

PRE - ACQUISITION AGREEMENT

between

STYLUS ENERGY INC.

and

COMPTON PETROLEUM CORPORATION

Dated as of June 25, 2007

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PRE-ACQUISITION AGREEMENT

THIS AGREEMENT made as of the 25th day of June, 2007 between:

STYLUS ENERGY INC., a corporation duly amalgamated under and governed by the laws of Alberta ("Stylus")

- and -

COMPTON PETROLEUM CORPORATION, a corporation duly incorporated under and governed by the laws of Alberta ("Compton").

WHEREAS each of the boards of directors of Compton and Stylus has determined that it is in the best interests of their respective corporations and shareholders that the Offeror, as herein defined, acquire all of the outstanding shares of Stylus and that such acquisition be effected through an offer by the Offeror to purchase all of the outstanding shares of Stylus;

AND WHEREAS the Offeror is willing to make an offer subject to the terms and conditions of this Agreement;

AND WHEREAS the board of directors of Stylus has determined to unanimously recommend acceptance of the Offeror's offer to the shareholders of Stylus;

AND WHEREAS the board of directors of Stylus has determined that it would be in the best interests of Stylus and its shareholders to enter into this Agreement;

NOW THEREFORE IN CONSIDERATION OF the mutual covenants hereinafter contained and other good and valuable consideration (the receipt and adequacy whereof is hereby acknowledged), the parties agree as set forth below.

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Agreement, unless there is something in the subject matter or context inconsistent therewith, the following terms have the meanings set forth below.

"ABCA" means the *Business Corporations Act* (Alberta), as amended.

"Agreement", "this Agreement", "herein", "hereto", and "hereof" and similar expressions refer to this Agreement, as the same may be amended or supplemented from time to time and, where applicable, to the appropriate Schedules hereto.

"Business Day" means any day excepting a Saturday, Sunday or statutory holiday in Calgary, Alberta.

"Competition Act" means the *Competition Act* (Canada), R.S.C. 1985 c. C-34, as amended.

"Competition Act Approval" means that in the event that the transactions contemplated by this Agreement require pre-merger notification pursuant to Part IX of the *Competition Act*: (i) the

Commissioner of Competition (the “**Competition Commissioner**”) shall have issued an advance ruling certificate pursuant to section 102 of the Competition Act in connection with the transactions contemplated by this Agreement; or (ii) the Competition Commissioner shall have waived the obligation to notify and supply information under Part IX of the Competition Act pursuant to subsection 113(c) of the Competition Act and confirmed in writing that she has no intention to file an application under Part VIII of the Competition Act (a “**no-action letter**”) in connection with the transactions contemplated by this Agreement and such no-action letter remains in full force and effect; or (iii) the statutory waiting period under section 123 of the Competition Act shall have expired or been terminated and the Competition Commissioner shall have issued a no-action letter in connection with the transactions contemplated by this Agreement and such no-action letter remains in full force and effect.

“**Conditional Option Exercise**” has the meaning ascribed thereto in Section 2.5(a).

“**Confidentiality Agreement**” means the confidentiality agreement dated June 6, 2007 between Stylus and the Offeror.

“**Dealer Managers**” has the meaning ascribed thereto in Section 3.2.

“**Diluted Basis**” means, with respect to the number of outstanding Stylus Shares at any time, such number of outstanding Stylus Shares calculated assuming that all outstanding Stylus Options and other rights to purchase Stylus Shares are exercised.

“**Disclosure Letter**” means the disclosure letter of even date herewith delivered by Stylus to the Offeror, and accepted by the Offeror, contemporaneous with the execution and delivery of this Agreement.

“**Effective Time**” means the time that the Offeror shall have acquired ownership of and paid for at least the Minimum Required Shares pursuant to the terms of the Offer.

“**Employees**” means all full-time, part-time or temporary Persons employed or retained by Stylus, including without limitation, all officers, consultants and individuals on disability leave, parental leave or other approved leave of absence.

“**Encumbrances**” means any lien, pledge, hypothecation, charge, mortgage, security interest, encumbrance, claim, infringement, interference, option, right of first refusal, preemptive right, overriding royalty, net profits interests, or restriction of any nature (including any restriction on the voting of any security, any restriction on the transfer of any security or other asset, any restriction on the receipt of any income derived from any asset, any restriction on the use of any asset and any restriction on the possession, exercise or transfer of any other attribute of ownership of any asset).

“**Expiry Date**” means the first Business Day which falls after the 35th day following the day of the mailing of the Offer Documents to the holders of Stylus Shares (where the first day of this period is the day immediately following such day of mailing).

“**Expiry Time**” means the Initial Expiry Time unless the Offer has been extended, in which case it means the expiry time of the Offer as extended from time to time.

