

SHARE PURCHASE AGREEMENT

BETWEEN:

ESPRIT EXPLORATION LTD.

- and -

MONROE ENERGY INC.

- and -

[INTENTIONALLY DELETED]

Dated the 7th day of July, 2005

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SHARE PURCHASE AGREEMENT

THIS AGREEMENT is made the 7th day of July, 2005,

BETWEEN:

ESPRIT EXPLORATION LTD., a corporation governed by the laws of the Province of Alberta (the "Purchaser")

- and -

MONROE ENERGY INC., a corporation governed by the laws of the Province of Alberta ("Monroe")

- and -

[INTENTIONALLY DELETED]

RECITALS:

- A. The Vendors own and control all of the issued and outstanding shares of Monroe; and
- B. The Purchaser wishes to purchase all of the issued and outstanding shares of Monroe from the Vendors all upon and subject to the terms and conditions set forth in this Agreement.

NOW THEREFORE, the Parties agree as follows:

ARTICLE 1 DEFINITIONS AND PRINCIPLES OF INTERPRETATION

1.1 Definitions

Whenever used in this Agreement, unless there is something inconsistent in the subject matter or context, the following words and terms shall have the meanings set out below:

"**Accounting Firm**" shall have the meaning ascribed to that term in Section 2.2;

"**Act**" means the *Income Tax Act* (Canada) as amended, together with all regulations thereunder;

"**Affiliate**" has the meaning given in the *Business Corporations Act* (Alberta), as amended from time to time;

"**Agreement**" means this Share Purchase Agreement, including all schedules, and all instruments supplementing or amending or confirming this Agreement and references to "Article" or "Section" are to the specified Article or Section of this Agreement;

"**Applicable Tax Legislation**" means any legislation pursuant to which Taxes are imposed by any Taxation Authority;

"**Assessment**" means an assessment, reassessment or any other formal claim for, or in respect of, Taxes, which is made by any Taxation Authority;

"**Assets**" means the Real Property, the Petroleum and Natural Gas Rights, the Miscellaneous Interests and the Tangibles and all other assets described or referred to expressly or by implication in the Balance Sheet and the Closing Balance Sheet;

"**Balance Sheet**" means the unaudited balance sheet of Monroe as at March 31, 2005 attached as Schedule 3.9;

"**Business Day**" means a day, other than a Saturday, Sunday or statutory holiday, on which the principal commercial banks located at Calgary, Alberta are open for business during normal banking hours;

"**Claims**" means any claim, demand, action, cause of action, damage, loss, cost, liability or expense, including, without limitation, reasonable legal fees and all costs incurred in investigating, defending or pursuing any of the foregoing or any proceeding relating to any of the foregoing;

"**Closing**" means the completion of the sale and purchase of the Purchased Shares under and as contemplated in this Agreement;

"**Closing Balance Sheets**" mean:

- (i) an unaudited balance sheet for Monroe as at June 1, 2005 prepared pursuant to Section 2.2(e), prepared in accordance with GAAP and showing June Net Debt;
- (ii) an unaudited balance sheet for Monroe as at the Closing Date prepared pursuant to Section 2.2(e), prepared in accordance with GAAP and showing Closing Net Debt;

"**Closing Date**" means August 8, 2005, or such other date as the Parties may agree as the date upon which the Closing shall take place;

"**Closing Net Debt**" means the net debt of Monroe as at June 1, 2005 and as at the Closing Time, respectively, being the amount by which (i) the book value of the total of Monroe's current liabilities and bank debt, but not including any redemption cost of preferred shares as a current liability or any debt incurred as a result of capital expenditures after June 1, 2005 (excluding capitalized general and administrative expense), as recorded on the Closing Balance Sheets, exceeds (ii) the book value of Monroe's current assets, as recorded on the Closing Balance Sheets;

"Closing Time" means 10:00 a.m., Calgary time, on the Closing Date or at such other time or on such date as the Parties may agree;

"Confidential Information" means all information relating to a Party, including its operations, method of operating, customers, affairs, processes, personnel and including financial, production, scientific and technical data and information, whether written, graphic or oral, as well as samples and specimens thereof, howsoever or whensoever obtained, with the exception only of the following:

- (i) information in the public domain at the time of the Party's receipt thereof;
- (ii) information that, after the Party's receipt thereof, becomes a part of the public domain through no act or omission of the other Party or its officers, employees, agents, advisors or other representatives;
- (iii) information that the Party can show was lawfully within its possession prior to its receipt thereof;
- (iv) information received in good faith by the Party from a third party, who was lawfully in possession of, and had the right to disclose, the same; and
- (v) information that the Parties agree in writing to release from the terms of this agreement or which the a Party is required by law to provide;

"Encumbrances" means any and all royalties, burdens, profits interests, production payments, pledges, liens, restrictions, charges, security agreements, leases, title retention agreements, mortgages, encumbrances, charges, options, imperfections of title and other adverse claims, of any kind or character whatsoever;

"Engineering Report" means the report entitled "Reserve Evaluation dated June 1, 2005" prepared by AJM Petroleum Consultants;

"Environmental Approvals" means all applicable permits, licences and approvals required by Governmental Authorities pursuant to the Environmental Laws with respect to the use of a property or operation of a business;

"Environmental Laws" means all applicable federal, provincial and local laws, by-laws, rules, regulations, orders, guidelines, directives, bulletins and policies relating to the protection of the environment and employee and public health and safety, and without restricting the generality of the foregoing, includes those Environmental Laws relating to the discovery, development, production, gathering, use, storage, transmission transportation, treatment and disposal of Substances, employee and product safety, and the emission, discharge, release or threatened release of Substances into the air, water or land;

"Equipment Contracts" means the motor vehicle leases, equipment leases, conditional sales contracts, title retention agreements and other similar agreements relating to equipment between Monroe and third Persons;

"**Facilities**" means the gathering, compression and transportation facilities described in Schedule 1.1(b);

"**Facilities Interests**" means the undivided participating interests of Monroe in and to each of the Facilities as set forth in Schedule 1.1(b);

"**Governmental Authorities**" means all federal, provincial and municipal agencies, boards, tribunals, ministries and departments having jurisdiction over the Assets or the Purchased Shares and "**Governmental Authority**" means any one of them;

"**GST**" means the goods and services tax required to be paid pursuant to the *Excise Tax Act* (Canada), as amended, together with all regulations thereunder;

"**Holdback**" has the meaning in Section 2.1;

"**Interim Closing Balance Sheet**" means an interim unaudited balance sheet for Monroe as at the Closing Date and delivered as at the Closing Date, prepared in accordance with GAAP and showing Interim Net Debt;

"**Interim Net Debt**" means the interim calculation of the net debt of Monroe as at the Closing Time, being the amount by which (i) the book value of the total of Monroe's current liabilities and bank debt, but not including any redemption cost of preferred shares as a current liability or any debt incurred as a result of capital expenditures after June 1, 2005 (excluding capitalized general and administrative expense), as recorded on the Interim Closing Balance Sheet, exceeds (ii) the book value of Monroe's current assets, as recorded on the Interim Closing Balance Sheet;

"**June Balance Sheet**" means an unaudited balance sheet for Monroe as at June 1, 2005 prepared pursuant to Section 2.2(e), prepared in accordance with GAAP and showing June Net Debt;

"**June Net Debt**" means the interim calculation of the net debt of Monroe as at June 1, 2005, being the amount by which (i) the book value of the total of Monroe's current liabilities and bank debt, but not including any redemption cost of preferred shares as a current liability, as recorded on the June Balance Sheet, exceeds (ii) the book value of Monroe's current assets, as recorded on the June Balance Sheet;

"**Lands**" means collectively all of the lands owned by Monroe including the lands referred to in the Property Schedule, and includes the Petroleum Substances within such lands, together with the right to explore for and produce such Petroleum Substances;

"**Leases**" means collectively all of the leases (including gas storage leases), options for leases, subleases, licences (including exploratory licences of occupation) and documents of title (or any replacements, renewals or extensions thereof or leases derived therefrom) covering the Lands and owned by Monroe, including those described in the Property Schedule, by virtue of which the holder thereof is granted certain rights with respect to Petroleum Substances within, upon or under the Lands or by virtue of which the holder

thereof is deemed to be entitled to a share of Petroleum Substances removed from the Lands or any lands with which the Lands are pooled or unitized;

"Material" when used with reference to a transaction, contract or agreement, includes, but shall not be limited to, any which involve the payment (including a commitment to pay) or the receipt (including the right to receive) by Monroe or which represent a value to or a commitment of \$50,000 or more, whether individually or in the aggregate, in each case determined in relation to Monroe;

"Material Adverse Effect" means any adverse condition or change in the financial condition, results of operations, assets, liabilities, business or prospects of Monroe that is or may be Material to Monroe, and shall include but not be limited to any Material change;

"Material Contract" means (i) any contract for the sale or purchase of Petroleum Substances and (ii) any other contract or commitment whether oral or written involving payment to or by Monroe in excess of \$25,000 over the term of the contract or commitment or any commitment to or by Monroe that may reasonably be expected to extend beyond three years;

"Miscellaneous Interests" means the entire right, title and interest of Monroe in and to all property, assets and rights (other than the Petroleum and Natural Gas Rights or the Tangibles) pertaining to the Petroleum and Natural Gas Rights or the Tangibles or any rights relating thereto and to which Monroe is entitled, including, without limitation, such interests in:

- (i) all contracts, agreements, books, records and documents (including, without limitation, agreements for the construction, ownership and operation of the Facilities) relating directly to the Petroleum and Natural Gas Rights and the Tangibles and any rights in relation thereto;
- (ii) all subsisting rights to enter upon, use and occupy the surface of the Lands or any lands with which the Lands have been pooled or unitized or any lands upon which the Tangibles are located or lands which are used to gain access to any of the foregoing;
- (iii) all subsisting rights to carry out any operations relating to the Lands or any lands with which the Lands have been pooled or unitized or lands upon which the Tangibles are located including, without limitation, all well licences, rights of way, crossing agreements and easements;
- (iv) all Wells, including the wellbores of the Wells and all casing and production tubing in the Wells;
- (v) all subsisting disposal and injection leases;
- (vi) all geological, engineering, geophysical, seismic and other reports and data; and

- (vii) all Petroleum Substances produced from the Lands or any lands with which the Lands have been pooled or unitized which are in tanks or in storage on or after the Closing Date;

"Parties" means collectively the parties to this Agreement and "Party" means any one of them;

"Permitted Encumbrances" means:

