(a) Each delivery of the Preliminary Prospectus, Prospectus or any Supplementary Material pursuant to Section 4 above shall constitute a representation and warranty to the Underwriter by the Corporation (and the Corporation hereby acknowledges that each of the Underwriter is relying on such representations and warranties in entering into this agreement) that:

(i) all of the information and statements (except information and statements furnished by and relating solely to the Underwriter) contained in the Preliminary Prospectus, the Prospectus or any Supplementary Material, as applicable, including, without limitation, the documents incorporated by reference, as the case may be:

(A) are at the respective dates of such documents, true and correct in all material respects;

(B) contain no misrepresentation; and

(C) constitute full, true and plain disclosure of all material facts relating to the Corporation and the Flow-Through Shares;

(ii) the Preliminary Prospectus, the Prospectus, or any Supplementary Material, as applicable, including, without limitation, the documents incorporated by reference, as the case may be, complies in all material respects with the Applicable Securities Laws, including without limitation NI 44-101; and

(iii) except as is disclosed in the Public Record, there has been no intervening material change (actual, proposed or prospective, whether financial or otherwise), from the date of the Preliminary Prospectus, the Prospectus and any Supplementary Material to the time of delivery thereof, in the business, operations, capital, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of operations, or ownership of the Corporation or its properties or assets.

(b) In addition to the representations and warranties contained in paragraph (a) hereof, the Corporation represents and warrants to the Underwriter, and acknowledges that the Underwriter is relying upon such representations and warranties in entering into this agreement, that:

(i) the Corporation has been duly incorporated and organized and is a valid and subsisting corporation under the laws of the Province of Alberta and has all requisite corporate power and authority to carry on its business as described in the Prospectuses including, without limitation, to own, lease and operate its properties and assets as described in the Prospectuses;

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

(iii) the Corporation's only subsidiaries are 771129 Alberta Ltd. and Zapata Limited Partnership and the Corporation is not "affiliated" with or a "holding corporation" of any other body corporate (within the meaning of those terms in the ABCA), nor is it (or its subsidiaries) a partner of any partnerships or limited partnerships other than Zapata Limited Partnership;

(iv) 771129 Alberta Ltd. has been duly incorporated and organized and is a valid and subsisting corporation under the laws of the Province of Alberta and has all requisite corporate power and authority to carry on its business as described in the Prospectuses including, without limitation, to own, lease and operate its properties and assets as described in the Prospectuses;

(v) Zapata Limited Partnership has been duly formed and organized and is a valid and subsisting limited partnership under the laws of the Province of Alberta and has all requisite partnership power and authority to carry on its business as described in the Prospectuses, including, without limitation, to own, lease and operate its properties and assets as described in the Prospectuses;

(vi) the Corporation has full power and authority to issue the Flow-Through Shares and, at the Closing Date or Over-Allotment Closing Date, as applicable, the Flow-Through Shares will be duly and validly authorized, allotted and reserved for issuance and, upon receipt of the purchase price therefor, will be duly and validly issued as fully paid and non-assessable;

(vii) the Corporation is not in default or breach of, and the execution and delivery of, and the performance of and compliance with the terms of this agreement and the Subscription Agreements by the Corporation or any of the transactions contemplated hereby or thereby does not and will not result in any breach of, or constitute a default under, and does not and will not create a state of facts which, after notice or lapse of time or both, would result in a breach of or constitute a default under any term or provision of the articles, by-laws or resolutions of the Corporation or any of its subsidiaries, or any indenture, mortgage, note, contract, agreement (written or oral), instrument, lease or other document including, without limitation, any material agreement, to which the Corporation or any of its subsidiaries is a party or by which the Corporation or any of its subsidiaries is bound, or any judgment, decree, order, statute, rule or regulation applicable to the Corporation or any of its subsidiaries, which default or breach might reasonably be expected to materially adversely affect the business, operations, capital, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of operations of the Corporation and its subsidiaries (taken as a whole) or their properties or assets;

(viii) the Corporation has full corporate power and authority to enter into this agreement and the Subscription Agreements and to perform its obligations set out herein and therein, this agreement has been, and at the Closing Time and Over-Allotment Closing Time, as applicable, the Subscription Agreements will be, duly authorized, executed and delivered by the Corporation and this agreement is, and at the Closing Time or Over-Allotment Time, as applicable, the Subscription Agreements will be, a legal, valid and binding obligation of the Corporation enforceable against the Corporation in accordance with their respective terms, subject to the customary qualifications that:

(A) enforceability may be limited by bankruptcy, insolvency or other laws affecting creditors' rights generally; and

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

(ix) there has not been any material change in the capital, assets, liabilities or obligations (absolute, accrued, contingent or otherwise) of the Corporation and its subsidiaries from the position set forth in the Financial Statements except as contemplated by the Prospectuses and there has not been any adverse material change in the business, operations, capital, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of operations of the Corporation or its subsidiaries since December 31, 2005 except as disclosed in the Prospectuses; and since that date there have been no material facts, transactions, events or occurrences which could materially adversely affect the business, operations, capital, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of operations of the Corporation and its subsidiaries on a consolidated basis which have not been disclosed in the Prospectuses;

(x) the Financial Statements fairly present, in accordance with generally accepted accounting principles in Canada, consistently applied, the financial position and condition, the results of operations, cash flows and the other information purported to be shown therein of the Corporation and its subsidiaries as at the dates thereof and for the periods then ended and reflect all assets, liabilities and obligations (absolute, accrued, contingent or otherwise) of the Corporation and its subsidiaries as at the dates thereof required to be disclosed by generally accepted accounting principles in Canada, and include all adjustments necessary for a fair presentation;

(xi) no authorization, approval or consent of any court or governmental authority or agency is required to be obtained by the Corporation in connection with the sale and delivery of the Flow-Through Shares hereunder, except such as may be required by the Exchange or under Applicable Securities Laws;