“**Financial Statements**” means, collectively, the audited financial statements of Stylus as at and for the fiscal years ended December 31, 2006 and December 31, 2005, including the notes thereto

and auditor's report thereon, and the financial statements of Stylus as at and for the three month period ended March 31, 2007.

"Governmental Body" shall mean any: (a) nation, province, territory, state, commonwealth, county, municipality, district or other jurisdiction of any nature; (b) federal, provincial, state, local, municipal, foreign or other government; or (c) governmental, quasi governmental, administrative or regulatory authority of any nature (including any governmental division, department, agency, commission, instrumentality, official, organization, unit, body or Person, any court or other tribunal and any stock exchange).

"Income Tax Act" means the *Income Tax Act*, R.S.C. 1985 (5th Supp.) c. 1., as amended.

"Information Circular" has the meaning ascribed thereto in Section 4.2(b).

"Initial Expiry Time" means 4:00 p.m. (Calgary time) on the first Business Day which falls after the 35th day following the day of the mailing of the Offer Documents to the holders of Stylus Shares (where the first day of this period is the day immediately following such day of mailing).

"Intellectual Property" has the meaning ascribed thereto in Section 6.28.

"Laws" means all laws, statutes, constitutions, principles of common law, resolutions, ordinances, edicts, decrees, by-laws, rules, regulations, orders, codes, policies, notices, directions, rulings or requirements issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Body.

"Lock-up Agreements" has the meaning ascribed thereto in Section 2.3(b).

"Management Shareholders" means, collectively, each of the directors and officers of Stylus.

"Material Adverse Change" means any change (or any condition, event or development involving a prospective change) in the business, operations, results of operations, assets, capitalization, financial condition, licenses, permits, concessions, rights, liabilities, prospects or privileges, whether contractual or otherwise, of Stylus which is materially adverse to the business, operations or financial condition of Stylus, but "Material Adverse Change" shall not include a change resulting from: (a) a matter that has been publicly disclosed by Stylus or otherwise expressly disclosed in writing by Stylus to the Offeror; (b) conditions affecting the oil and gas industry as a whole; (c) general economic, financial, currency exchange, securities or commodity market conditions in North America; (d) any change in the market price for crude oil, natural gas or related hydrocarbons; or (e) any action or inaction taken by Stylus that is consented to by the Offeror expressly in writing.

"Material Adverse Effect" means any effect that is, or would reasonably be expected to be, material and adverse to the business, operations, results of operations, assets, capitalization, financial condition, licenses, permits, concessions, rights, liabilities, prospects or privileges, whether contractual or otherwise of Stylus, but "Material Adverse Effect" shall not include an effect resulting from: (a) a matter that has been publicly disclosed by Stylus or otherwise expressly disclosed in writing by Stylus to the Offeror; (b) conditions affecting the oil and gas industry as a whole; (c) general economic, financial, currency exchange, securities or commodity market conditions in North America; (d) any change in the market price for crude oil, natural gas or related hydrocarbons; or (e) any action or inaction taken by Stylus that is consented to by the Offeror expressly in writing.

"McDaniel" means McDaniel & Associates Consultants Ltd., independent petroleum consulting engineers of Calgary, Alberta.

"McDaniel Report" means the report prepared by McDaniel dated March 1, 2007 and effective December 31, 2006 on the oil and natural gas reserves of Stylus and net present worth of future production revenue attributable thereto.

"Minimum Condition" means the condition set forth in paragraph (a) of Schedule 2.1(a).

"Minimum Required Shares" means at least that number of the outstanding Stylus Shares required pursuant to the Minimum Condition unless the Offeror shall have waived the Minimum Condition in which case **"Minimum Required Shares"** means that number of the outstanding Stylus Shares which the Offeror takes up on the Take-up Date, provided that such number of Stylus Shares shall be at least 50.1% of the Stylus Shares (on a Diluted Basis).

"Offer" has the meaning set forth in Section 2.1(a).

"Offer Documents" has the meaning set forth in Section 2.4(a).

"Offeror" means, subject to Section 2.1(f), Compton Petroleum Corporation, a corporation incorporated under the ABCA.

"Officer Obligations" means any obligations or liabilities of Stylus to pay any amount to its Employees other than for salary, bonuses under existing bonus arrangements, vacation pay and directors' fees in the ordinary course in each case in amounts consistent with historic practices and, without limiting the generality of the foregoing, Officer Obligations shall include the obligations of Stylus to Employees for severance or termination payments on the change of control of Stylus pursuant to any employment agreements.

"Person" means any individual, body corporate, partnership, syndicate, trust or other form of incorporated or unincorporated association, including, without limitation, any Governmental Body.

"Personal Information" means information about an identifiable individual, but does not include an individual's name, position name or title, business telephone number, business address, business email or business fax number.

"Securities Authorities" means the TSX and the appropriate securities commissions or similar regulatory authorities in Canada and each of the provinces and territories thereof.

"Securities Laws" has the meaning set forth in Section 2.4(a).