- (i) easements, rights of way, servitudes, restrictions or other similar rights in land, including, without limitation, rights of way and servitudes for highways and other roads, railways, sewers, drains, gas and oil pipelines, gas and water mains, electric light, power, telephone, telegraph or cable television conduits, poles, towers, wires and cables;
- (ii) the rights reserved to or vested in any grantor, government or other public authority by the terms of any Leases or by any statutory provision, including, without limitation, any rights to terminate any Leases or to require annual or other periodic payments as a condition of the continuance thereof;
- (iii) liens imposed by statute securing the payment of Taxes other than in respect of Taxes which are now due or hereafter become due in respect of a period ending at or prior to the Closing Date;
- (iv) the Regulations and any rights reserved to or vested in any Governmental Authority to control or regulate any of the Assets in any manner, including, but not limited to, legally binding requirements imposed by statutes or Governmental Authorities concerning rates of production from operations on any of the Lands or otherwise affecting recoverability of Petroleum Substances from the Lands;
- (v) the rights of third parties to purchase Petroleum Substances produced from the Lands or any lands with which the Lands have been pooled or unitized pursuant to production sales contracts or other contracts for the sale of Petroleum Substances which are described in Schedule 3.28;
- (vi) the terms and conditions of the Leases, including, without limitation, the requirement to pay any rentals or royalties to the grantor thereof to maintain the Leases in good standing;
- (vii) rights reserved to or vested in any Governmental Authority to levy taxes on minerals or the income therefrom or to limit, control or regulate any of the Assets in any manner and all applicable laws, rules and orders of any Governmental Authority;
- (viii) undetermined or inchoate liens (including, without limitation, processors', operators', mechanics', builders', materialmens' and similar liens) incurred or created as security in favour of the Person conducting the operation of any of the Assets arising in the ordinary course of business for Monroe's proportionate share

of the costs and expenses of such operations except in respect of costs now due or delinquent or which become due or delinquent and relate to a period ending at or prior to the Closing Date;

- (ix) the reservations, litigations, provisos and conditions in any original grants or transfers from the Crown of any of the Lands or interests therein and statutory exceptions to title;
- (x) penalties which have arisen under operating procedures or similar agreements as a consequence of elections by Monroe prior to the Closing Date not to participate in operations on the Lands to which the penalty applies, and which are described in the Property Schedule;
- (xi) liens or security granted in the ordinary course of business to a public utility, municipality or Governmental Authority in connection with operations pertaining to the Assets;
- (xii) all Encumbrances (including lessor's royalties) described in the Property Schedule; and
- (xiii) other Encumbrances which are not, in the aggregate, Material;

"Person" means any individual, sole proprietorship, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, and a natural person in his capacity as trustee, executor, administrator, or other legal representative;

"Petroleum and Natural Gas Rights" means all of the working interests, royalty interests, production payments, profit and net profit interests, reversionary interests and other interests of Monroe in the Leases and Lands, including those described in the Property Schedule, but excluding the Excluded Assets;

"Petroleum Substances" means petroleum, natural gas and all related hydrocarbons (including, without limitation, all liquid hydrocarbons) and all other substances, whether liquids, gaseous or solids and whether hydrocarbons or not (except coal but including sulphur) produced in association with such petroleum, natural gas or related hydrocarbons;

"Place of Closing" means the offices of Bennett Jones LLP or such other place as may be mutually agreed to by the Parties;

"Property Schedule" means the schedule attached as Schedule 1.1(c);

"Purchase Price" has the meaning given in Section 2.1;

"Purchased Shares" means all of issued and outstanding shares in the capital of Monroe as set out in Schedule 1.1(d);

"Purchaser" means Esprit Exploration Ltd., a corporation governed by the laws of Alberta;

"Real Property" means the real property listed in Schedule 3.22;

"Real Property Leases" means the real property leases listed in Schedule 3.22;

"Regulations" means all statutes, laws, rules, orders and regulations in effect from time to time and made by Governmental Authorities having jurisdiction over the Assets;

"Substance" means petroleum, natural gas, or other hydrocarbons, any contaminant, pollutant or hazardous substance that is likely to cause harm or degradation to the environment or risk to human health or safety, and without restricting the generality of the foregoing, includes any pollutant, contaminant, waste, hazardous waste, toxic substance or dangerous good which is defined or identified in any Environmental Law;

"Tangibles" means:

- (i) the interests of Monroe in and to all tangible depreciable property and assets which are situate in, on or about the Lands or lands with which the Lands have been pooled or unitized or used or intended for use in connection with production of Petroleum Substances from the Lands or lands with which the Lands have been pooled or unitized or for the gathering, processing, transmission, or treatment of such Petroleum Substances including, without limitation, production tubing, wellheads, pipelines, flowlines, gathering systems, batteries, plants, and other equipment, including without limitation the property and assets described in Schedule 1.1(b), but excluding the Facilities; and
- (ii) the Facilities Interests;

"Tax Returns" means all returns, reports, declarations, elections, designations forms, schedules, filings, information returns and statements required to be filed in respect of Taxes to a Taxation Authority;

"Taxation Authority" means the Canada Revenue Agency or any other Governmental Authority which is entitled to impose, collect or administer Taxes;

"Taxes" or **"Taxes"** means all taxes, however denominated, including any interest, penalties, or other additions thereto that are imposed by a Taxation Authority, and shall for greater certainty include, but not be limited to, federal and provincial income and capital taxes, payroll and employee withholding taxes, employment insurance premiums, Canada pension plan contributions, GST, sales and use taxes, *ad valorem* taxes, excise taxes, franchise taxes, gross receipts taxes, business license taxes, occupation taxes, real and personal property taxes, freehold mineral taxes, stamp taxes, environmental taxes, workers' compensation premiums, and all other amounts of the same or a similar nature to any of the foregoing, whether or not such amounts are described as taxes;

"Vendors" means all of the holders of Purchased Shares; and

"Wells" means all producing, shut-in, and injection or disposal wells located on the Lands or any lands with which the Lands have been pooled or unitized, including the wells described in the Property Schedule.

1.2 Certain Rules of Interpretation

In this Agreement and the Schedules:

- (a) Time is of the essence in the performance of the Parties' respective obligations.
- (b) Unless otherwise specified, all references to money amounts are to Canadian currency.
- (c) The descriptive headings of Articles and Sections are inserted solely for convenience of reference and are not intended as complete or accurate descriptions of content and shall not be used to interpret the provisions of this Agreement.
- (d) The use of words in the singular or plural, or with a particular gender, shall not limit the scope or exclude the application of any provision of this Agreement or a Schedule to such person or persons or circumstances as the context otherwise permits.
- (e) Whenever a provision of this Agreement or a Schedule requires an approval or consent by a party and notification of such approval or consent is not delivered within the applicable time limit, then, unless otherwise specified, the party whose consent or approval is required shall be conclusively deemed to have withheld its consent or approval.
- (f) Unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day on which the period ends and by extending the period to the next Business Day following if the last day of the period is not a Business Day.
- (g) Whenever any payment is to be made or action to be taken under this Agreement is required to be made or taken on a day other than a Business Day, such payment shall be made or action taken on the next Business Day following.
- (h) The word "including" shall be deemed to mean "including without limitation".

1.3 Entire Agreement

This Agreement, including the Schedules to this Agreement, together with the agreements and other documents to be delivered pursuant to this Agreement, constitute the entire agreement between the Parties pertaining to the subject matter hereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, with the exception of the Confidentiality Agreement dated May 26, 2005 between Monroe and the

Purchaser (the "Confidentiality Agreement"). There are no warranties, representations or other agreements between the Parties in connection with the subject matter hereof except as specifically set forth in this Agreement and in any agreement or document delivered pursuant to this Agreement. No supplement, modification or waiver or termination of this Agreement shall be binding unless executed in writing by the Parties.

1.4 Applicable Law

This Agreement shall be construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable in the Province of Alberta and shall be treated, in all respects, as an Alberta contract.

1.5 Accounting Terms

All accounting terms not otherwise defined in this Agreement have the meanings assigned to them in accordance with Canadian generally accepted accounting principles.

1.6 Knowledge

- (a) Where a representation or warranty is made in this Agreement on the basis of the knowledge of the Vendors, or any of them, making same, such knowledge consists of the knowledge that each such Vendor has after diligent inquiry of the management of Monroe and does not include the knowledge of any other Person or Persons;
- (b) Where a representation or warranty is made in this Agreement on the basis of the knowledge of Monroe, such knowledge consists of the knowledge that each and every officer of Monroe has after diligent inquiry and does not include the knowledge of any other Person or Persons.

1.7 Agreement of Construction

This Agreement and all other documents executed and delivered pursuant hereto are the result of negotiations among and have been reviewed by the respective legal counsel for the Parties and are the products of all Parties. Accordingly, they shall not be construed against any Party merely because of such Party's involvement in their preparation.

1.8 Inconsistencies

If there is a direct contradiction between any provision contained in the body of this Agreement and those of a schedule to this Agreement, the provisions contained in the body of this Agreement shall prevail. Wherever any provision of this Agreement directly contradicts any provision of any document executed and delivered in connection with the Closing, the provisions of this Agreement shall prevail.

1.9 Schedules

The schedules to this Agreement, as listed below, are an integral part of this Agreement:

<u>Schedule</u>	<u>Description</u>
Schedule 1.1(b)	Facilities, Facilities Interests and Tangibles
Schedule 1.1(c)	Property Schedule, List of Wells
Schedule 1.1(d)	Purchased Shares
Schedule 3.8	Vendors' Consents
Schedule 3.9	Balance Sheet
Schedule 3.12	Transactions
Schedule 3.14	Joint Venture Interests
Schedule 3.21	Equipment Contracts
Schedule 3.22	Real Property and Real Property Leases
Schedule 3.23	Environmental Matters
Schedule 3.27	Material Contracts
Schedule 3.30	Monroe Bank Accounts
Schedule 3.31	Monroe Constatng Documents
Schedule 3.53	AMI's
Schedule 3.54	Drilling Obligations
Schedule 6.7	Opinion of Vendors' Counsel
Schedule 7.5	Opinion of Purchaser's Counsel

ARTICLE 2 PURCHASE AND SALE

2.1 Action by Vendor and Purchaser

At the Closing Time, upon and subject to the terms and conditions of this Agreement:

(a) Purchase Price

The Vendors shall sell and the Purchaser shall purchase the Purchased Shares for an aggregate purchase price of \$28,750,000 (which includes the redemption value payable in respect of any outstanding preferred shares) (the "unadjusted Purchase Price") subject to adjustment as provided in Section 2.2 (as so adjusted, the "Purchase Price").

(b) Delivery of Certificates. etc.

The Vendors shall transfer and deliver to the Purchaser at the Closing the share certificates representing the Purchased Shares duly endorsed in blank for transfer, or accompanied by an irrevocable security transfer power of attorney duly executed in blank, in either case by the holders of record thereof, and shall take such steps as shall be necessary to cause Monroe to enter the Purchaser or its nominee(s) upon the books of Monroe as the registered holder of the Purchased Shares and to issue one or more share certificates to the Purchaser or its nominee(s) representing the Purchased Shares.

(c) Payment to the Vendors

Subject to Section 2.2, the Purchaser shall pay the Purchase Price, as adjusted on an interim basis in accordance with Section 2.2(b), less an amount equal to 2.5% thereof (the "Holdback"), to Miles Davison LLP, on behalf of the Vendors, by bank draft or certified cheque in immediately available funds to an account designated by the Vendors, in payment for the Purchased Shares.

2.2 Adjustment To Purchase Price

(a) Payment of Holdback

The Holdback, which shall be held in an interest bearing trust account by counsel for the Purchaser, shall be used to satisfy any obligations of the Vendors arising under this Section 2.2 and shall be paid to either the Purchaser or Miles Davison LLP on behalf of the Vendors, as the case may be, as contemplated in Section 2.2(f).