(xii) there are no actions, suits, proceedings or inquiries pending or (as far as the Corporation is aware) threatened against or affecting the Corporation or its subsidiaries at law or in equity or before or by any federal, provincial, municipal or other governmental department, commission, board, bureau, agency or instrumentality which in any way materially adversely affects, or may in any way materially adversely affect, the business, operations, capital, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of operations of the Corporation and its subsidiaries (taken as a whole) or their properties or assets (on a consolidated basis) or which affects or may affect the distribution of the Flow-Through Shares;

(xiii) each of the Corporation and its subsidiaries has conducted and is conducting its business in all material respects in compliance with all applicable laws, rules and regulations and, in particular, all applicable licensing and environmental legislation, regulations or by-laws or other lawful requirements of any governmental or regulatory bodies applicable to it of each jurisdiction in which it carries on business and holds all material licences, registrations and qualifications in all jurisdictions in which it carries on business necessary to carry on its business as now conducted and as contemplated to be conducted in the Prospectuses and all such licenses, registrations and qualifications are valid and existing and in good standing, except where the lack of such valid or existing license, registration or qualification would not have any material adverse effect on the business of the Corporation and its subsidiaries (taken as a whole) and none of such licenses, registrations or qualifications contains any burdensome term, provision, condition or limitation which has or is likely to have any material adverse effect on the business of the Corporation and its subsidiaries (taken as a whole), as now conducted and as contemplated to be conducted in the Prospectuses;

(xiv) the information and statements set forth in the Public Record were true, correct, and complete and did not contain any misrepresentation, as of the date of such information or statements;

(xv) the Corporation does not have any loans or other indebtedness outstanding which have been made to or from any of its shareholders, officers, directors or employees or any other person not dealing at arm's length, with the Corporation that are currently outstanding;

(xvi) the authorized capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of preferred shares, of which 16,579,778 Common Shares and no preferred shares are issued and outstanding, each of which is validly issued, fully paid and non-assessable;

(xvii) no person holds any securities convertible into or exchangeable for Common Shares or has any agreement, warrant, option, right or privilege being or capable of becoming an agreement, warrant, option or right (whether or not on condition(s)) for the purchase or other acquisition of any unissued Common Shares or other securities of the Corporation except in respect of an aggregate of not more than 1,325,000 Common Shares issuable upon exercise of currently outstanding options;

(xviii) no Securities Commission, stock exchange or similar regulatory authority has issued any order preventing or suspending trading in any securities of the Corporation and no proceedings, investigations or inquiries for such purpose are pending or contemplated or (as far as the Corporation is aware) threatened;

(xix) Olympia Trust Company at its principal office in the city of Calgary is the duly appointed registrar and transfer agent of the Corporation;

(xx) the minute books and other record books of the Corporation and its subsidiaries are true and correct in all material respects and contain the minutes of all meetings and all resolutions of their respective directors, shareholders, partners and unitholders, as the case may be, of the Corporation;

(xxi) other than as provided for in this agreement, the Corporation has not incurred any obligation or liability (absolute, accrued, contingent or otherwise) for brokerage fees, finder's fees, agent's commission or other similar forms of compensation with respect to the transactions contemplated herein;

(xxii) the issued and outstanding common shares of the Corporation are listed and posted for trading on the Exchange and the Corporation is in compliance with the rules and regulations of the Exchange in all material respects;

(xxiii) the Corporation is a "reporting issuer" in each of the provinces of British Columbia and Alberta within the meaning of the Applicable Securities Laws in such provinces and is not in default of any requirement of the Applicable Securities Laws in any material respect;

(xxiv) the definitive form of certificate representing the Common Shares is in due and proper form under the laws governing the Corporation and in compliance with the requirements of the Exchange;

(xxv) although it does not warrant title, the Corporation has no reason to believe that the Corporation does not have good and marketable title to its assets and properties, free and clear of all liens, charges, encumbrances and security interests of any nature or kind, except as described in the Prospectuses;

(xxvi) the Corporation has made available to Sproule, prior to the issuance of the Sproule Report, for the purpose of preparing the Sproule Report, all information requested by Sproule, which information did not contain any material misrepresentation at the time such information was provided. The Corporation does not have any knowledge of a material adverse change in any production, cost, price (except for changes in commodity prices), reserves or other relevant information provided to Sproule since the date that such information was so provided. The Corporation believes that the Sproule Report reasonably presents the quantity and pre-tax present worth values of the oil and gas reserves attributable to the crude oil, natural gas liquids and natural gas properties evaluated in such report as at December 31, 2005 based upon information available at the time such reserves information was prepared, and the Corporation believes that at the date of such report, such report did not (and as of the date hereof, except as may be attributable to changes in commodity prices and production since the date of each such report, does not) overstate the aggregate quantity or pre-tax present worth values of such reserves or the estimated production volumes therefrom;

(xxvii) the Corporation is not aware of any defects, failures or impairments in the title of the Corporation to its assets and properties, whether or not an action, suit, proceeding or inquiry is pending or threatened or whether or not discovered by any third party, which in aggregate could have a material adverse effect on: (A) the quantity and pre-tax present worth values of the oil and gas reserves of the Corporation shown in the Sproule Report; (B) the current production volumes of the Corporation; or (C) the current cash flow of the Corporation;

(xxviii) any and all operations of the Corporation and its subsidiaries, and to the best of the Corporation's knowledge, any and all operations by third parties, on or in respect of the assets and properties of the Corporation and its subsidiaries, have been conducted in accordance with good oilfield practices;