"Stock Option Plan" means the stock option plan of Stylus dated as of February 28, 2005 and as amended or amended and restated as of June 23, 2005 and April 13, 2007, and as filed with the TSX.

"Stylus" means Stylus Energy Inc., a corporation amalgamated under the ABCA, and any and all of its predecessors.

"Stylus Governing Documents" means the certificate and articles of amalgamation and by-laws of Stylus.

"Stylus Non-Completion Fee" has the meaning set forth in Section 8.2.

"Stylus Options" means the outstanding options to acquire Stylus Shares under the Stock Option Plan.

"Stylus Shares" means the common shares in the share capital of Stylus.

"Subsequent Acquisition Transaction" has the meaning set forth in Section 4.1.

"Subsidiary" has the meaning set forth in the ABCA.

"Superior Proposal" means any *bona fide* written Take-over Proposal (other than by the Offeror) which, in the opinion of Stylus' board of directors, acting reasonably and in good faith and after advice from its financial and outside legal advisors as reflected in the minutes of the board of directors of Stylus (confirmation of which shall be immediately delivered to the Offeror), constitutes a commercially feasible transaction likely to be completed on its terms taking into account all financial, regulatory and other aspects of such transaction, including, without limitation, the ability of the proposing party to consummate such transaction, for which adequate financial arrangements have been made or are likely to be available and which is likely to be carried out within a time frame that is reasonable in the circumstances and, if consummated, would be superior to the Offer from a financial point of view to Stylus' shareholders.

"Take-over Proposal" means a proposal or offer by a third party in writing, or by public announcement, to acquire in any manner, directly or indirectly, beneficial ownership of all or a material portion of the assets of Stylus, or to acquire in any manner, directly or indirectly, beneficial ownership or control or direction over more than 20% of the outstanding voting shares of Stylus whether by an arrangement, amalgamation, merger, consolidation, joint venture, partnership or other business combination, or by means of a sale of shares in the capital of Stylus, tender offer or exchange offer or similar transaction involving Stylus including without limitation any single or multi-step transaction or series of related transactions which is structured to permit such third party to acquire beneficial ownership of all or a material portion of the assets of Stylus, or to acquire in any manner, directly or indirectly, more than 20% of the outstanding voting shares of Stylus (other than the transactions contemplated by this Agreement).

"Take-up Date" means the date that Offeror first takes up and acquires Stylus Shares pursuant to the Offer.

"Taxes" includes, all taxes, duties, fees, premiums, assessments, imposts, levies and other charges of any kind whatsoever imposed by any Governmental Body, together with all interest, penalties, fines, additions to tax or other additional amounts imposed in respect thereof, including, without limitation, those levied on, or measured by, or referred to as, income, gross receipts, profits, capital, transfer, land transfer, sales, goods and services, harmonized sales, use, value-added, excise, stamp, withholding, business, franchising, property, employer health, payroll, employment, health, social services, education and social security taxes, all surtaxes, all customs duties and import and export taxes, all license, franchise and registration fees and all employment insurance, health insurance and Canada, Quebec and other governmental pension plan premiums or contributions.

"Tax Returns" means all returns, reports, declarations, elections, notices, filings, information returns and statements filed as required to be filed in respect of Taxes.

"TSX" means the Toronto Stock Exchange.

"U.S. Exchange Act" means the United States *Securities Exchange Act of 1934*, as amended, including the rules and regulations promulgated thereunder.

1.2 Singular, Plural, etc.

In this Agreement, words importing the singular number include the plural and *vice versa* and words importing gender include the masculine, feminine and neuter genders. Unless the context otherwise requires, any reference to a **"party"** herein is a reference to a party hereto, and any reference to an **"affiliate"** or **"associate"** shall have the meaning ascribed thereto by the ABCA.

1.3 Deemed Currency

Unless otherwise expressly stated, all references to currency herein shall be deemed to be references to Canadian currency.

1.4 Headings, etc.

The division of this Agreement into Articles, Sections and Schedules, the provision of a table of contents hereto and the insertion of the recitals and headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement and, unless otherwise stated, all references in this Agreement or in the Schedules hereto to Articles, Sections and Schedules refer to Articles, Sections and Schedules of and to this Agreement or of the Schedules in which such reference is made, as applicable.

1.5 Date for any Action

In the event that any date on which any action is required to be taken hereunder by any of the parties is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

1.6 Governing Law

This Agreement shall be governed by and interpreted in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein.

1.7 Attornment

The parties hereby irrevocably and unconditionally consent to and submit to the courts of the Province of Alberta for any actions, suits or proceedings arising out of or relating to this Agreement or the matters contemplated hereby (and agree not to commence any action, suit or proceeding relating thereto except in such courts) and further agree that service of any process, summons, notice or document by single registered mail to the addresses of the parties set forth in this Agreement shall be effective service of process for any action, suit or proceeding brought against either party in such court. The parties hereby irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the matters contemplated hereby in the courts of the Province of Alberta and hereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such action, suit or proceeding so brought has been brought in an inconvenient forum.