(b) Calculation of Interim Adjustments

(i) The unadjusted Purchase Price set forth in Section 2.1(a) shall be decreased on a dollar for dollar basis by the amount of the June Net Debt.

(ii) The Purchase Price, as adjusted in accordance with Section 2.2(b)(i) shall be further increased or decreased on the basis of \$0.35 for each \$1.00 by which the Interim Net Debt is greater than or less than the June Net Debt, except for amounts relating to bonuses or other amounts or benefits in excess of current salary paid or payable to insiders, directors, officers, employees, consultants and their affiliates, which shall be adjusted on a dollar for dollar basis.

If the Interim Net Debt is less than the June Net Debt, the Purchaser shall pay such excess in the proportions above to the Vendors at the Closing Date and if the Interim Net Debt is greater than the June Net Debt, the Vendors shall pay such excess in the proportions above to the Purchaser at the Closing Date.

(c) June Balance Sheet and Interim Closing Balance Sheet

At the Closing, the Vendors shall prepare and deliver the June Balance Sheet and the Interim Closing Balance, which shall be prepared by the Vendors in good faith and using their best efforts to ensure the accuracy thereof.

(d) Calculation of Final Adjustments

The Purchase Price, as adjusted in accordance with Section 2.2(b) shall be further increased or decreased on the basis of:

(i) on a dollar for dollar basis by the amount by which the Closing Net Debt as at June 1, 2005 is greater than or less than the June Net Debt;

- (ii) on the basis of \$0.35 for each \$1.00 by which the Interim Net Debt is greater than or less than the June Net Debt, except for amounts relating to bonuses or other amounts in excess of current salary paid or payable to insiders, directors, officers, employees, consultants and their affiliates, which shall be adjusted on a dollar for dollar basis.

If the Closing Net Debt is less than the June Net Debt or Interim Net Debt, as applicable, the Purchaser shall pay such excess in the proportions above to the Vendors and if the Interim Net Debt or June Net Debt, as applicable, is greater than the Closing Net Debt, the Vendors shall pay such excess in the proportions above to the Purchaser. In each case such payments shall be settled in accordance with Section 2.2(e). The adjustment calculated pursuant to this Section 2.2(d) shall be added to, or subtracted from, as applicable, the Holdback and dealt with in accordance with Section 2.2(f).

(e) Closing Balance Sheet

Within 180 days after the Closing, the Purchaser shall prepare and deliver the Closing Balance Sheets to Miles Davison LLP on behalf of the Vendors. If the Vendors believe that any change is required to be made to the Closing Balance Sheets as prepared by the Purchaser, they shall, within 10 Business Days after receipt of the Closing Balance Sheets, give written notice of any such proposed change, including the reason for such change, to the Purchaser. In the event that the Vendors do not notify the Purchaser of any proposed change within 10 Business Days after receipt thereof, then the Vendors shall be deemed to have accepted the Closing Balance Sheets. If a proposed change is disputed by the Parties and they fail to resolve such dispute within 20 Business Days after the date on which the Vendors gave notice of the proposed change, then Ernst & Young LLP (the "Accounting Firm") shall be engaged forthwith to resolve any remaining disputes and the Accounting Firm shall be required to render its decision within 30 Business Days after the dispute is referred to it. The decision of the Accounting Firm shall be final and binding. The fees and expenses of the Accounting Firm shall be shared equally by the Vendors and the Purchaser.

(f) Payment of Purchase Price Adjustment

Payment of any adjustment in the Purchase Price pursuant to Section 2.2(d), shall be made by bank draft or certified cheque to Miles Davison LLP, in trust on behalf of the Vendors or the Purchaser, as the case may be, together with interest at the rate of the prime rate published and charged from time to time by the Canadian Imperial Bank of Commerce plus 1% per annum calculated from the Closing Date to the date of payment, within 5 Business Days after the acceptance or deemed acceptance of the Closing Balance Sheets pursuant to Section 2.2(e). In the event an adjustment of the Purchase Price pursuant to Section 2.2(d) would result in an adjustment in favour of the Purchaser, interest shall be payable in accordance with the above in respect of the portion of the Holdback payable to the Vendors in excess of the amount of the adjustments or Holdback payable to the

Purchaser and the remainder of the Holdback shall be remitted to the Purchaser without interest payable. In the event an adjustment of the Purchase Price pursuant to Section 2.2(d) would result in an adjustment in favour of the Vendors, interest shall be payable in respect of the Holdback payable to the Vendors and any amount in excess thereof at the same rate as provided for above.

2.3 Place and Time of Closing

The Closing shall take place at the Place of Closing on the Closing Date.

2.4 Tender

Any tender of documents or money pursuant to this Agreement may be made upon the Parties or their respective counsel and money may be tendered by official bank draft drawn upon a Canadian chartered bank, by negotiable cheque payable in Canadian funds and certified by a Canadian chartered bank or trust company, or by wire transfer in immediately available funds to an account designated by the Party receiving such funds.

2.5 Payment of Monroe Financial Advisor Fees

At Closing, the Purchaser covenants and agrees to pay in full, or to pay into trust, any and all fees (the "Advisor Fees") payable to Tristone Capital Advisors Inc. ("Tristone") to a maximum amount of Advisor Fees equal to 1.2% of the unadjusted Purchase Price payable at closing. The Vendors shall use their best efforts to cause Tristone to deliver at closing a copy of their final account in respect of all such services.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF THE MONROE SHAREHOLDERS

Each of the Vendors and Monroe represents and warrants to the Purchaser that:

3.1 Incorporation and Registration

Monroe is a corporation duly incorporated and validly existing under the laws of the Province of Alberta and has all necessary corporate power, authority and capacity to own its property and assets (including, without limitation, the property and assets shown in the Balance Sheet) and to carry on its business as presently conducted. Neither the nature of its business nor the location or character of the property owned or leased by Monroe requires Monroe to be registered, licensed or otherwise qualified as an extraprovincial or foreign corporation or to be in good standing in any jurisdiction other than in the Province of Alberta. Monroe is duly registered, licensed and otherwise qualified and in good standing for such purpose in the Province of Alberta.

3.2 Subsidiaries

Monroe has no subsidiaries and is not a member of a partnership or a beneficiary of a trust.

3.3 Right to Sell

If any of the Vendors is a corporation, it is duly incorporated and validly existing under the laws of the province of its incorporation. Each of the Vendors is the sole beneficial owner of those of the Purchased Shares it is purporting to sell hereunder as set out in Schedule 1.1(d) and has the exclusive right to dispose of such Purchased Shares as provided in this Agreement and such disposition will not violate, contravene, breach or offend against or result in any default under any indenture, mortgage, lease, agreement, obligation, instrument, charter or by-law provision, statute, regulation, order, judgment, decree, licence, permit or law to which such Vendor is a party or subject or by which such Vendor is bound or affected (other than any such violation, contravention, breach, offence or default which will not have a Material Adverse Effect). Each of the Vendors is the holder of record of all of the Purchased Shares set forth beside its name on Schedule 1.1(d) free and clear of all Encumbrances (other than the rights of the Purchaser under this Agreement) and will deliver to the Purchaser on Closing good and valid title to all of such Purchased Shares free and clear of all Encumbrances. At Closing, the Monroe Shareholders and Monroe agree to execute a termination agreement with respect to any shareholders' agreement to which any securities of Monroe are subject.

3.4 Capitalization

The authorized and issued share capital of Monroe consists of an unlimited number of Class A common shares, an unlimited number of Class B common shares, an unlimited number of Class C common shares and an unlimited number of Class D preferred shares, of which 250 Class A common shares and 11,550 Class D preferred shares have been duly and validly issued and are outstanding as fully paid and non-assessable shares of Monroe. No options, warrants or other rights to purchase shares or other securities of Monroe and no securities or obligations convertible into or exchangeable for shares or other securities of Monroe have been authorized or agreed to be issued or are outstanding.

3.5 Due Authorization

If any of the Vendors are corporations, each such Vendor has all necessary corporate power, authority and capacity to enter into this Agreement and to carry out its obligations under this Agreement. The execution and delivery of this Agreement and the consummation of the transactions contemplated in this Agreement have been duly authorized by all necessary corporate action on the part of each corporate Vendor.

3.6 Enforceability of Obligations

This Agreement constitutes a valid and binding obligation of each of the Vendor enforceable against each of them in accordance with the terms hereof, subject, however, to limitations with respect to enforcement imposed by law in connection with bankruptcy or similar proceedings and to the extent that equitable remedies such as specific performance and injunction are in the discretion of the court from which they are sought.

3.7 Absence of Conflicting Agreements

Except as set forth in Schedule 3.8, Monroe is not a party to, bound or affected by or subject to any indenture, mortgage, lease, agreement, obligation, instrument, charter or by-law provision, statute, regulation, judgment, decree, licence, permit or law which would be violated, contravened, breached by or under which default would occur or under which any payment or repayment would be accelerated as a result of the execution and delivery of this Agreement or the consummation of any of the transactions provided for in this Agreement.

3.8 Consents, Approvals or Authorizations

Except as set forth in Schedule 3.8, no consent, approval or authorization of, filing or registration with, or notification to, any governmental or regulatory authority, or consent, approval or authorization of any Person, is required on behalf of any of the Vendors or Monroe in connection with the execution and delivery of this Agreement by such Parties or the completion of the transactions contemplated by this Agreement.

3.9 Balance Sheet

The Balance Sheet has been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period and presents fairly all of the assets and liabilities and the financial position of Monroe as at March 31, 2005.

3.10 Absence of Undisclosed Liabilities

Except to the extent reflected or reserved against in the Balance Sheet, Monroe has no outstanding indebtedness, liabilities or obligations.

3.11 Absence of Changes

Since the date of the Balance Sheet, and other than as contemplated in this Agreement, there has not been:

- (a) any Material Adverse Effect or circumstances that might reasonably be expected to result in any such Material Adverse Effect; or
- (b) any damage, destruction, loss, labour trouble or other event, development or condition which would have a Material Adverse Effect.

3.12 Absence of Unusual Transactions

Except as permitted in Section 8.1, since the date of the Balance Sheet, Monroe has not:

- (a) transferred, assigned, sold or otherwise disposed of any of the assets shown in the Balance Sheet or cancelled any debts or claims;

- (b) mortgaged, pledged, subjected to lien, granted a security interest in or otherwise encumbered any of its assets or property, whether tangible or intangible other than Permitted Encumbrances;
- (c) authorized, incurred or assumed any capital expenditure or financial commitment or other obligation or liability (fixed or contingent) except those listed in Schedule 3.10 and except unsecured obligations and liabilities incurred in the ordinary and usual course of business and not exceeding \$50,000 in the aggregate;
- (d) suffered an extraordinary loss, waived or omitted to take any action in respect of any rights of substantial value, or entered into any commitment or transaction not in the ordinary and usual course of business where such losses, rights, commitments and transactions calculated on an aggregate cumulative basis have or are likely to have a Material Adverse Effect;
- (e) except as set forth in Schedule 3.12, issued or sold any shares in its capital or any warrants, bonds, debentures or other corporate securities of Monroe or issued, granted or delivered any right, option or other commitment for the issuance of any such or other securities;
- (f) declared, authorized, paid or made any dividend or other distribution to any shareholder, director, officer, employee or consultant of Monroe, whether in cash, shares or otherwise;
- (g) made any change in its accounting principles or practices;
- (h) purchased, leased or otherwise acquired any assets having a value in aggregate greater than \$25,000;
- (i) granted any power of attorney;
- (j) guaranteed, or agreed to guarantee, the obligations of any party;
- (k) reduced its stated capital in any manner;
- (l) purchased, acquired, cancelled or redeemed, or agreed to purchase, acquire, cancel or redeem, any outstanding shares in its issued capital;
- (m) authorized or paid any bonus or similar payment to any employee, consultant, officer or director;
- (n) amended or changed or taken any action to amend or change its Articles or By-laws; or
- (o) authorized, agreed or otherwise become committed to do any of the foregoing.