(xxix) in respect of the assets and properties of the Corporation that are operated by it or its subsidiaries, if any, the Corporation and its subsidiaries hold all valid licenses, permits and similar rights and privileges that are required and necessary under applicable law to operate the assets and properties of the Corporation and its subsidiaries as presently operated or as proposed to be operated and where the failure to so hold such licences and permits would have a material adverse effect on the Corporation and its subsidiaries, taken as a whole;

(xxx) to the best of the Corporation's knowledge, each of the Corporation and its subsidiaries has been and is in material compliance with all applicable federal, provincial, state, municipal and local laws, statutes, ordinances, by-laws and regulations and orders, directives and decisions rendered by any ministry, department or administrative or regulatory agency, domestic or foreign, ("**Environmental Laws**") relating to the protection of the environment, occupational health and safety or the processing, use, treatment, storage, disposal, discharge, transport or handling of any pollutants, contaminants, chemicals or industrial, toxic or hazardous wastes or substance;

(xxxi) each of the Corporation and its subsidiaries have obtained all material licences, permits, approvals, consents, certificates, registrations and other authorizations under Environmental Laws (the "**Environmental Permits**") necessary for the operation of its projects as currently operated and each Environmental Permit is valid, subsisting and in good standing and the holders of the Environmental Permits are not in default or breach thereof and no proceeding is pending or threatened to revoke or limit any Environmental Permit, except in each case where the result would not have a material adverse effect on the Corporation and its subsidiaries, taken as a whole;

(xxxii) the Corporation and its subsidiaries has received any notice of, or been prosecuted for an offence alleging, material non-compliance with any Environmental Laws, and none of the Corporation and its subsidiaries has settled any allegation of material non-compliance short of prosecution. There are no orders or directions relating to environmental matters requiring any material work, repairs, construction or capital expenditures to be made with respect to any of the assets of the Corporation or its subsidiaries nor has the Corporation or any of its subsidiaries received notice of any of the same and which orders directions or notices remain outstanding as unresolved;

(xxxiii) the Corporation has the necessary power and authority to execute and deliver the Prospectuses and all requisite action has been taken by the Corporation to authorize the execution and delivery by it of the Prospectuses;

(xxxiv) the attributes and characteristics of the Flow-Through Shares conform in all material respects to the attributes and characteristics thereof described in the Prospectuses;

(xxxv) other than as disclosed to the Underwriter in writing, each of the Corporation and its subsidiaries has duly and on a timely basis filed all tax returns required to be filed by it, has paid all taxes due and payable by it and has paid all assessments and reassessments and all other taxes, governmental charges, penalties, interest and other fines due and payable by it and which were claimed by any governmental authority to be due and owing and adequate provision has been made for taxes payable for any completed fiscal period for which tax returns are not yet required and there are no agreements, waivers, or other arrangements providing for an extension of time with respect to the filing of any tax return or payment of any tax, governmental charge or deficiency by the Corporation and to the best of the knowledge of the Corporation there are no actions, suits, proceedings, investigations or claims threatened or pending against the Corporation in respect of taxes, governmental charges or assessments or any matters under discussion with any governmental authority relating to taxes, governmental charges or assessments asserted by any such authority;

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

(xxxvii) to the knowledge of the Corporation, no insider of the Corporation has the present intention to sell any securities of the Corporation during the period of distribution of the Flow-Through Shares;

(xxxviii) except as the result of any agreement or arrangement to which the Corporation is not a party and of which it has no knowledge, upon issuance pursuant to the provisions of the Subscription Agreements, the Flow-Through Shares will be "flow-through shares" as defined in subsection 66(15) of the Tax Act and such Flow-Through Shares will not constitute "prescribed shares" for the purpose of section 6202.1 of the Regulations prescribed under the Tax Act;

(xxxix) the Corporation has not entered into any agreements or made any covenants with any parties with respect to the renunciation of CEE, which amounts have not been fully expended and renounced as required thereunder;

(xl) the Corporation will fulfill its obligations and comply with the terms and conditions of the Subscription Agreements and the subscription funds for the Flow-Through Shares will be expended in accordance with the terms of the Subscription Agreements and the provisions hereof; and

(xli) the Corporation has not entered into any agreements or made any covenants with any parties that would restrict the Corporation from entering into the Subscription Agreements and agreeing to incur (or being deemed to incur pursuant to subsection 66(12.61) of the Tax Act) and renounce Qualifying Expenditures during the Expenditure Period in accordance with the Subscription Agreements, nor that would require the prior renunciation to any other person of Qualifying Expenditures prior to the renunciation of the aggregate Commitment Amount in favour of the subscribers and the Corporation has no outstanding obligations to incur and renounce Qualifying Expenditures to any persons. The Corporation will incur (or be deemed to incur pursuant to subsection 66(12.61) of the Tax Act) and renounce to each subscriber of Flow-Through Shares effective on or before December 31, 2006, Qualifying Expenditures in an amount equal to the Commitment Amount.

Section 8 Indemnity

(a) The Corporation shall indemnify and save the Underwriter, and each of the Underwriter's agents, directors, officers, shareholders and employees, harmless against and from all liabilities, claims, actions, suits, proceedings, demands, losses (other than losses of profit in connection with the distribution of the Flow-Through Shares), costs (including, without limitation, reasonable legal fees and disbursements on a full indemnity basis), damages and expenses to which the Underwriter, or any of the Underwriter's agents, directors, officers, shareholders or employees may be subject or which the Underwriter, or any of the Underwriter's agents, directors, officers, shareholders or employees may suffer or incur, whether under the provisions of any statute or otherwise, in any way caused by, or arising directly or indirectly from or in consequence of:

(i) any information or statement contained in the Preliminary Prospectus, the Prospectus, any Supplementary Material or in any other document or material filed or delivered pursuant hereto (other than any information or statement relating solely to the Underwriter and furnished to the Corporation by the Underwriter expressly for inclusion in the Preliminary Prospectus or Prospectus) which is or is alleged to be untrue or any omission or alleged omission to provide any information or state any fact (other than any information or fact relating solely to the Underwriter) the omission of which makes or is alleged to make any such information or statement untrue or misleading in light of the circumstances in which it was made;