1.8 In Writing

"In writing" means written information including, without limitation, documents, files, records, books and other materials made available, delivered or produced to the Offeror by or on behalf of Stylus in the course of conducting the Offeror's due diligence review in respect of Stylus between June 6, 2007, being the date of the Confidentiality Agreement, and the Initial Expiry Time.

1.9 Knowledge

In this Agreement, whenever a representation or warranty is made on the basis of the knowledge or awareness of Stylus or the Offeror, such knowledge or awareness consists only of the actual knowledge or awareness after due inquiry, as of the date of this Agreement, of the officers of Stylus or the Offeror, but does not include the knowledge or awareness of any other individual or any constructive, implied or imputed knowledge.

1.10 Incorporation of Schedules

Each of the Schedules attached hereto and described below shall, for all purposes hereof, form an integral part of this Agreement.

Schedule 2.1(a):	Conditions to the Offer;
Schedule 2.3(b):	Form of Lock-up Agreement for Management Shareholders;
Schedule 2.3(d):	Conditions in Favour of Stylus; and
Schedule 3.1(c):	Form of Press Release.

ARTICLE 2 THE OFFER

2.1 The Offer

- (a) Subject to the terms and conditions of this Agreement, the Offeror shall use reasonable best efforts to mail on or about July 9, 2007 (and in any event, no later than July 20, 2007, an offer to purchase all of the outstanding Stylus Shares for a price of \$2.70 in cash for each Stylus Share (which includes all Stylus Shares which may become outstanding after the date hereof upon the exercise of the Stylus Options), which offer shall be made in accordance with this Agreement and the Securities Laws and be subject only to the conditions set forth in Schedule 2.1(a) (the **"Offer"**, which term shall include any amendments or variations to, or extensions of, such Offer, including, without limitation, increasing the consideration, removing or waiving any condition or extending the date by which Stylus Shares may be tendered, all in accordance with this Agreement). The Offeror shall provide Stylus with a draft copy of the Offer Documents prior to mailing for its review and comment with the intent that Stylus will have a reasonable opportunity to review and provide comments on the Offer Documents.
- (b)
 - (i) The Offer shall expire on the Initial Expiry Time, except that the Offer may be extended, at the sole discretion of the Offeror and subject to Section 2.1(d), if:
 - (A) the conditions set forth in Schedule 2.1(a) are not satisfied on the date and time at which the Offer would otherwise expire; or

- (B) if the Offeror shall have taken up the Minimum Required Shares under the Offer at the Initial Expiry Time.
 - (ii) In the event that any approval of a Governmental Body required to complete the Offer is not obtained prior to the Initial Expiry Time, unless such approval has been denied, the Offeror agrees it will extend the Offer twice if necessary, each time for a period of not less than 10 days beyond the Initial Expiry Time and the Expiry Time, as the case may be, in order to obtain such regulatory approvals.
 - (iii) If the Offeror acquires the Minimum Required Shares pursuant to the Offer, but the number of Stylus Shares acquired at such time is less than the Minimum Condition, then the Offeror will publicly disclose such fact and shall extend the Offer for at least 10 days.
 - (c) Subject to the satisfaction or waiver of the conditions set forth in Schedule 2.1(a), the Offeror shall, as soon as is practicable in the circumstances and in any event within three Business Days of the satisfaction or waiver of the conditions set forth in Schedule 2.1(a), take up, accept for payment and pay for all Stylus Shares validly tendered (and not properly withdrawn) pursuant to the Offer. The Offeror shall use all commercially reasonable efforts to consummate the Offer, subject to the terms and conditions thereof.
 - (d) The Offeror may, in its sole discretion:
 - (i) waive any term or condition of the Offer for its benefit provided that, if the Offeror takes up and pays for any Stylus Shares, it shall not acquire less than the Minimum Required Shares; and
 - (ii) amend or vary any term or condition of the Offer, provided that the Offeror shall not without the prior written consent of Stylus, acting reasonably, change the number of Stylus Shares for which the Offer is made, decrease or change the form of the consideration to be paid for each Stylus Share, change the Minimum Required Shares, or modify or impose additional conditions to the Offer in a manner that is, in the opinion of Stylus, acting reasonably, after advice from its financial and outside legal advisors as reflected in the minutes of the board of directors of Stylus (confirmation of which shall be immediately delivered to the Offeror), materially adverse to the holders of Stylus Shares.
- The Offeror shall provide a draft of any proposed amendment, modification or change to the Offer to Stylus.
- (e) The Offeror will instruct the depositary under the Offer to advise Stylus from time to time as Stylus may reasonably request and in such manner as Stylus may reasonably request, as to the number of Stylus Shares that have been tendered (not withdrawn) to the Offer.
 - (f) Compton may make the Offer directly or indirectly through a wholly-owned Subsidiary. In the event that any of such entity makes the Offer, the term "Offeror" or similar expressions as used herein shall include such entity, but Compton shall continue to be jointly and severally liable to Stylus for each of Compton's and the Offeror's obligations hereunder and for any default of performance by any such other entity.