3.13 Non-Arm's Length Indebtedness

At Closing, there shall be no outstanding indebtedness owing to or from Monroe by or to any of its directors, officers, former directors or officers, shareholders or employees or to any other Person not dealing at arm's length with Monroe.

3.14 Joint Venture Interests

Schedule 3.14 sets forth all of the joint ventures to which Monroe is a party or is otherwise involved.

3.15 Absence of Guarantees and Powers of Attorney

Monroe has not given or agreed to give, or is a party to or bound by (i) any guarantee or indemnity in respect of indebtedness, or other obligations, of any Person or (ii) any other commitment by which Monroe is, or is contingently, responsible for such indebtedness or other obligations or (iii) any powers of attorney or other delegations of authority.

3.16 Business in Compliance with Law

The operations of Monroe are being conducted in compliance with all applicable laws, rules, regulations, judgments, government authorizations or orders and decrees applicable to the operation of their respective businesses, except to the extent that non-compliance would not have a Material Adverse Effect.

3.17 Restrictive Covenants

Monroe is not a party to or bound or affected by any commitment, agreement or document containing any covenant which limits the freedom of Monroe to compete in any line of business, transfer or move any of its Assets or operations or which affects or may affect the business practices, operations or conditions or the continued operation of the business of Monroe after the Closing on substantially the same basis as such businesses are presently carried on.

3.18 Tax Matters

- (a) Monroe has duly and timely filed its Tax Returns with the appropriate Taxation Authority and each Tax Return has been completely and correctly prepared and made in accordance with the Applicable Tax Legislation;
- (b) Monroe has duly and timely paid all Taxes, including all installments on account of Taxes for the current year, that are due and payable by it and the Closing Balance Sheet will set forth, as an amount payable or as a reserve other than for deferred Taxes an amount not less than the amount of all Taxes that are not yet due and payable (and that will not be due and payable by the Closing Date) by Monroe and that relate to periods ending on or prior to the Closing Date;
- (c) Monroe has not entered into any agreement or other arrangement or executed any waiver with any Taxation Authority providing for, any extension of time within

which (i) to file any Tax Return covering any Taxes for which Monroe is or may be liable; (ii) Monroe is required to pay or remit any Taxes or amounts on account of Taxes; or (iii) any Taxation Authority may assess or collect Taxes for which Monroe is or may be liable;

- (d) There are no actions, suits, proceedings, investigations, audits or claims now pending or, to the best of the knowledge of Monroe, threatened, against Monroe in respect of any Taxes and there are no matters under discussion with any taxing authority relating to Taxes; there are no outstanding Assessments and, to the best of the knowledge of Monroe, there are no threatened or potential Assessments against Monroe;
- (e) Monroe has duly and timely withheld from any amount paid or credited by it to or for the account or benefit of any Person, including, without limitation, any of its employees, officers and directors and any non-resident Person, the amount of all Taxes and other deductions required by any Applicable Tax Legislation to be withheld from any such amount and has duly and timely remitted the same to the appropriate Taxation Authority;
- (f) Immediately after Closing and for greater certainty after taking into account any deductions for the taxation year ending on the Closing Date, the tax pools of Monroe (assuming that Section 66.7(10) of the Act did not apply to Monroe as a result of the acquisition of the Purchased Shares) will be at least:

Undepreciated capital cost (as defined for the purposes of the Act)	\$1,203,163
Cumulative Canadian exploration expense (as defined in Section 66.1(6) of the Act)	nil
Cumulative Canadian development expense (as defined in Section 66.2(5) of the Act)	\$1,736,523
Cumulative Canadian oil and gas property expense (as defined in Section 66.4(5)(b) of the Act)	nil
Share issue expenses (undeducted) (as defined in Paragraph 20(i)(e) or the Act)	nil
Other undeducted outlays and expenses	nil
Cumulative Eligible Capital Decuction	\$4,743

- (g) Monroe is duly registered with the Canada Revenue Agency for GST and its GST registration number is 86638 3193 RT0001. Monroe has made all Tax Returns and remittances required to be made under Applicable Tax Legislation governing GST;

- (h) Monroe has never undergone an acquisition of control for the purposes of the Act;
- (i) Monroe has never been required to file a Tax Return to a Taxation Authority outside Canada; and
- (j) Monroe has not been a party to any transactions with any Person with whom it does not deal at arm's length (within the meaning of the Act) in circumstances where the transaction is undertaken on terms and conditions which are not on an arm's length basis.

3.19 Residency

Each of the Vendors is not a non-resident of Canada for purposes of the Act.

3.20 Title to Assets

Except as set forth in Schedule 3.8, the Petroleum and Natural Gas Rights are free and clear of all Encumbrances created by, through or under the Monroe Shareholders and Monroe except for the Permitted Encumbrances, and Monroe has good and marketable title to the Assets other than the Petroleum and Natural Gas Rights free and clear of all Encumbrances, except for the Permitted Encumbrances.

3.21 Equipment Contracts

Schedule 3.21 sets forth a true and complete list of the Equipment Contracts and the equipment and vehicles of Monroe which are subject thereto and all of such Equipment Contracts are in full force and effect and no default exists on the part of Monroe.

3.22 Real Property and Real Property Leases

Except as disclosed in Schedule 3.22, Monroe does not own any real property or interests therein, or is a party to, or bound by, any leases or subleases of any real property, other than its interests in the Lands, the Leases and the Facilities including any lease of office space.

3.23 Environmental Matters

Except as disclosed in Schedule 3.23:

- (a) Monroe is in substantial compliance with all Environmental Laws, ("substantial compliance" meaning for the purposes of this Section 3.23 that the direct cost associated with bringing the conduct of all such businesses into strict compliance with all Environmental Laws, including in respect of the remediation of existing pollution and damages, would not exceed in the aggregate \$50,000);
- (b) Monroe:

- (i) has obtained all Environmental Approvals required to carry on its current and proposed operations and all such Environmental Approvals are valid and in full force and effect; and
 - (ii) is in substantial compliance with all such Environmental Approvals;
- (c) All Environmental Approvals are listed in Schedule 3.23 hereto;
- (d) Monroe has not received any claim or notice to the effect or has otherwise become aware that:
 - (i) its operations or its assets are (1) not in substantial compliance with all Environmental Laws, or (2) the subject of any remedial, preventative or control action, direction or order by any Government Authorities, or any investigation or evaluation by any Government Authorities as to whether any remedial or preventative action is needed to respond to an existing or potential environmental concern; and
 - (ii) it is or may be liable to any person (including, without limitation, any individual or government, whether federal, provincial, city or municipal) as a result of the release or threatened release of any Substance into the environment or into any facility or structure;
- (e) Monroe does not have to provide, or has provided, any notification to any person (including, without limitation, any individual or government, whether federal, provincial, city or municipal) of the release or potential release of any Substance into the environment;
- (f) To the best of the knowledge of Monroe, no Substance has been released into the environment from or been deposited or disposed of on, at or under the Lands or other property subject to Leases, or on any Real Property, for which any of Monroe is or may be responsible or liable;
- (g) Except for (A) notifications and conditions of general application to assets of the type owned by Monroe, and (B) notifications relating to reclamation obligations under the *Environmental Protection and Enhancement Act* (Alberta), Monroe has not received any notification that any orders, directions or notices have been issued and remain outstanding pursuant to any Environmental Laws, that any work, repairs, construction or capital expenditures are required to be made by them as a condition of continued compliance with any Environmental Laws, or any licence, permit or approval issued pursuant thereto, or that any licence, permit or approval referred to above is about to be reviewed, made subject to limitation or conditions, revoked, withdrawn or terminated;
- (h) To the best of the knowledge of Monroe, no underground storage tanks, urea formaldehyde foam insulation or radioactive substances are on the Lands or Real Property for which Monroe is, or may be, responsible or liable; and

- (i) To the best of the knowledge of Monroe, there are no polychlorinated biphenyls in storage or spilled on the Lands or Real Property.

3.24 Quiet Enjoyment

Subject to the rents, covenants, conditions and stipulations in the Leases and on the lessee's or holder's part thereunder to be paid, performed and observed, Monroe may continue to hold and enjoy the Assets for the residue of their respective terms and all renewals or extensions thereof for the use and benefit of Monroe without any interruption of or by any of the Vendors or any other person (other than the Purchaser) whomsoever claiming or to claim the same or any part thereof or any interest therein by, through or under Monroe or any of the Vendors.

3.25 Employment Matters

Monroe will have no employees as of the Closing Time and there are no written contracts of employment with any prior employees of Monroe that would bind Monroe. Monroe and the Purchaser shall not have any liability whatsoever in respect of the severance or termination of employment of any and all employees of Monroe, with the exception of the employees who may be offered employment with the Purchaser or Monroe after the Closing Date.

3.26 Insurance

Monroe maintains or causes to be maintained such policies of insurance, issued by responsible insurers, as are appropriate to its operations, property and assets, in such amounts and against such risks as are customarily carried and insured against by owners of comparable operations, properties and assets. All such policies of insurance are in full force and effect and Monroe is not in default, as to the payment of premium or otherwise, under the terms of any such policy.

3.27 Material Contracts

Schedule 3.27 is an accurate and complete list of all Material Contracts. The Material Contracts are all in full force and effect, unamended and none of the Vendors or Monroe have received notice of any Material default in respect of any such contract or commitment on the part of any of the parties to such contract or commitment, which default has not been rectified as of the date of this Agreement.

3.28 Copies of Agreements etc.

Current and complete copies of all contracts, commitments, mortgages, leases, instruments and other documents identified in the Schedules, including the Material Contracts have been made available for inspection by the Purchaser. There are no on-going negotiations with respect to the renewal, repudiation or amendment of them or any of the Material Contracts.

3.29 Litigation

There is no suit, action, litigation, investigation, claim, complaint, grievance or proceeding, including appeals and applications for review, in progress, pending or, to the best of

the knowledge of each of the Monroe Shareholders and Monroe threatened against or relating to Monroe or affecting its properties or business which, if determined adversely to Monroe would have a Material Adverse Effect. Except as shown in Schedule 3.29, there is not presently outstanding against Monroe any judgment, decree, injunction, rule or order of any court, governmental department, commission, board, bureau, agency or arbitrator which would have a Material Adverse Effect.