(ii) any misrepresentation or alleged misrepresentation (except a misrepresentation which is based upon information relating solely to the Underwriter and furnished to the Corporation by the Underwriter expressly for inclusion in the Preliminary Prospectus or Prospectus) contained in the Preliminary Prospectus, the Prospectus, any Supplementary Materials or in any other document or any other part of the Public Record filed by or on behalf of the Corporation;

(iii) any prohibition or restriction of trading in the securities of the Corporation or any prohibition or restriction affecting the distribution of the Flow-Through Shares imposed by any competent authority if such prohibition or restriction is based on any misrepresentation or alleged misrepresentation of a kind referred to in subparagraph 8(a)(ii);

(iv) any order made or any inquiry, investigation (whether formal or informal) or other proceeding commenced or threatened by any one or more competent authorities (not based upon the activities or the alleged activities of the Underwriter or its banking or Selling Dealer Group members, if any) prohibiting, restricting, relating to or materially affecting the trading or distribution of the Flow-Through Shares; or

(v) any breach of, default under or non-compliance by the Corporation with any requirements of the Applicable Securities Laws, the by-laws, rules or regulations of any stock exchange or any representation, warranty, term or condition of this agreement or in any certificate or other document delivered by or on behalf of the Corporation hereunder or pursuant hereto;

except to the extent that such liability or claim resulted from the Indemnified Person acquiring or holding Flow-Through Shares as principal and provided, however, no party who has engaged in any fraud, wilful misconduct, fraudulent misrepresentation or negligence shall be entitled, to the extent that the liabilities, claims, losses, costs, damages or expenses were caused by such activity, to claim indemnification from any person who has not engaged in such fraud, wilful misconduct, fraudulent misrepresentation or negligence (provided that, for greater certainty, the foregoing shall not disentitle the Underwriter from claiming indemnification hereunder to the extent that the negligence, if any, relates to the Underwriter's failure to conduct adequate "due diligence").

(b) If any claim contemplated by paragraph 8(a) shall be asserted against any of the persons or corporations in respect of which indemnification is or might reasonably be considered to be provided for in such paragraphs, such person or corporation (the "**Indemnified Person**") shall notify the Corporation (the "**Indemnifying Party**") (provided that failure to so notify the Indemnifying Party of the nature of such claim in a timely fashion shall relieve the Indemnifying Party of liability hereunder only if and to the extent that such failure materially prejudices the Indemnifying Party's ability to defend such claim) as soon as possible of the nature of such claim and the Indemnifying Party shall be entitled (but not required) to assume the defence of any suit brought to enforce such claim, provided however, that the defence shall be through legal counsel selected by the Indemnifying Party and acceptable to the Indemnified Person acting reasonably and that no settlement may be made by the Indemnifying Party or the Indemnified Person without the prior written consent of the other, such consent not to be unreasonably withheld. The Indemnified Person shall have the right to retain separate counsel in any proceeding relating to a claim contemplated by paragraph 8(a) but the fees and expenses of such counsel shall be at the expense of the Indemnified Person, unless:

(i) the Indemnified Person has been advised by counsel that there may be a reasonable legal defense available to the Indemnified Person which is different from or additional to a defense available to an Indemnifying Party and that representation of the Indemnified Person and the Indemnifying Party by the same counsel would be inappropriate due to the actual or potential differing interests between them (in which case the Indemnifying Party shall not have the right to assume the defense of such proceedings on the Indemnified Person's behalf);

(ii) the Indemnifying Party shall not have taken the defense of such proceedings and employed counsel within ten (10) days after notice has been given to the Indemnifying Party of commencement of such proceedings; or

(iii) the employment of such counsel has been authorized by the Indemnifying Party in connection with the defense of such proceedings;

and, in any such event, the reasonable fees and expenses of such Indemnified Person's counsel (on a solicitor and his client basis) shall be paid by the Indemnifying Party, provided that the Indemnifying Party shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one separate law firm (in addition to any local counsel) for all such Indemnified Persons.

(c) The Indemnifying Party hereby waives its right to recover contribution from the Underwriter with respect to any liability of the Indemnifying Party by reason of or arising out of any misrepresentation in the Preliminary Prospectus, the Prospectus, any Supplementary Material or any other part of the Public Record provided, however, that such waiver shall not apply in respect of liability caused or incurred by reason of any misrepresentation which is based upon information relating solely to the Underwriter contained in such document and furnished to the Corporation by the Underwriter expressly for inclusion in the Preliminary Prospectus or the Prospectus.

(d) If any legal proceedings shall be instituted against an Indemnifying Party in respect of the Preliminary Prospectus, the Prospectus, any Supplementary Material or any other part of the Public Record or the Flow-Through Shares or if any regulatory authority or stock exchange shall carry out an investigation of an Indemnifying Party in respect of the Preliminary Prospectus, the Prospectus, any Supplementary Material or any other part of the Public Record or the Flow-Through Shares and, in either case, any Indemnified Person is required to testify, or respond to procedures designed to discover information, in connection with or by reason of the services performed by the Underwriter hereunder, the Indemnified Persons may employ their own legal counsel and the Indemnifying Parties shall pay and reimburse the Indemnified Persons for the reasonable fees, charges and disbursements (on a full indemnity basis) of such legal counsel, the other expenses reasonably incurred by the Indemnified Persons in connection with such proceedings or investigation and a fee at the normal per diem rate for any director, officer or employee of the Underwriter involved in the preparation for or attendance at such proceedings or investigation.