2.2 Conditions to Making of the Offer

The Offeror's obligation to make the Offer as set forth in Section 2.1(a) is conditional upon the prior satisfaction of the following conditions:

- (a) the execution and delivery to the Offeror of the Lock-up Agreements on or before two Business Days prior to the mailing of the Offer Documents;
- (b) Stylus shall not be in material breach of any material covenant, agreement or representation or warranty contained in this Agreement and the Offeror shall have received a certificate of the President or other officer of Stylus acceptable to the Offeror to that effect dated as of the date of the Offer;
- (c) the board of directors of Stylus shall have unanimously:
 - (i) accepted the opinion of Stylus' financial advisors as described in Section 2.3(e) and determined that the Offer is fair from a financial point of view to the holders of Stylus Shares and the Offer and the entering into of this Agreement are in the best interests of Stylus and its shareholders, and
 - (ii) recommended (and not modified, changed or withdrawn such recommendation) that shareholders of Stylus accept the Offer;
- (d) no Material Adverse Change shall have occurred and no other event or occurrence shall have occurred which, in the opinion of the Offeror, acting reasonably, makes it impossible or highly unlikely that any of the conditions set forth in Schedule 2.1(a) will be satisfied on or before the Initial Expiry Time; and
- (e) receipt of all regulatory approvals, clearances, waivers and consents to the making of the Offer which in the sole judgment of the Offeror, acting reasonably, may be necessary or desirable.

The foregoing conditions set forth in this Section 2.2 are for the exclusive benefit of the Offeror and may be waived by the Offeror, in whole or in part, in its sole discretion, at any time and from time to time.

2.3 Stylus Directors' Circular

- (a) Stylus hereby consents to the Offer as set forth in Section 2.1 and represents that its board of directors has unanimously approved this Agreement and has resolved to unanimously recommend acceptance of the Offer by the holders of Stylus Shares, subject to Section 2.3(c), provided that the Offer is not amended except in accordance with the terms of this Agreement. Stylus shall prepare and mail concurrently with the Offer, a directors' circular prepared in accordance with the Securities Laws. The directors' circular will set forth (among other things) the recommendation of the board of directors of Stylus as described above. Stylus shall provide the Offeror with a draft copy of the directors' circular prior to mailing for the Offeror's review and comment.
- (b) The board of directors of Stylus has been advised that the Management Shareholders (which parties collectively hold not less than 5.5% of the Stylus Shares) intend to tender their Stylus Shares under the Offer. Stylus hereby agrees to use its reasonable commercial efforts to deliver within 48 hours of the execution of this Agreement, and not later than

two Business Days prior to the date that the Offer Documents are to be sent to holders of Stylus Shares in accordance with the terms hereof, lock-up agreements (in the form or substantially in the form of the agreement attached hereto as Schedule 2.3(b)) signed by each Management Shareholder (the "**Lock-up Agreements**"). The directors' circular of Stylus described in Section 2.3(a) shall reflect the execution and delivery of such Lock-up Agreements and the intention of the Management Shareholders to tender their Stylus Shares pursuant to the Offer.

(c) Notwithstanding Section 2.3(a):

- (i) in the event that, prior to the expiry of the Offer, a Superior Proposal is proposed to Stylus or offered or made to the holders of Stylus Shares or Stylus, the board of directors of Stylus may, subject to the provisions of Section 8.2, upon payment of the fee payable under Section 8.2, withdraw, modify or change any recommendation regarding the Offer if, in the opinion of the board of directors of Stylus acting in good faith after advice from its financial and outside legal advisors as reflected in the minutes of the board of directors of Stylus (confirmation of which shall be immediately delivered to the Offeror), the failure to so withdraw, modify or change any recommendation regarding the Offer would be inconsistent with the performance by the directors of Stylus of their fiduciary duties under applicable Law;
- (ii) Stylus shall as soon as possible, but in any event prior to 10:00 a.m. (Calgary time) on the day following receipt of any Take-over Proposal, advise the Offeror orally and in writing that a Take-over Proposal has been offered or made to the board of directors of Stylus or to Stylus (which notice in writing must identify the party proposing such transaction and the terms and conditions thereof, which must include a copy of the terms and conditions of any written form of Take-over Proposal and which must provide an undertaking to provide to the Offeror any further documents relating to the terms or conditions thereof delivered to the board of directors of Stylus or to Stylus by or on behalf of such party), and provide to the Offeror copies of all information (if not previously provided to the Offeror) provided to any party proposing a Take-over Proposal prior to or concurrently with the provision of such information to such proposing party; and
- (iii) if the board of directors of Stylus believes that the Take-over Proposal constitutes a Superior Proposal, Stylus shall give the Offeror at least 48 hours advance notice of any action to be taken by the board of directors of Stylus to withdraw, modify or change any recommendation regarding the Offer or to enter into an agreement to implement the Superior Proposal and shall negotiate in good faith with the Offeror to make such adjustments in the terms and conditions of this Agreement and the Offer as would enable the Offeror to proceed with the Offer, as amended. The Offeror shall have the right during such 48 hours to advise the board of directors of Stylus that it will immediately announce and as soon as possible in the circumstances amend its Offer to provide that the holders of Stylus Shares shall receive a value per Stylus Share which, in the opinion of the board of directors of Stylus after consultation with its financial advisors, is equal to or greater than the value per Stylus Share provided in the Superior Proposal. If the Offeror so advises the board of directors of Stylus prior to the expiry of such 48 hour period and subsequently so amends its Offer forthwith thereafter, the board of directors of Stylus shall not withdraw, modify or change any recommendation