3.30 Bank Accounts, etc.

Schedule 3.30 sets forth the name of each bank and other depository in which Monroe maintains any bank account, trust account or safety deposit box, the details of all such amounts and the names of all Persons authorized to draw thereon or who have access thereto.

3.31 Articles and By-laws

Schedule 3.31 comprises the Articles and By-Laws of Monroe, including any and all amendments thereto and such Articles and By-laws as so amended are in full force and effect and no amendments have been made to the same.

3.32 Corporate Records and Minute Books

The corporate records and minute books of Monroe have been made available to the Purchaser and include complete and accurate minutes of all meetings of the directors or shareholders of Monroe, held to date and all resolutions passed by the directors or shareholders on consent, since the date of its incorporation. The share certificate book, register of shareholders, register of transfers and register of directors included therein of Monroe, are complete and accurate.

3.33 Compliance with Terms

Monroe has complied with, performed, observed and satisfied all terms, conditions, obligations and liabilities which have arisen prior to the Closing Date and were the obligations of Monroe under any of the provisions of any statute, order, writ, injunction or decree of any Governmental Authority or court relating to the Assets.

3.34 Title Documents and Production Sales Contracts

Monroe has made available for inspection by, the Purchaser (i) all material documents, instruments, records and books relevant to title to the Assets; and (ii) all production sales contracts or other material contracts for the sale of Petroleum Substances produced from the Lands or lands with which the Lands have been pooled or unitized.

3.35 Operation of Assets

The Assets are being operated in accordance with all permits, regulations, statutes, rules, orders, licenses and tariffs. There are no outstanding orders, directives or undertakings of, from or to any regulatory authority relating to the operation of the Assets.

3.36 Finders' Fees

Neither Monroe nor any of the Monroe Shareholders has incurred any liability, contingent or otherwise, for brokers' or finders' fees in respect of the transactions contemplated herein for which the Purchaser shall have any responsibility except for fees to Tristone, which shall be for the account of the Purchaser in accordance with Section 2.5, and except for legal fees relating to this transaction which shall be for the account of the Vendors.

3.37 Seismic

No Person other than Monroe and the other working interest owners of the Lands has or is entitled to have any of the geological, engineering, geophysical, seismic and other reports and data referred to in paragraph (vi) of the definition of "Miscellaneous Interests".

3.38 Accounts Receivable

All accounts receivable recorded in the books and accounts of Monroe are bona fide and collectible by Monroe without set-off or counterclaim.

3.39 Condition of Wells

(i) All producing, shut-in, suspended and abandoned oil and natural gas wells and all water-source and water and other disposal and injection wells upon the Lands and lands with which the same have been pooled are listed in the Property Schedule; (ii) each such well has been drilled and, if completed, completed, operated and produced in accordance with good oil and gas field practices and in compliance in all material respects with all applicable rules and regulations; (iii) all costs associated with each such well and all associated equipment payable by Monroe have been paid or accrued in the Balance Sheet; (iv) none of the said wells is deviated from the vertical more than the maximum permitted by applicable laws, rules and regulations; and (v) each such well is in fact bottomed under and is producing from, and the well bore thereof is wholly within, the said Lands or lands with which the same have been and now are validly pooled.

3.40 Condition of Tangibles and Facilities

All of the production, gathering, processing, treating, transportation and storage facilities in which Monroe has an interest which are operated by Monroe including, without limitation, the Facilities which are operated by Monroe, have been constructed, maintained and operated in accordance with generally accepted engineering and good oil and gas field practices and to the best of the knowledge of Monroe, all production, gathering, processing, treating, transportation and storage facilities, which are not operated by Monroe and in which Monroe has an interest including, without limitation, the Facilities which are not operated by Monroe, have been constructed, maintained and operated in accordance with generally accepted engineering and good oil and gas field practices.

3.41 No Production Penalties

None of the Wells is subject to a production penalty or limitation of any nature including, without limitation, statutory or contractual penalties, except any such penalties and limitations which have arisen in circumstances where good oil and gas field practices have been followed (and penalties and limitations which result from prior production in excess of allowables shall be deemed not to have arisen in such circumstances).

3.42 Wells to be Abandoned

Monroe has not agreed or been ordered to abandon any Wells which are not abandoned.

3.43 Production

All payments of production revenue and deliveries in kind in respect of Petroleum Substances produced from the Lands are being paid or made, as the case may be, to Monroe on a timely basis.

3.44 No Excess Gas Deliveries

Monroe has not received notice from, nor does it have knowledge of a claim by a purchaser of natural gas produced from the Lands asserting that Monroe has delivered to such purchaser an annual amount of natural gas in excess of the amount which Monroe was entitled to deliver to such purchaser under the applicable gas purchase contract.

3.45 Prepaid Gas Obligations

Monroe is not obligated to deliver Petroleum Substances without receiving full payment therefor.

3.46 Royalty Payments

Royalties have been timely paid to the Crown, lessors and other holders of royalties and similar interests with respect to all production or sale of Petroleum Substances from the Lands and all filings in respect of such royalties have been properly made in accordance with the applicable legislation or agreements.

3.47 No Prepayment Service Obligation

Monroe is not obligated by virtue of a prepayment arrangement, under any contract or arrangement for the provision of services, to provide services at some future time without then receiving full payment therefor.

3.48 No Convertible Interests

The interests of Monroe set forth in the Property Schedule are not subject to reduction on any account whatsoever and none of the Encumbrances described in the Property Schedule is

convertible or will change otherwise howsoever to an interest of any other size or nature whatsoever, except as described in the Property Schedule.

3.49 Gas Balancing Agreements

Monroe is not a party or subject to any gas balancing agreements.

3.50 Assignments of Sale Proceeds

Except for the Permitted Encumbrances, Monroe has not assigned or in any other way restricted its rights to receive the proceeds from the sale of Petroleum Substances produced from the Lands.

3.51 No Adverse Change

Since March 31, 2005, there has been no damage to any of the Assets that would constitute a Material Adverse Effect on the aggregate value of the Assets.

3.52 Full Disclosure

The information provided to the Purchaser by Monroe for purposes of the Purchaser's due diligence investigations in connection with this transaction is accurate and complete in all Material respects.

3.53 No AMI's

Monroe is not party or subject to any area of mutual interest arrangement in favour of any other Person created by, through or under Monroe except as set forth in Schedule 3.53.

3.54 No Drilling Obligations

Monroe has not received any notice that any of the Assets are subject to any drilling or offset obligations that have not been satisfied or permanently waived, except as set forth in Schedule 3.54.

3.55 Due Diligence

Each of the Vendors has met with the senior management team of Monroe and made specific inquiry as to the ability of such Vendor to make the representations and warranties required to be made in this Article 3 and accordingly the representations and warranties on the part of each of the Vendors made in this Article 3 have been made by each of the Vendors to the best of their knowledge, information and belief having made such specific inquiry of the management of Monroe.

**ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF THE PURCHASER**

The Purchaser represents and warrants to the Vendors that:

4.1 Incorporation

It is a corporation duly incorporated and validly existing under the laws of Canada and is duly extra-provincially registered to carry on business in the Province of Alberta.

4.2 Due Authorization

It has all necessary power, authority and capacity to enter into this Agreement and to carry out its obligations under this Agreement. The execution and delivery of this Agreement and the consummation of the transactions contemplated in this Agreement have been duly authorized by all necessary action on its part.

4.3 Enforceability of Obligations

This Agreement constitutes its valid and binding obligation enforceable against it in accordance with the terms hereof, subject, however, to limitations with respect to enforcement imposed by law in connection with bankruptcy or similar proceedings and to the extent that equitable remedies such as specific performance and injunction are in the discretion of the court from which they are sought.

4.4 Absence of Conflicting Agreements

It is not a party to, bound or affected by nor subject to any indenture, mortgage, lease, agreement, obligation, instrument, charter or by-law provision, statute, regulation, order, judgment, decree, license, permit or law which would be violated, contravened or breached by, or under which any default would occur or a lien, claim, restriction or encumbrance would be created as a result of, the execution and delivery by it of this Agreement or the performance by it of any of the terms of this Agreement.

4.5 Residence of the Purchaser

It is not a non-Canadian for purposes of the *Investment Canada Act* (Canada).

4.6 Consents, Approvals or Authorizations

No consent, approval or authorization of, filing or registration with, or notification to, any governmental or regulatory authority or consent, approval or authorization of any person, is required on its behalf in connection with the execution and delivery of this Agreement by it or the consummation of the transactions contemplated by this Agreement.

4.7 Finders' Fees

It has not incurred any liability, contingent or otherwise, for brokers' or finders' fees in respect of the transactions contemplated herein for which the Vendors shall have any responsibility.

ARTICLE 5 NON-WAIVER, SURVIVAL

5.1 Non-Waiver

No investigations made by or on behalf of the Purchaser at any time shall have the effect of waiving, diminishing the scope of or otherwise affecting any representation or warranty made by Monroe or any of the Vendors in or pursuant to this Agreement. No waiver by the Purchaser of any condition or other provision, in whole or in part, shall constitute a waiver of any other condition or provision.

5.2 Nature and Survival

- (a) All statements contained in any certificate or other instrument delivered by or on behalf of a Party pursuant to or in connection with the transactions contemplated in this Agreement shall be deemed to be representations and warranties made by such Party under this Agreement.
- (b) Subject to the limitations set out in subsection (c), all representations, warranties and covenants contained in this Agreement on the part of each of the Parties shall survive the Closing, the execution and delivery under this Agreement of any share or security transfer instruments or other documents of title to the Purchased Shares and the payment of the consideration for the Purchased Shares.
- (c) Representations and warranties concerning tax matters set out in Section 3.18 shall survive for a period of ninety days after the time at which the relevant Taxation Authority shall no longer be entitled to assess liability for Taxes against Monroe for any particular fiscal year ended on or prior to the Closing Date. All other representations and warranties in Article 3 shall only survive for a period of two years from the Closing Date. If no claim shall have been made under this Agreement, prior to the expiry of the survival periods provided for, against a Party for any incorrectness or breach of any representation or warranty made in this Agreement by such Party, such Party shall have no further liability under this Agreement with respect to such representation or warranty.

ARTICLE 6 PURCHASER'S CONDITIONS PRECEDENT

The obligation of the Purchaser to consummate the transactions contemplated by this Agreement shall be subject to the reasonable satisfaction of, or material compliance with, or waiver in writing by the Purchaser of, on or prior to the Closing Date, each of the following conditions precedent (each of which is acknowledged to be inserted for the exclusive benefit of the Purchaser and may be waived by it in whole or in part):

6.1 Truth and Accuracy of Representations at the Closing Time

The representations and warranties of the Vendor and Monroe made in or pursuant to this Agreement shall be true and correct in all material respects as of the Closing Time and with the same force and effect as if made at and as of the Closing Time (except as such representations and warranties may be affected by the occurrence of events or transactions expressly contemplated and permitted by this Agreement) and the Purchaser shall have received a certificate of a senior officer of Monroe and of each of the Vendors confirming to the best of their knowledge (after due inquiry) the truth and correctness in all material respects of their respective representations and warranties contained in this Agreement.

6.2 Performance of Obligations

Monroe and each of the Vendors shall have performed or complied with, in all material respects, all of their respective obligations, covenants and agreements under this Agreement.