(e) The rights and remedies of the Indemnified Persons set forth in Section 8, Section 9 and Section 10 hereof are to the fullest extent possible in law cumulative and not alternative and the election by any Underwriter or other Indemnified Person to exercise any such right or remedy shall not be, and shall not be deemed to be, a waiver of any other rights and remedies.

(f) The Indemnifying Party hereby acknowledges that the Underwriter is acting as agent for the Underwriter's agents, directors, officers, shareholders and employees under this Section 8 and under Section 9 with respect to all such agents, directors, officers, shareholders and employees.

(g) The Indemnifying Party waives any right it may have of first requiring an Indemnified Person to proceed against or enforce any other right, power, remedy or security or claim or to claim payment from any other person before claiming under this indemnity. It is not necessary for an Indemnified Person to incur expense or make payment before enforcing such indemnity.

(h) The rights of indemnity contained in this Section 8 shall not apply if the Indemnifying Party has complied with the provisions of Section 3, Section 4 and Section 5 and the person asserting any claim contemplated by this Section 8 was not provided with a copy of the Prospectus or any amendment to the Prospectus or other document which corrects any misrepresentation or alleged misrepresentation which is the basis of such claim and which was required, under Applicable Securities Laws, to be delivered to such person by the Underwriter.

(i) If the Indemnifying Party has assumed the defense of any suit brought to enforce a claim hereunder, the Indemnified Person shall provide the Indemnifying Party with copies of all documents and information in its possession pertaining to the claim, take all reasonable actions necessary to preserve its rights to object to or defend against the claim, consult and reasonably cooperate with the Indemnifying Party in determining whether the claim and any legal proceeding resulting therefrom should be resisted, compromised or settled and reasonably cooperate and assist in any negotiations to compromise or settle, or in any defense of, a claim undertaken by the Indemnifying Party.

Section 9 Contribution

In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in this agreement is due in accordance with its terms but is, for any reason, held by a court to be unavailable from the Indemnifying Party on grounds of policy or otherwise, the Indemnifying Party and the party or parties seeking indemnification shall contribute to the aggregate liabilities, claims, demands, losses (other than losses of profit in connection with the distribution of the Flow-Through Shares), costs (including, without limitation, legal fees and disbursements on a full indemnity basis), damages and expenses to which they may be subject or which they may suffer or incur:

(a) in such proportion as is appropriate to reflect the relative benefit received by the Indemnifying Party on the one hand, and by the Underwriter on the other hand, from the offering of the Flow-Through Shares; or

(b) if the allocation provided by paragraph 9(a) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in paragraph 9(a) above but also to reflect the relative fault of the Underwriter on the one hand, and the Indemnifying Party, on the other hand, in connection with the statements, commissions or omissions or other matters which resulted in such liabilities, claims, demands, losses, costs, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Indemnifying Party, on the one hand, and the Underwriter, on the other hand, shall be deemed to be in the same proportion that the total proceeds of the offering received by the Indemnifying Party (net of fees but before deducting expenses) bear to the fees received by the Underwriter. In the case of liability arising out of the Preliminary Prospectus, the Prospectus, any Supplementary Material or any other part of the Public Record, the relative fault of the Indemnifying Party, on the one hand, and of the Underwriter, on the other hand, shall be determined by reference, among other things, to whether the misrepresentation or alleged misrepresentation, order, inquiry, investigation or other matter or thing referred to in Section 8 relates to information supplied or which ought to have been supplied by, or steps or actions taken or done on behalf of or which ought to have been taken or done on behalf of, the Indemnifying Party or the Underwriter and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such misrepresentation or alleged misrepresentation, order, inquiry, investigation or other matter or thing referred to in Section 8.

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

The Indemnifying Party and the Underwriter agree that it would not be just and equitable if contributions pursuant to this agreement were determined by pro rata allocation or by any other method of allocation which does not take into account the equitable considerations referred to in the immediately preceding paragraphs. The rights to contribution provided in this Section 9 shall be in addition to, and without prejudice to, any other right to contribution which the Underwriter or other Indemnified Persons may have.

Any liability of the Underwriter under this Section 9 shall be limited to the amount actually received by the Underwriter under Section 2.

Section 10 Expenses

Whether or not the transactions contemplated herein shall be completed, all costs and expenses (including applicable goods and services tax) of or incidental to the transactions contemplated hereby including, without limitation, those relating to the distribution of the Flow-Through Shares shall be borne by the Corporation including, without limitation, all costs and expenses of or incidental to the preparation, filing, reproduction (including the commercial copies thereof) of the Preliminary Prospectus, the Prospectus, any Supplementary Material and the delivery thereof to the Underwriter, the fees and expenses of the Corporation's counsel, the fees and expenses of agent counsel retained by the Corporation or the Corporation's counsel, the fees and expenses of the Corporation's transfer agent, auditors and other outside consultants, all stock exchange listing fees and the fees (subject to a maximum of $65,000) and disbursements of the Underwriter's counsel and the Underwriter's out-of-pocket expenses.