with respect to the Offer, as so amended, or take any action to approve or implement the Superior Proposal.

- (d) The board of directors of Stylus may withdraw, modify or change any recommendation with respect to the Offer:
 - (i) as permitted under Section 2.3(c);
 - (ii) in the event that the conditions set forth in Schedule 2.3(d) are not satisfied or waived at the applicable time by Stylus in its discretion acting reasonably; or
 - (iii) in the event this Agreement is terminated.
- (e) Stylus represents that it has obtained verbal advice from its financial advisors that the consideration to be offered to holders of Stylus Shares under the Offer is fair from a financial point of view to the holders of Stylus Shares and has been advised by its financial advisors that such financial advisors will provide an opinion to that effect for inclusion in the directors' circular of Stylus.
- (f) The Offeror agrees that all information that may be provided to it by Stylus with respect to any Take-over Proposal pursuant hereto shall be treated as it were "Evaluation Material" as provided pursuant to the terms of the Confidentiality Agreement and shall not be disclosed or used except in accordance with the provisions of the Confidentiality Agreement.

2.4 Offer Documents

- (a) Within the time periods required by Law, the Offeror shall file or cause to be filed with the appropriate Securities Authorities an "Offer to Purchase and Take-over Bid Circular" and the related "Letter of Transmittal" and "Notice of Guaranteed Delivery" pursuant to which the Offer will be made (collectively, the "**Offer Documents**"). The Offer Documents, when filed with such Securities Authorities and when mailed to holders of Stylus Shares, shall contain (or shall be amended in a timely manner to contain) all information which is required to be included therein in accordance with the ABCA and any applicable Canadian provincial securities laws, and any other applicable Law (collectively, the "**Securities Laws**").
- (b) Stylus agrees to provide such reasonable assistance as the Offeror or its agents may reasonably request in connection with communicating the Offer and any amendments and supplements thereto to the holders of the Stylus Shares and to such other Persons as are entitled to receive the Offer under the Securities Laws, including providing lists of the shareholders of Stylus and of the holders of Stylus Options and other rights to acquire, or securities convertible into or exchangeable for Stylus Shares and mailing labels with respect to all such holders of securities as soon as possible after the date of this Agreement in order for the Offer Documents to be mailed in the time set forth in Section 2.1(a) and for any updates or supplements thereto from time to time as may be requested by the Offeror.

2.5 Outstanding Stock Options

- (a) Subject to the receipt of any necessary regulatory approvals, all Persons holding Stylus Options, who may do so under the Securities Laws and in accordance with the terms of

the Stylus Options held by them, shall be entitled to exercise all of their Stylus Options and tender all Stylus Shares issued in connection therewith under the Offer. The Stylus board of directors shall not, prior to the Expiry Time, grant additional options to purchase Stylus Shares. It is agreed by Stylus that all Stylus Options that are tendered to Stylus for exercise, conditional on the Offeror taking up Stylus Shares under the Offer (the “**Conditional Option Exercise**”), shall be deemed to have been exercised concurrently with the take-up of Stylus Shares by the Offeror. Furthermore, the Offeror shall accept as validly tendered under the Offer as of the Take-up Date, all Stylus Shares that are to be issued pursuant to the Conditional Option Exercise, provided that the holders of the Stylus Options indicate that such shares are tendered pursuant to the Offer and otherwise validly accept the Offer in accordance with its terms with respect to such shares.