6.3 Receipt of Closing Documentation

All documentation relating to the due authorization and completion of the sale and purchase of the Purchased Shares under this Agreement and all actions and proceedings taken on or prior to the Closing in connection with the performance by Monroe and each of the Vendors of their respective obligations under this Agreement shall be satisfactory to the Purchaser (acting reasonably) and the Purchaser shall have received copies of all such documentation or other evidence as it may reasonably request in order to establish the consummation of the transactions contemplated by this Agreement and the taking of all corporate proceedings in connection therewith in compliance with these conditions, in form (as to certification and otherwise) and substance satisfactory to the Purchaser, acting reasonably.

6.4 Consents, Authorizations and Registrations

All material consents, approvals, orders, authorizations and confirmations of any Persons and Governmental Authorities in Canada and elsewhere (or registrations, declarations, filings or recordings with any such authorities) which are reasonably required in connection with the completion of the transactions contemplated by this Agreement or the execution of this Agreement, shall have been obtained on or before the Closing Time.

6.5 Due Diligence and Encumbrances

The Purchaser shall have completed its due diligence investigations of Monroe (including without limitation, legal, environmental, accounting and business diligence) and shall be satisfied in its sole judgment, acting reasonably, with the scope and results of such due diligence investigations and that the Purchased Shares and the Assets are free and clear of all Encumbrances other than Permitted Encumbrances.

6.6 Resignations of Directors and Officers

There shall have been delivered to the Purchaser on or before the Closing Time the resignations of all individuals who are presently directors or officers of Monroe and duly

executed comprehensive releases from each such individual and from each of the Vendors of any and all claims respectively, against Monroe.

6.7 Opinion of Counsel

The Purchaser shall have received an opinion dated the Closing Date from counsel for the Vendors and Monroe substantially in the form of Schedule 6.7, provided that, in so far as such opinion is based on matters of fact, such opinion may rely upon certificates of public officials and officers of the Vendors and Monroe and such other evidence as such counsel may reasonably deem appropriate.

6.8 Engineering Report

The Purchaser shall have satisfied itself, acting reasonably, that there are no Material differences (adverse to the Purchaser or Monroe) between the Petroleum and Natural Gas Rights, the Lands and the Leases and the Encumbrances thereon described and set forth in the Property Schedule and the description thereof upon which the Engineering Report is based.

6.9 Delivery Of Purchased Shares

At the Closing Time 100% of the Purchased Shares have been tabled with all required documentation to effect transfer of same to the Purchaser.

6.10 Regulatory Approvals

All regulatory approvals, orders, rulings, exemptions and consents (including, without limitation, those of any stock exchanges or securities or other regulatory authorities) which, in the sole judgment of the Purchaser, acting reasonably, are necessary or desirable shall have been obtained on terms and conditions satisfactory to the Purchaser in its sole determination, acting reasonably.

6.11 No Third Party Actions

No act, action, suit or proceeding shall have been threatened or taken before or by any domestic or foreign court or tribunal or governmental agency or other regulatory authority or administrative agency or commission by any elected or appointed public official or by any private person in Canada or elsewhere, whether or not having the force of law, and no law, regulation or policy shall have been proposed, enacted, promulgated or applied, whether or not having the force of law which, in the sole judgment, acting reasonably, of the Purchaser: (i) has the effect or may have the effect to cease trade, enjoin, prohibit or impose material limitations, damages or conditions on the purchase by, or the sale to, the Purchaser of the Purchased Shares or the right of the Purchaser to own or exercise full rights of ownership of the Purchased Shares; or (ii) has had or may have a Material Adverse Effect on Monroe.

6.12 No Prohibitions

The Purchaser shall have determined in its sole judgment, acting reasonably, that there shall not exist any prohibition at law against it completing the acquisition of, and paying for, all of the Purchased Shares.

6.13 No Actions

The Purchaser shall have determined in its sole judgment, acting reasonably, that Monroe has not taken or proposed to take any action, or disclosed that it intends to take any action, and the Purchaser shall not have otherwise learned of any previous action taken by Monroe, that would have a Materially Adverse Effect on the businesses of Monroe or the value of the Purchased Shares to the Purchaser or that would make it inadvisable for the Purchaser to proceed with completing the acquisition of, and paying for, the Purchased Shares, including, without limiting the generality of the foregoing: any action with respect to any agreement, proposal, offer or understanding relating to any Material sale, disposition or other dealing with any of the assets of Monroe; any issue of shares, options or other securities of Monroe to any person; any Material acquisition from a third party of assets or securities by Monroe, or any Material capital expenditure by Monroe not in the ordinary course of business.

6.14 Changes in Business

There shall not have occurred any change or any condition, event or development involving a prospective change in the business, operations, assets, capitalization, financial condition, licences, permits, rights, liabilities, prospects or privileges, whether contractual or otherwise, of Monroe which, in the sole judgment of the Purchaser, is or amounts to a Materially Adverse Effect on or to the businesses of Monroe or to the value of the Purchased Shares to the Purchaser.

6.15 Financing

The Purchaser or its parent trust shall have obtained the necessary financing to complete the purchase of the Purchased Shares hereunder by either having established increased credit facilities for these purposes or arranging for an equity issuance of trust units, such that any such financing is completed before or concurrent with the Closing.

6.16 Purchase of Springedge

On or before Closing, Monroe shall have completed the acquisition of all of the issued and outstanding shares of Springedge Energy Inc. ("Springedge") pursuant to a share purchase agreement to be entered into between Monroe, Springedge and the shareholders of Springedge containing terms substantially similar to those contained in this Agreement and acceptable to the Purchaser, acting reasonably.

Subject to Section 8.9, if any of the foregoing conditions in this Article, which are for the sole benefit of the Purchaser, have not, with regard to Sections 6.1 to 6.10 and 6.15 and 6.16, been materially fulfilled and performed by Closing, or, with regard to Sections 6.11 to 6.14, been materially satisfied, the Purchaser may terminate this Agreement by notice in writing to Monroe

and the Vendors, in which event the Purchaser is released from all its obligations under this Agreement and unless the Purchaser can show that the condition relied upon could reasonably have been performed by Monroe and the Vendors, each of Monroe and the Vendors is also released from all its obligations under this Agreement. However, the Purchaser may waive compliance with any condition, in whole or in part, if it sees fit to do so, without prejudice to its rights of termination in the event of nonfulfillment of any other condition, in whole or in part, or to its rights to recover damages for the breach of any representation, warranty, covenant or condition contained in this Agreement.

ARTICLE 7 VENDORS CONDITIONS PRECEDENT

The obligation of each of the Vendors to consummate the transactions contemplated by this Agreement shall be subject to the reasonable satisfaction of or material compliance with, or waiver in writing by Monroe, on behalf of the Vendors of, on or prior to the Closing Time, each of the following conditions precedent (each of which is acknowledged to be inserted for the exclusive benefit of the Vendors and may be waived by it in whole or in part):

7.1 Truth and Accuracy of Representations of Purchaser at Closing Time

The representations and warranties of the Purchaser made in or pursuant to this Agreement shall be true and correct in all material respects as of the Closing Time and with the same force and effect as if made at and as of the Closing Time (except as such representations and warranties may be affected by the occurrence of events or transactions expressly contemplated and permitted by this Agreement) and the Vendors shall have received a certificate of a senior officer of the Purchaser confirming to the best of his knowledge (after due enquiry), the truth and correctness in all material respects of the representations and warranties of the Purchaser contained in this Agreement.

7.2 Performance of Obligations

The Purchaser shall have performed or complied with, in all respects, all its obligations, covenants and agreements under this Agreement.

7.3 Receipt of Closing Documentation

All documentation relating to the due authorization and completion of the sale and purchase of the Purchased Shares under this Agreement and all actions and proceedings taken on or prior to the Closing in connection with the performance by the Purchaser of its obligations under this Agreement shall be satisfactory to the Vendors, acting reasonably, and the Vendors shall have received copies of all such documentation or other evidence as they may reasonably request in order to establish the consummation of the transactions contemplated by this Agreement and the taking of all corporate proceedings in connection therewith in compliance with these conditions, in form (as to certification and otherwise) and substance satisfactory to the Vendors, acting reasonably.

7.4 Consents, Authorizations and Registrations

All material consents, approvals, orders, authorizations and confirmations of any Persons and Governmental Authorities (or registrations, declarations, filing or recordings with any such authorities) which are reasonably required in connection with the completion of the transactions contemplated by this Agreement or the execution of this Agreement, shall have been obtained on or before the Closing Time.

7.5 Opinion of Counsel for Purchaser

The Vendors shall have received an opinion dated the Closing Date from counsel for the Purchaser, substantially in the form of Schedule 7.5 to this Agreement provided that, insofar as such opinion is based on matters of fact, such opinion may rely upon certificates of public officials and officers of the Purchaser and such other evidence as such counsel may reasonably deem appropriate.

If any of the foregoing conditions in this Article, which are for the sole benefit of the Vendors, has not been materially fulfilled or performed by Closing, the Vendors may terminate this Agreement by notice in writing to the Purchaser, in which event each of the Vendors is released from all its obligations under this Agreement, and unless the Vendors can show that the condition relied upon could reasonably have been performed by the Purchaser, the Purchaser is also released from all its obligations under this Agreement. However, the Vendors may waive compliance with any condition, in whole or in part, if they see fit to, do so, without prejudice to their rights of termination in the event of nonfulfillment of any other condition in whole or in part or to its rights to recover damages for the breach of any representation, warranty, covenant or condition contained in this Agreement.

ARTICLE 8 OTHER COVENANTS OF THE PARTIES

8.1 Conduct of Business Prior to Closing

During the period from the date of this Agreement to the Closing Time, each of Monroe shall, and the Vendors shall cause Monroe to do the following:

- (a) Conduct Business in the Ordinary Course - Except as otherwise expressly permitted by this Agreement, conduct Monroe's business in the ordinary and usual course and in accordance with good industry practice, and not, without the prior written consent of the Purchaser, make or commit to any expenditures collectively in excess of \$50,000 (except in the event of a catastrophe or other event endangering life or property) or enter into any transaction which if effected before the date of this Agreement would constitute a breach of the representations, warranties or agreements contained in this Agreement.
- (b) Continue Insurance - Continue in force all existing policies or insurance presently maintained or caused to be maintained by Monroe.

- (c) Perform Obligations - Materially comply with all laws affecting the operation of Monroe's business and pay all required Taxes and installments of Taxes.
- (d) Prevent Certain Changes - Not, without the prior written consent of the Purchaser, take any of the actions described in Section 3.12.
- (e) Proposal of Operations - Not, without the Purchaser's prior written consent, not to be unreasonably withheld, propose or participate in drilling or reworking operations in respect of the Assets or surrender or abandon any of the Assets or materially amend any agreement or contract relating to the Assets.
- (f) Sales - Not sell, transfer or dispose of, or grant a security interest in or in respect of, all or any part of or any interest in the Assets, except for the sale (in the ordinary course of business) of Petroleum Substances produced from the Lands.
- (g) Loans and Borrowings – Not borrow money or incur any indebtedness for money borrowed or make loans or advances except in the ordinary course of business.