Section 11 Termination

(a) The Underwriter may, without liability, terminate its obligations hereunder, by written notice to the Corporation, in the event that after the date hereof and at or prior to the Closing Time:

(i) any order to cease or suspend trading in any securities of the Corporation or prohibiting or restricting the distribution of any of the Flow-Through Shares is made, or proceedings are announced, commenced or threatened for the making of any such order, by any securities commission or similar regulatory authority, any stock exchange or any other competent authority, and has not been rescinded, revoked or withdrawn;

(ii) any inquiry, investigation (whether formal or informal) or other proceeding in relation to the Corporation or any of the directors or senior officers of the Corporation is announced, commenced or threatened by any securities commission or similar regulatory authority, any stock exchange or any other competent authority or any order has been issued under or pursuant to any statute of Canada or of any province of Canada, or any other applicable law or regulatory authority (unless based on the activities or alleged activities of the Underwriter) or there is a change in law, regulation or policy or the interpretation or administration thereof, if, in the reasonable opinion of the Underwriter, the change, announcement, commencement or threatening thereof materially adversely affects the trading or distribution of the Flow-Through Shares;

(iii) there shall be any material change in the affairs of the Corporation or its subsidiaries, or there should be discovered any previously undisclosed material fact required to be disclosed in the Prospectus, or there should occur a change in a material fact contained in the Prospectus, in each case which, in the opinion of the Underwriter, acting reasonably, has or would be expected to have a materially adverse effect on the market price or value of the Flow-Through Shares;

(iv) there should develop, occur or come into effect or existence, or be announced, any event, action, state, condition or occurrence of national or international consequence, or any law, action, regulation or other occurrence of any nature whatsoever, which, in the opinion of the Underwriter acting reasonably seriously adversely affects or involves, or will seriously adversely affect or involve, the financial markets generally or the business, operations or affairs of the Corporation;

(v) the Underwriter identifies or discovers, as a result of its due diligence review or otherwise, an event, fact or circumstance (actual, contemplated or threatened) which constitutes a change in material fact or occurrence of a material fact or event in respect of the business, operations, capital or condition (financial or otherwise), business or business prospects of the Corporation or its subsidiaries as disclosed in the Public Record, which in the opinion of the Underwriter, or any of its subsidiaries, acting reasonably, could be reasonably expected to have a significant adverse effect on the market price or value of the Flow-Through Shares; or

(vi) the Corporation shall be in breach or default under or non-compliance with any representation, warranty, term or condition of this agreement, in any material respect.

(b) The Underwriter may exercise any or all of the rights provided for in paragraph 11(a) or Section 12 or Section 16 notwithstanding any material change, change, event or state of facts and (except where the Underwriter is in breach of its obligations under this agreement) notwithstanding any act or thing taken or done by the Underwriter or any inaction by the Underwriter, whether before or after the occurrence of any material change, change, event or state of facts including, without limitation, any act of the Underwriter related to the offering or continued offering of the Flow-Through Shares for sale and any act taken by the Underwriter in connection with any amendment to the Prospectus (including the execution of any amendment or any other Supplementary Material) and the Underwriter shall only be considered to have waived or be estopped from exercising or relying upon any of its rights under or pursuant to paragraph 11(a) or Section 12 or Section 16 if such waiver or estoppel is in writing and specifically waives or estops such exercise or reliance;

(c) Any termination pursuant to the terms of this agreement shall be effected by notice in writing delivered to the Corporation, provided that no termination shall discharge or otherwise affect any obligation of the Corporation under Section 8, Section 9, Section 10 or Section 16. The rights of the Underwriter to terminate its obligations hereunder are in addition to, and without prejudice to, any other remedies they may have; and

(d) If the Underwriter elects to terminate its obligations hereunder as aforesaid, whether the reason for such termination is within or beyond the control of the Corporation, the liability of the Corporation hereunder shall be limited to the indemnity referred to in Section 8, the contribution rights referred to in Section 9 and the payment of expenses referred to in Section 10.

Section 12 Closing Documents

The obligations of the Underwriter hereunder, as to the Flow-Through Shares to be purchased at the Closing Time, shall be conditional upon all representations and warranties and other statements of the Corporation herein being, at and as of the Closing Time, true and correct in all material respects, the Corporation having performed in all material respects, at the Closing Time, all of their obligations hereunder theretofore to be performed and the Underwriter receiving at the Closing Time:

(a) favourable legal opinions of the Corporation's counsel and the Underwriter's counsel addressed to the Underwriter, in form and substance reasonably satisfactory to the Underwriter, with respect to such matters as the Underwriter may reasonably request relating to the offering of the Flow-Through Shares, the Corporation and the transactions contemplated hereby, including, without limitation, that:

(i) the Corporation has the capacity and power to own and lease its properties and assets and to conduct its business as described in the Prospectuses;

(ii) each of the Corporation and its subsidiaries has been duly incorporated or otherwise formed, is validly subsisting and has all requisite power and authority to carry on its business as now conducted by it and to own its properties and assets and is qualified to carry on business under the laws of the jurisdictions where it carries on a material portion of its business;

(iii) the Corporation has all necessary corporate power and authority to enter into this agreement and the Subscription Agreements and to perform its obligations set out herein and therein, and each of this agreement and the Subscription Agreements has been duly authorized, executed and delivered by the Corporation and constitutes a legal, valid and binding obligation of the Corporation enforceable against the Corporation in accordance with their respective terms subject to laws relating to creditors' rights generally and except that rights to indemnity and contribution may be limited or unavailable by applicable law and other usual qualifications;

(iv) the execution and delivery of this agreement and the Subscription Agreements and the fulfilment of the terms hereof and thereof by the Corporation, and the performance of and compliance with the respective terms of this agreement and the Subscription Agreements by the Corporation does not and will not result in a breach of, or constitute a default under, and does not create a state of facts which, after notice or lapse of time or both, will result in a breach of or constitute a default under, (A) any applicable laws, (B) any term or provision of the articles, by-laws or resolutions of the directors or the shareholders of the Corporation or its subsidiaries, (C) of which counsel is aware, any mortgage, note, indenture, contract, agreement (written or oral), instrument, lease or other document to which the Corporation or any of its subsidiaries a party or by which it is bound, or (D) of which counsel is aware, any judgment, decree, order, statute, rule or regulation applicable to the Corporation or its subsidiaries;

(v) the form of the definitive certificate representing the Common Shares has been approved and adopted by the Corporation and complies with all legal requirements (including all applicable requirements of the Exchange) relating thereto;