8.2 Access for Investigation

For the purpose of permitting the Purchaser to investigate the business, properties and assets of Monroe, the Vendors shall cause Monroe to permit the Purchaser and its representatives, between the date of this Agreement and the Closing Time, without interference to the ordinary conduct of the business of the Vendors or Monroe, to have reasonable access during normal business hours and on reasonable notice to the premises and to all the books, accounts, records and other data of Monroe (including, without limitation, all corporate, accounting and tax records of Monroe) and to the properties and assets of Monroe and to furnish to the Purchaser such financial and operating data and other information with respect to the business, properties and assets of Monroe as the Purchaser shall from time to time reasonably request. In particular, without limiting the generality of the foregoing, the Vendors shall make the Material Contracts, the Leases and all agreements and other documents and correspondence, including title opinions previously prepared, relating to title to the Assets, and all financial, tax, accounting, well, production and operating data and records of Monroe, available to the Purchaser and its representatives at the offices of Monroe for such inspection and review as the Purchaser reasonably requires.

8.3 Actions to Satisfy Closing Conditions

Each of the Parties agrees to take all such actions as are within its power or control, and to use its best efforts, to cause other actions to be taken which are not within its power or control, so as to ensure compliance with each of the conditions and covenants set forth in Articles 6, 7 and 8 which are for the benefit of any other Party.

8.4 Stub Period Returns

- (a) The Purchaser shall cause to be prepared and filed on a timely basis all necessary Tax Returns for Monroe for any fiscal period ending before, on or after the Closing Date which are not filed or required to be filed on or prior to the Closing

Date. Any Tax Return required to be filed for the fiscal period ending before or on the Closing Date (the "Returns") shall be submitted to Miles Davison LLP on behalf of the Vendors in draft form at least 30 days before the date on which such Returns are required by law to be filed with the relevant Taxation Authority. The Vendors shall, subject to Applicable Tax Legislation, have the right to request the Purchaser to make reasonable changes to any such Returns by communicating such changes in writing to the Purchaser at least 15 days before the date on which such Returns are required by law to be filed with the relevant Taxation Authority.

- (b) The Vendors and the Purchaser shall cooperate fully with each other and make available to each other in a timely fashion such data and other information as may reasonably be required for the preparation of any Tax Return of Monroe for a period ending on, prior to or including the Closing Date and shall preserve such data and other information as required under any Applicable Tax Legislation.

8.5 Tax Matters

- (a) If, at any time, the Purchaser or Monroe receives an Assessment, an indication in writing that an Assessment is being considered or proposed, or any other notice in writing relating to an amount to which the representations and warranties in Section 3.18, as the case may be, may relate, the Purchaser or Monroe shall deliver to Miles Davison LLP on behalf of the Vendors within 30 days of receiving the Assessment, a copy of the Assessment, together with a statement setting out the obligations of the Vendors, on the assumption that the Assessment is valid and binding.
- (b) The Vendors shall have the right at their own expense and employing counsel of their own choice to contest any Assessment. In such event, the Purchaser shall have the right to retain its own counsel but the fees and expenses of such counsel shall be at the expense of the Purchaser.
- (c) The Purchaser will cooperate with the Vendors, including, without limitation, providing access to the Vendors or its representatives to financial and other records of Monroe, in order to facilitate the filing of Tax Returns in respect of periods of time prior to the Closing and the conduct of any disputes relating thereto. The Purchaser shall cause Monroe to preserve such data and other information as may reasonably be required in connection with a Tax Return of Monroe for any taxation year ending on or prior to Closing, for the period of time required under the Applicable Tax Legislation.
- (d) The Purchaser undertakes to inform and to cause Monroe to inform the Vendors of all written audit inquiries received with respect to the representations and warranties in Section 3.18 within 30 days of receipt thereof and to provide the Vendors with the sole right, at their own expense, to make any representations prior to an Assessment which relates to the representations and warranties in Section 3.18.

8.6 Employment and Severance

The Vendors shall be liable for and shall indemnify and save harmless the Purchaser and each of Monroe from and against any and all Claims which may be brought by: (i) any person who was employed by Monroe for a period ending on or prior to the Closing Time, in respect of his or her employment by Monroe during such period and the termination of such employment; and (ii) any employee in respect of the termination of his or her employment with Monroe on the Closing Date.

8.7 Consent to Jurisdiction

Each of the Parties irrevocably attorns and submits to the exclusive jurisdiction of any Alberta court sitting in Calgary in any action or proceeding arising out of or related to this Agreement and irrevocably agrees that all claims in respect of any such action or proceeding shall be heard and determined in such Alberta court. Each of the Parties irrevocably waives, to the fullest extent it may effectively do so, the defence of an inconvenient forum to the maintenance of such action or proceeding.

8.8 Notice of Material Change

From the date hereof until the Closing Date, the Vendors and Monroe shall promptly notify the Purchaser in writing of:

- (a) any Material change (actual, anticipated, contemplated or, to their knowledge, threatened, financial or otherwise) in the business, affairs, operations, assets, liabilities (contingent or otherwise) or capital of Monroe;
- (b) any change in any representation or warranty set forth in Article 3 which change is or may be of such a nature as to render any such representation or warranty misleading or untrue in a material respect; or
- (c) any Material fact in respect of Monroe which arises and which would have been required to be stated herein had the fact arisen on or prior to the date of this Agreement.

Monroe and the Vendors shall in good faith discuss with the Purchaser any change in circumstances (actual, anticipated, contemplated or, to their knowledge, threatened, financial or otherwise) which is of such a nature that there may be a reasonable question as to whether notice need to be given to the Purchaser pursuant to this section.

8.9 Non-Completion Fee

- (a) Monroe shall pay to the Purchaser a non-completion fee equal to 2% of the unadjusted Purchase Price, within one Business Day of the occurrence of either:
 - (i) the Closing does not occur because any of the Vendors fail to complete the sale of their respective Purchased Shares to the Purchaser hereunder, provided that the failure to so complete the sale shall not be as a result of

the Purchaser failing to comply with any term, covenant or condition of this Agreement; or

- (ii) Monroe or any of the Vendors breaches any of their respective covenants, representations or warranties set forth in this Agreement and after receipt of notice from the Purchaser in respect thereof, such breach is not remedied or corrected to the satisfaction of the Purchaser, acting reasonably, within 5 days of receipt of such notice and the Closing does not occur.
- (b) The Purchaser shall pay to Monroe a non-completion fee equal to 2% of the unadjusted Purchase Price, within one Business Day of the occurrence of either:
- (vi) the Closing does not occur because the Purchaser fails to complete the purchase of the Purchased Shares from the Vendors hereunder, provided that the failure to so complete the purchase shall not be as a result of Monroe or the Vendors failing to comply with any term, covenant or condition of this Agreement; or
 - (vii) the Purchaser breaches any of its covenants, representations or warranties set forth in this Agreement and after receipt of notice from Monroe on behalf of the Vendors in respect thereof, such breach is not remedied or corrected to the satisfaction of Monroe acting reasonably, within 5 days of receipt of such notice and the Closing does not occur.

Any payment pursuant to this Section 8.9 shall be without prejudice to the rights or remedies available to the Parties upon the breach of any provision of this Agreement.

8.10 No Solicitation

Monroe and each of the Vendors shall immediately cease and cause to be terminated any existing solicitation, initiation, encouragement, activity, discussion or negotiation with any parties conducted heretofore by any of them or their respective officers, directors, employees, financial advisors, representatives and agents, as the case may be (collectively "Representatives") with respect to any alternate offer or other form of competing transaction (an "Alternate Transaction") whether or not initiated by Monroe or any of the Vendors and in connection therewith, Monroe and each of the Vendors shall not release any third party from any confidentiality or standstill agreement to which Monroe or any of the Vendors and such third party is a party or amend any of the foregoing and shall exercise all rights to require the return of information regarding Monroe. From and after the date hereof, Monroe and each of the Vendors will not, and will not authorize or permit any of their Representatives to, directly or indirectly, solicit, initiate or encourage (including by way of furnishing information) or participate in or take any other action to facilitate any inquiries or the making of any proposal which constitutes or may reasonably be expected to lead to an Alternate Transaction from any person, or engage in any discussion, negotiations or inquiries relating thereto or accept any Alternate Transaction.

8.11 Pre-Closing Transactions

Prior to the Closing Date, the Purchaser has the option to request that Monroe establish one or more subsidiary corporations and/or one or more partnerships or limited partnerships between Monroe and such subsidiary corporation(s) and transfer all or any portion of the Assets, on a tax-deferred basis, to such subsidiary corporations or partnerships. The Vendors agree to comply with such request and cause Monroe to undertake such transactions, including the execution of the necessary agreements and tax elections, provided that (i) the Purchaser bears all the costs of completing such transactions, including, without limitation, the reasonable costs of the Vendors and Monroe in respect thereof (ii) the Purchaser and its counsel, acting reasonably, are of the view that such transactions do not violate any statutory, contractual or equitable obligation of Monroe (iii) the Purchaser agrees to fully indemnify the Vendors and Monroe for all losses in respect of such transactions (iv) the Purchaser gives the Vendors a written description of any proposed transactions at least fifteen (15) days prior to the Closing Date (v) the transactions do not result in any material incremental Taxes to Monroe or the Vendors for which the Purchaser has not agreed to indemnify the Vendors and Monroe (vi) the Purchaser and its counsel agree to prepare all agreements, conveyances, resolutions and similar documents necessary to undertake such transactions and (vii) the Purchaser agrees to prepare and file all necessary tax elections required to complete such transactions on a tax-deferred basis.

8.12 Confidential Information

The Parties agree that, until the Closing Date, they will hold all Confidential Information in confidence and will not disclose any Confidential Information to any individual or entity other than those employees, agents, advisors or other representatives (collectively, "Representatives") who need to know the Confidential Information for the purposes of the transactions contemplated by this Agreement. Each Party shall notify each such Representative of the obligations contained herein with respect to the confidentiality of the Confidential Information and restrictions on use and shall direct each such Representative to exercise a level of care sufficient to preserve the confidentiality of the Confidential Information and shall direct each such person to abide by the terms and conditions of this Agreement, and will take all reasonable steps, including the obtaining of suitable undertakings, to ensure that Confidential Information is not disclosed by any of such persons to any other party or used in a manner contrary to this Agreement.

8.13 Non-Disclosure

Each Party agrees that all Confidential Information, however acquired by the Party, shall be held in confidence at all times and shall not, directly or indirectly, be used for any purpose whatsoever other than to enable it to make an informed evaluation and decision with respect to the transactions contemplated by this Agreement and, without limiting the generality of the foregoing, each Party agrees that it will not use any Confidential Information for any improper corporate purpose. Notwithstanding the foregoing, the Vendors acknowledge that the Purchaser or Esprit Energy Trust may be required pursuant to applicable securities laws to publicly disclose, and to disclose to underwriters and their counsel, information relating to this Agreement, Monroe and the assets of Monroe in a prospectus and related documents prepared in

connection with a financing transaction undertaken to complete the transactions contemplated by this Agreement.