(vi) the Flow-Through Shares have been duly and validly created, allotted and issued as fully paid and non-assessable Common Shares;

(vii) the attributes of the Flow-Through Shares conform in all material respects with the description thereof contained in the Prospectuses;

(viii) all necessary documents have been filed, all necessary proceedings have been taken and all legal requirements have been fulfilled as required under the Applicable Securities Laws of each of the Qualifying Provinces in order to qualify the Flow-Through Shares for distribution and sale to the public in each of such Qualifying Provinces by or through investment dealers and brokers duly registered under the applicable laws of such provinces who have complied with the relevant provisions of such Applicable Securities Laws;

(ix) the Corporation is a "reporting issuer" not in default of any requirement of the *Securities Act* (Alberta) and the regulations thereunder and has a similar status under the Applicable Securities Laws of each of the other Qualifying Provinces;

(x) the Corporation has the necessary power and authority to execute and deliver the Prospectuses and all necessary action has been taken by the Corporation to authorize the execution and delivery by it of the Prospectuses and the filing thereof, as the case may be, in each of the Qualifying Provinces in accordance with Applicable Securities Laws;

(xi) the Flow-Through Shares are conditionally listed and, upon notification to the Exchange of the issuance and sale thereof, will be posted for trading on the Exchange;

(xii) the statements in the Prospectus with respect to matters of law set out under the heading “Eligibility for Investment” are accurate in all material respects;

(xiii) except for Flow-Through Shares acquired by the Underwriter as principal, each of the Flow-Through Shares constitutes a “flow-through share” as defined in subsection 66(15) of the Tax Act and is not a “prescribed share” for the purposes of section 6202.1 of the regulations under the Tax Act;

(xiv) subject to the qualifications set out therein, the statements in the Prospectus under the heading “Certain Canadian Federal Income Tax Considerations” constitute a fair summary of the principal Canadian federal income tax consequences arising under the Tax Act to persons who are resident in Canada at all relevant times, who hold Flow-Through Shares as capital property and who deal at arm’s length with the Corporation;

(xv) the authorized and issued capital of the Corporation; and

(xvi) Olympia Trust Company, at its principal office in Calgary, has been duly appointed the transfer agent and registrar for the Common Shares (including the Flow-Through Shares);

and as to all other legal matters, including compliance with Applicable Securities Laws in any way connected with the issuance, sale and delivery of the Flow-Through Shares as the Underwriter may reasonably request.

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

(b) a certificate of the Corporation dated the Closing Date addressed to the Underwriter and signed on behalf of the Corporation by the Chief Executive Officer and Chief Operating Officer of the Corporation or such other officers or directors of the Corporation satisfactory to the Underwriter, acting reasonably, certifying that:

(i) the Corporation has complied with and satisfied in all material respects all terms and conditions of this agreement on its part to be complied with or satisfied at or prior to the Closing Time;

(ii) the representations and warranties of the Corporation set forth in this agreement are true and correct in all material respects at the Closing Time, as if made at such time (and, with respect to the representations and warranties contemplated by paragraph 7(a), as if the Prospectus was delivered to the Underwriter at the Closing Time); and

(iii) no event of a nature referred to in paragraph 6(a) or 6(b) or to the knowledge of such officer subparagraph 11(a)(i), (ii) or (iii) has occurred or to the knowledge of such officer is pending, contemplated or threatened;

and the Underwriter shall have no knowledge to the contrary;

(c) a comfort letter of the Corporation's auditors, addressed to the Underwriter and dated the Closing Date, satisfactory in form and substance to the Underwriter, acting reasonably, bringing the information contained in the comfort letter or letters referred to in paragraph 4(c) up to the Closing Time, which comfort letter shall be based on the Corporation's auditors' review having a cut-off date of not more than two Business Days prior to the Closing Date;

(d) Subscription Agreements in respect of each subscription for Firm Flow-Through Shares, duly executed by the Corporation;

(e) evidence satisfactory to the Underwriter that the Flow-Through Shares have been conditionally listed on the Exchange not later than the close of business on the last Business Day preceding the Closing Date and shall be posted for trading as at the opening of business on the Closing Date; and

(f) such other certificates and documents as the Underwriter may request, acting reasonably.

Section 13 Deliveries for the Firm Flow-Through Shares and Over-Allotment Securities

(a) The sale of the Firm Flow-Through Shares shall be completed at the Closing Time at the offices of the Corporation's counsel in Calgary, Alberta or at such other place as the Corporation and the Underwriter may agree. Subject to the conditions set forth in Section 12, the Underwriter, on the Closing Date, shall pay to the Corporation, by wire transfer or such other means as the Corporation and the Underwriter may agree, the amount of $9.15 per Firm Flow-Through Share, being an aggregate amount of $7,045,500, against delivery by the Corporation of:

(i) the opinions, certificates and documents referred to in Section 12;

(ii) definitive certificates representing, in the aggregate, all of the Firm Flow-Through Shares, registered in the name of CDS & Co. or in such name or names as the Underwriter shall notify the Corporation in writing not less than 48 hours prior to the Closing Time; and

(iii) payment to the Underwriter, by bank draft, certified cheque or wire transfer or such other means as the Corporation and the Underwriter may agree, of the Underwriting Fee;

or the Underwriter may, in its discretion, deliver the amount in respect of the Firm Flow-Through Shares referred to above net of the amount referred to in (iii) above.

(b) If the Underwriter exercises the Over-Allotment Option, the completion of the purchase and sale of the Over-Allotment Securities shall take place on the Over-Allotment Closing Date at the Over-Allotment Closing Time at the offices of the Corporation's counsel in Calgary, Alberta or at such other place as the Corporatoin and the Underwriter may agree. If the Over-Allotment Closing Date is the same as the Closing Date, the completion of the purchase of the Firm Flow-Through Shares and Over-Allotment Securities shall occur concurrently and all matters relating to the closing of the purchase of the Over-Allotment Securities will be included in the items delivered under Section 13(a). If the Over-Allotment Closing Date is later than the Closing Date, Sections 11, 12 and 16 shall apply to the purchase of the Over-Allotment Securities *mutatis mutandis,* and, without limitation, favourable legal opinions dated the Over-Allotment Closing Date and addressed to the Underwriter and its counsel, in form and content satisfactory to the Underwriter and its counsel, acting reasonably, bringing the opinions referred to in Section 12 forward to the Over-Allotment Closing Time, shall be delivered to the Underwriter at the Over-Allotment Closing Time.

Section 14 Restrictions on Offerings

The Corporation agrees that, prior to 90 days after the Closing Date, it shall not, directly or indirectly, sell or offer to sell any Common Shares, or otherwise issue, lend, transfer or dispose of any securities exchangeable, convertible or exercisable into Common Shares, or announce any intention to do any of the foregoing (other than for purposes of the Corporation's stock option plan and pursuant to the Over-Allotment Option), without the prior written consent of the Underwriter, which consent shall not be unreasonably withheld.

Section 15 Notices

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

Zapata Energy Corporation
500, 435 – 4th Avenue S.W.
Calgary, Alberta T2P 3A8

Attention: George Paulus
Telecopy No.: (403) 294-7877

with a copy to:

Blakes, Cassels & Graydon LLP
855 - 2nd Street S.W.
Suite 3500, Bankers Hall East Tower
Calgary AB T2P 4J8

Attention: Chad Schneider
Telecopy No.: (403) 260-9700

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

CIBC World Markets Inc.
9th Floor, Bankers Hall East

855 - 2nd Street SW
Calgary, Alberta T2P 4J7

Attention: Francesco G. Mele
Telecopy No.: (403) 260-0524

with a copy to:

Stikeman Elliott LLP
4300 Bankers Hall West
888 – 3rd Street S.W.
Calgary, Alberta T2P 5C5

Attention: David Lefebvre
Telecopy No.: (403) 266-9052

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

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

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

Section 16 Conditions

All terms, covenants and conditions of this agreement to be performed by the Corporation shall be construed as conditions, and any breach or failure to comply with any material terms and conditions which are for the benefit of the Underwriter shall entitle the Underwriter to terminate its obligation to purchase the Flow-Through Shares, by written notice to that effect given to the Corporation prior to the Closing Time. The Underwriter may waive in whole or in part any breach of, default under or non-compliance with any representation, warranty, term or condition hereof, or extend the time for compliance therewith, without prejudice to any of its rights in respect of any other representation, warranty, term or condition hereof or any other breach of, default under or non-compliance with any other representation, warranty, term or condition hereof, provided that any such waiver or extension shall be binding on the Underwriter only if the same is in writing.

Section 17 Survival of Representations and Warranties

All representations, warranties, terms and conditions herein (including, without limitation, those contained in Section 7) or contained in certificates or documents submitted pursuant to or in connection with the transactions contemplated herein shall survive the payment by the Underwriter for the Flow-Through Shares, the termination of this agreement and the distribution of the Flow-Through Shares pursuant to the Prospectus and shall continue in full force and effect for the benefit of the Underwriter regardless of any investigation by or on behalf of the Underwriter with respect thereto.

Section 18 Underwriter Covenants

(a) The Underwriter covenants and agrees with the Corporation that it will:

(i) conduct activities in connection with the proposed offer and sale of the Flow-Through Shares in compliance with all the Applicable Securities Laws and cause a similar covenant to be contained in any agreement entered into with any Selling Dealer Group established in connection with the distribution of the Flow-Through Shares;

(ii) not solicit subscriptions for the Flow-Through Shares, trade in Flow-Through Shares or otherwise do any act in furtherance of a trade of Flow-Through Shares in any jurisdictions outside of the Qualifying Provinces; and

(iii) as soon as reasonably practicable after the Closing Date provide the Corporation with a breakdown of the number of Flow-Through Shares sold in each of the Qualifying Provinces and, upon completion of the distribution of the Flow-Through Shares, provide to the Corporation, to the Securities Commissions and to the Exchange notice to that effect, if required by Applicable Securities Laws.

(b) For the purposes of this Section 18, the Underwriter shall be entitled to assume that the Flow-Through Shares may be lawfully offered for sale and sold in the Qualifying Provinces if the final MRRS decision document has been issued evidencing that a receipt for the Prospectus has been issued by the Securities Commissions, provided the Underwriter do not have actual knowledge, and have not been notified in writing by the Corporation, of any circumstances that would legally prohibit such distribution.

Section 19 Severance

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

Section 20 Relationship Between the Corporation and the Underwriter

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

Section 21 Stabilization

In connection with the distribution of the Flow-Through Shares, the Underwriter may over-allot or effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail in the open market, but in each case only as permitted by applicable law. Such stabilizing transactions, if any, may be discontinued at any time.

Section 22 Governing Law

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

Section 23 Time of the Essence

Time shall be of the essence of this agreement.

Section 24 Counterpart Execution

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

Further Assurances

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

Section 25 Use of Proceeds

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

INTENTIONALLY LEFT BLANK

Section 26 Entire Agreement

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

If the foregoing is in accordance with your understanding and is agreed to by you, please confirm your acceptance by signing the enclosed copies of this letter at the place indicated and by returning the same to Francesco G. Mele at CIBC World Markets Inc.

CIBC WORLD MARKETS INC.

Per: (signed) *"Francesco G. Mele"*
Francesco G. Mele

ACCEPTED AND AGREED to as of the 14th day of July, 2006.

ZAPATA ENERGY CORPORATION

By: (signed) "*Lloyd D. Driscoll*"
Lloyd D. Driscoll