8.14 Return of Confidential Information

Each Party agrees that until the Closing Date all Confidential Information in written or other tangible form shall remain the property of the Party to which the Confidential Information relates and in the event that the within transactions do not, for any reason, close, the same shall forthwith be returned upon the request of the other Party and no copies, extracts or other reproductions, in whole or in part, or summaries of such Confidential Information shall be retained, and, upon request, all documents, memoranda, notes and other writings whatsoever prepared by a Party or their Representatives based on the Confidential Information will be destroyed, such destruction to be certified in writing to the Party to which the Confidential Information relates.

ARTICLE 9 INDEMNIFICATION

9.1 Mutual Indemnifications

- (a) Each of Monroe and the Vendors covenants and agrees with the Purchaser, and the Purchaser covenants and agrees with the Vendors (the Party or Parties so covenanting and agreeing to indemnify another Party being referred to in this Section as the "Indemnifying Party" and the Party so to be indemnified being referred to as the "Indemnified Party") to indemnify and save harmless the Indemnified Party, effective as and from the Closing Time, from and against all Claims which may be made or brought against the Indemnified Party and/or which it may suffer or incur as a result of or in connection with any non-fulfillment of any covenant or agreement on the part of the Indemnifying Party under this Agreement or any incorrectness in or breach of any representation or warranty of the Indemnifying Party contained in this Agreement or in any certificate or other document furnished by the Indemnifying Party pursuant to this Agreement.
- (b) Each of the Vendors shall be liable for and shall indemnify and save harmless the Purchaser, Monroe and their respective successors and assigns from and against any Claims arising out of or pertaining to all operations conducted on or with respect to the Assets prior to or on the Closing Date. The Purchaser shall indemnify the Vendors from and against any Claims arising out of or pertaining to operations conducted on or with respect to the Assets subsequent to the Closing Date. Neither the Vendors nor the Purchaser shall be liable pursuant to their respective indemnities in this Section 10.1(b) to the extent that a particular Claim is reimbursed by insurance held by, or caused by the negligence of, a Party claiming to be indemnified hereunder. Each Party shall have the full right of substitution and subrogation in and to all covenants and warranties by others

hereinbefore given or made by any person other than the Purchaser in respect of the Assets or any part thereof.

- (c) Each of the Vendors shall be liable for and shall indemnify and save harmless the Purchaser, Monroe and its respective successors and assigns from and against any and all Claims suffered or which may be suffered by the Purchaser, Monroe and their respective successors and assigns in respect of each and every liability and obligation of Monroe not provided for, or to the extent not adequately provided for, in the Balance Sheet and the Closing Balance Sheet.
- (d) The obligations of indemnification set forth in Sections 9.1(a), (b) and (c) shall be subject to:
 - (i) the two-year limitation mentioned in Section 5.2(c) respecting the survival of the representations and warranties of the Parties (other than for matters pertaining to Section 3.18);
 - (ii) the requirement that the Indemnifying Party shall, in respect of any Claim made by any third person, be afforded an opportunity at its sole expense to resist, defend and compromise such Claim;
 - (iii) for matters relating to Section 3.18, the period ending 90 days after the relevant Taxation Authority shall no longer be entitled to assess Taxes against Monroe for any particular fiscal year ended and prior to the Closing Date;
 - (iv) the limitation that in no event shall the aggregate of such Claims exceed the Purchase Price; and
 - (v) the Indemnified Party shall use commercially reasonable efforts to mitigate any Claims that such Indemnified Party asserts under this Article 9, and in the event a court determines (in a final and non-appealable judgment) that an Indemnified Party failed to use such commercially reasonable efforts to mitigate any Claims, then notwithstanding anything else to the contrary contained herein, the Indemnifying Party shall not be required to indemnify such Indemnified Party for any Claims that could reasonably be expected to have been avoided if the Indemnified Party had made such efforts.

All other obligations of indemnification set forth in this Agreement shall survive Closing and shall not be subject to the foregoing limitations, requirement and provisions.

- (e) Each of the Vendors shall indemnify and save harmless the Purchaser, Monroe and their respective successors and assigns or an after tax basis from and against any and all Claims arising out of, under or as a consequence of any Assessment for Taxes in respect of any period ending on or before the Closing Date which, if known at Closing and disclosed in the Balance Sheet or Closing Balance Sheet,

would have increased the income tax payable, or reduced the income tax recoverable, by Monroe (an " Indemnifiable Tax").

- (f) The obligations of each of the Vendors hereunder with respect to any Claim relating to Sections 3.18 or 9.1(e) shall be net of any Tax refunds determined on an after tax basis (including for greater certainty interest thereon after deduction of any Taxes with respect to such interest) that Monroe receives or has credited to its accounts after the Closing Date in respect of any taxation year of such corporation ending on or prior to the Closing Date.
- (g) If any Taxation Authority should, at any time, issue an Assessment to Monroe in respect of a matter in Section 3.18 which relates to an Indemnifiable Tax, then the Vendors shall pay the Indemnifiable Tax in relation to the Assessment, at the option of the Vendors, either to Monroe or to the applicable Taxation Authority, on behalf of Monroe, within 30 days after Monroe is required to pay the amount specified in the Assessment. Payment of all or any portion of such amount by the Vendors to either Monroe or the applicable Taxation Authority can be deferred, with the prior written consent of Monroe, which consent shall not unreasonably be withheld, where the Vendors have:
 - (i) undertaken the contestation of the Assessment in accordance with Section 8.5;
 - (ii) taken such action, to the satisfaction of Monroe, acting reasonably, which will prevent the applicable Taxation Authority from taking any collection action in relation to the Assessment; and
 - (iii) provided written acknowledgement, to the satisfaction of Monroe, acting reasonably, that it will save Monroe harmless from and against any and all costs, losses or damages which Monroe may incur or suffer as a consequence of the deferral of the payment of all or any portion of such amount by the Vendors.
- (h) The Vendors shall indemnify the Purchaser for any taxation year of Monroe ending after the Closing Date in respect of an Assessment under section 160 of the Act, which relates to a transfer of property on or before the Closing Date.
- (i) The obligations of indemnification set forth in Sections 9.1(e), (f), (g) and (h) shall be subject to the provisions of Section 8.11 which relate to indemnification by the Purchaser.

9.2 Restrictions on Indemnities

No Party will have any obligation to indemnify any other Party pursuant to this Article 10 until the aggregate amount of all Claims suffered by the Indemnified Party exceeds \$40,000.00 ("Basket"), in which case the Indemnifying Party shall be liable to the Indemnified Party for all claims including but not limited to the Basket. The determination of the dollar amount of any Claims shall be based solely on the actual dollar value of such Claims on a dollar-for-dollar

basis, and shall not take into account any multiplier variations. Furthermore, the Parties agree that it is their intent that no Party be liable to any other Party for Claims by a Party for special, exemplary, incidental, indirect or punitive damages of any nature under or pursuant to this agreement or in connection with or resulting from the transactions contemplated hereby, if Claims with respect to these types of damages are in excess of the actual dollar value of Claims.

ARTICLE 10 GENERAL

10.1 Public Notices

All public notices to third parties and all other publicity concerning the transactions contemplated by this Agreement shall be jointly planned and coordinated by on behalf of the Vendors and the Purchaser and no Party shall act unilaterally in this regard without the prior approval of the other Party, such approval not to be unreasonably withheld, except where required to do so by law or by the applicable regulations or policies of any provincial or Canadian or other regulatory agency of competent jurisdiction or any stock exchange in circumstances where prior consultation with the other Party is not practicable.

10.2 Expenses

Subject to Section 2.5, all costs and expenses (including, without limitation, the fees and disbursement of legal counsel) incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the Party incurring such expenses and all such costs and expenses (including legal fees).

10.3 Notices

Any notice or other writing required or permitted to be given under this Agreement or for the purposes of this Agreement (referred to in this Section 10.3 as a "Notice") shall be sufficiently given if delivered, or if sent by prepaid registered mail or if transmitted by facsimile or other form of recorded communication tested prior to transmission to such Party:

- (a) in the case of a notice to Monroe or the Vendors at:

Monroe Energy Inc.
248 Wood Valley Drive S.W.
Calgary, Alberta, T2W 5X7
Attention: Mr. Leslie Treitz
Fax: (403) 238-0430

with a copy to:

Miles Davison LLP
1600, 205 - 5th Avenue SW
Calgary, Alberta, T2P 2V7
Attention: Mr. Fred Dent

Fax: (403) 268-6340

(b) in the case of a notice to the Purchaser:

Esprit Exploration Ltd.
Suite 900, 606 – 4th Street
Calgary, Alberta, T2P 1T1
Attention: Mr. Stephen B. Soules
Fax: (403) 213-3735

with a copy to:

Bennett Jones LLP
4500 Bankers Hall East
855 - 2nd Street S.W.
Calgary, Alberta T2P 4K7
Attention: Mr. Robert A Lehodey
Fax: (403) 265-7219

or at such other address as the Party to whom such Notice is to be given shall have last notified the Party giving the same, in the manner provided in this Section 10.3. Any Notice delivered to the Party to whom it is addressed as provided in this Section 10.3 shall be deemed to have been given and received on the day it is so delivered at such address, provided that if such day is not a Business Day then the Notice shall be deemed to have been given and received on the Business Day next following such day. Any Notice sent by prepaid registered mailed shall be deemed to have been given and received on the fifth Business Day next following the date of its mailing. Any notice transmitted by facsimile or other form of recorded communication shall be deemed given and received on the first Business Day after its transmission.

10.4 Parties in Interest

This Agreement is binding upon and is for the benefit of the Parties and their respective successors and permitted assigns. This Agreement is not made for the benefit of any person not a party to this Agreement, and no Person other than the Parties or their respective successors and permitted assigns shall acquire or have any right, remedy or claim under or by virtue of this Agreement.

10.5 Time

Time shall be of the essence of this Agreement.

10.6 Assignment, Successors and Assigns

Neither the Vendors nor the Purchaser shall assign all or any part of this Agreement, nor any of its rights or obligations under this Agreement, without the prior written consent of the other. Subject to the foregoing, this Agreement shall enure to the benefit of and be binding upon the Parties and their respective successors (including any successor by reason of amalgamation of any Party) and permitted assigns.

10.7 Further Assurances

The Parties shall with reasonable diligence do all such things and provide all such reasonable assurances as may be required to consummate the transactions contemplated by this Agreement, and each Party shall provide such further documents or instruments required by the other Party as may be reasonably necessary or desirable to effect the purpose of this Agreement and carry out its provisions, whether before or after the Closing.

10.8 Counterparts

This Agreement may be executed by the Parties in separate counterparts and delivered by facsimile, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.

IN WITNESS WHEREOF the Parties have hereunto duly executed this Agreement.

ESPRIT EXPLORATION LTD.

(signed) "Stephen J. Savidant"

Stephen J. Savidant
President and CEO

(signed) "Stephen B. Soules"

Stephen B. Soules
Executive Vice President
and CEO

MONROE ENERGY LTD.

(signed) "Leslie Treitz"

Leslie Treitz
President

(signed) "David Wilson"

David Wilson
Chief Financial Officer

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Schedules

[ALL SCHEDULES HAVE BEEN INTENTIONALLY DELETED]