- (b) Stylus and the Offeror agree that to the extent holders of Stylus Options do not exercise their Stylus Options and tender the Stylus Shares they receive upon such exercise, Stylus shall agree with all remaining holders of Stylus Options that, in lieu of such Persons exercising their Stylus Options, Stylus will pay to such Persons the excess between the exercise price of their Stylus Options and the purchase price for the Stylus Shares under the Offer on the Take-up Date in exchange for the termination of their Stylus Options. Further, Stylus shall use its reasonable commercial efforts to ensure, and shall implement such mechanics as may be appropriate in accordance with applicable Law to give effect to the exercise or other termination of the outstanding Stylus Options at or prior to the Initial Expiry Time, including without limitation:
- (i) causing the vesting of option entitlements under the Stock Option Plan and any other compensation arrangements to accelerate prior to the Initial Expiry Time, such that all outstanding Stylus Options shall be exercisable and fully vested prior to the Expiry Time;
 - (ii) applying for all consents and authorizations required in connection with the foregoing provisions of this Section 2.5(b), including any exemptions or consents required from any Securities Authority in connection with any amendments to the Stock Option Plan required with respect to the foregoing;
 - (iii) ensuring that all proceeds from the exercise of Stylus Options shall be retained by Stylus; and
 - (iv) procuring from each holder of Stylus Options an option termination agreement in form and substance satisfactory to the Offeror and Stylus.

ARTICLE 3 PUBLICITY AND SOLICITATION

3.1 Publicity

- (a) Each of the Offeror and Stylus shall receive the prior consent, not to be unreasonably withheld, of the other party prior to issuing, or permitting any of its Subsidiaries, or any of their respective directors, officers, employees or agents to issue any press release or other written statement to the press or any third party with respect to this Agreement or the transactions contemplated hereby. The Offeror and Stylus shall not issue any such press release or make any such public statement prior to such consent, except upon the

advice of counsel that such action is required by applicable Law or by obligations pursuant to any listing agreement with a stock exchange and only after using its commercially reasonable efforts to consult the other party taking into account the time constraints to which it is subject as a result of such Law or obligation.

- (b) From the date hereof until the earlier of the completion of the Offer and the termination of this Agreement, Stylus shall consult with and receive the approval of the Offeror, which will not be unreasonably withheld, with respect to all press releases issued by Stylus.
- (c) Stylus and the Offeror agree that the press release attached hereto as Schedule 3.1(c) shall be issued immediately following the execution of this Agreement.

3.2 Solicitation

The financial advisors to the Offeror, if any, may act as dealer managers (the “**Dealer Managers**”) in connection with the Offer and solicit acceptances of the Offer. The Dealer Managers may form a soliciting dealer group comprised of members of the Investment Dealers Association of Canada and of the stock exchanges in Canada and their United States broker dealer affiliates to solicit acceptances of the Offer.

ARTICLE 4 TRANSACTIONS FOLLOWING COMPLETION OF THE OFFER

4.1 Subsequent Acquisition Transaction

If the Offeror takes up and pays for Stylus Shares pursuant to the terms of the Offer, and thereby acquires at least the Minimum Required Shares, the Offeror agrees to use all commercially reasonable efforts to acquire, and Stylus agrees to use all commercially reasonable efforts to assist the Offeror in acquiring, the balance of the Stylus Shares as soon as practicable and in any event within a period of six months following the Take-up Date by way of a compulsory acquisition, statutory arrangement, amalgamation, merger, reorganization, consolidation, recapitalization or other type of acquisition transaction or transactions including without limitation a transaction or transactions involving the Offeror and/or an affiliate of the Offeror and Stylus and/or the holders of Stylus Shares for the purpose of Stylus becoming, directly or indirectly, a wholly-owned subsidiary of the Offeror (each, a “**Subsequent Acquisition Transaction**”) carried out for a cash consideration per Stylus Share not less than the consideration paid pursuant to the Offer. Nothing herein shall be construed to prevent the Offeror from acquiring, directly or indirectly, additional Stylus Shares in the open market or in privately negotiated transactions, in accordance with the Securities Laws (including by way of compulsory acquisition) following completion of the Offer.

4.2 Information Circular

- (a) Without limiting Section 4.1, Stylus agrees that if the Offeror is required to effect a Subsequent Acquisition Transaction which requires approval of Stylus’ shareholders in a meeting of Stylus’ shareholders, then Stylus shall take all action necessary in accordance with the Securities Laws, other applicable Canadian Laws, the Stylus Governing Documents or the requirements, rules or policies of any other regulatory authority having jurisdiction to duly call, give notice of, convene and hold a meeting of its shareholders as promptly as practicable to consider and vote upon the action proposed by the Offeror.

- (b) In the event of a meeting or meetings as described in Section 4.2(a), Stylus shall use all commercially reasonable efforts to mail to its shareholders an Information Circular with respect to the meeting of Stylus' shareholders. The term "**Information Circular**" shall mean such proxy or other required informational statement or circular, as the case may be, and all related materials at the time required to be mailed to the holders of Stylus Shares and Stylus Options and all amendments or supplements thereto, if any. The Offeror and Stylus each shall use all commercially reasonable efforts to obtain and furnish the information required to be included in any Information Circular. The information provided and to be provided by the Offeror and Stylus for use in the Information Circular, on the date the Information Circular is first mailed to the holders of Stylus Shares and Stylus Options, shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading and will comply in all material respects with all applicable requirements of Law. The Offeror and Stylus each agree to correct promptly any such information provided by it for use in any Information Circular which shall have become false or misleading.

ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF OFFEROR

As of the date hereof, the Offeror hereby represents and warrants to Stylus as set forth below and acknowledges that Stylus is relying upon these representations and warranties in connection with the entering into of this Agreement.

5.1 Organization and Qualification

The Offeror is a corporation duly incorporated and organized and validly existing under the laws of the Province of Alberta and has the requisite corporate power and authority to carry on its business as it is now being conducted.

5.2 Authority Relative to this Agreement

The Offeror has the requisite corporate authority to enter into this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement and the consummation by the Offeror of the transactions contemplated hereby have been duly authorized by its board of directors and no other corporate proceedings on their part are or will be necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Offeror and constitutes the legal, valid and binding obligation of the Offeror enforceable against it in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other Laws relating to or affecting creditors' rights generally and to general principles of equity.

5.3 No Violations

- (a) Neither the execution and delivery of this Agreement by the Offeror, the consummation by it of the transactions contemplated hereby nor compliance by it with any of the provisions hereof will:
- (i) violate, conflict with, or result in a breach of any provision of, require any consent, approval or notice under, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) or result in a

right of termination or acceleration under, any of the terms, conditions or provisions of:

- (A) the articles or by-laws of the Offeror, or
- (B) any material note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other instrument or obligation to which the Offeror or any of its Subsidiaries is a party or to which any of them, or any of their respective properties or assets, may be subject or by which the Offeror or any of its Subsidiaries is bound; or

- (ii) subject to compliance with the statutes and regulations referred to in Section 5.3(b), violate any judgment, ruling, order, writ, injunction, determination, award, decree, statute, ordinance, rule or regulation applicable to the Offeror or any of its Subsidiaries,

except for such violations, conflicts, breaches, defaults, terminations which, or any consents, approvals or notices which if not given or received, would not have any material adverse effect on the business, operations or financial condition of the Offeror and its Subsidiaries taken as a whole or on the ability of the Offeror to consummate the transactions contemplated hereby.

- (b) Other than in connection with or in compliance with the provisions of the Competition Act or Securities Laws:

- (i) there is no legal impediment to the Offeror's consummation of the transactions contemplated by this Agreement; and
- (ii) no filing or registration with, or authorization, consent or approval of, any domestic or foreign public body or authority is necessary by the Offeror in connection with the making or the consummation of the Offer,

except for such filings or registrations which, if not made, or for such authorizations, consents or approvals, which, if not received, would not have a material adverse effect on the ability of the Offeror to consummate the transactions contemplated hereby.

5.4 Funds Available

The aggregate cash consideration payable pursuant to the Offer is available to the Offeror so that the Offeror is in a position to pay for all Stylus Shares tendered pursuant to the Offer in accordance with the terms of the Offer.

5.5 Offeror's Holdings

The Offeror and its associates and affiliates and any Persons acting jointly or in concert with the Offeror beneficially own, or exercise control over direction, over 1,034,000 Stylus Shares.

ARTICLE 6

REPRESENTATIONS AND WARRANTIES OF STYLUS

As of the date hereof, Stylus hereby represents and warrants to the Offeror as set forth below and acknowledges the Offeror is relying upon these representations and warranties in connection with the entering into of this Agreement.

6.1 Organization and Qualification

Stylus is a corporation duly amalgamated and organized and validly existing under the ABCA, has the requisite corporate power and authority to own or lease its property and assets and to carry on its business as it is now being conducted, and is duly registered to do business and is in good standing in each jurisdiction in which the character of its properties, owned or leased, or the nature of its activities make such registration necessary, except where the failure to be so registered or in good standing would not have a Material Adverse Effect.

6.2 Subsidiaries

Stylus does not have any Subsidiaries.

6.3 Authority Relative to this Agreement

Stylus has the requisite corporate authority to enter into this Agreement and to perform and carry out its obligations hereunder. The execution and delivery of this Agreement and the completion of the transactions contemplated hereby have been duly authorized by Stylus' board of directors, and no other corporate proceedings on the part of Stylus are necessary to authorize this Agreement (except for obtaining the consent of its lenders and approval of the board of directors of Stylus to the directors' circular contemplated and the Information Circular and except for obtaining shareholder approval in respect of any Subsequent Acquisition Transaction) and the transactions contemplated hereby. This Agreement has been duly executed and delivered by Stylus and constitutes a legal, valid and binding obligation of Stylus enforceable against Stylus in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other Laws relating to or affecting creditors' rights generally and to general principles of equity.

6.4 No Violations

- (a) Other than as set forth in the Disclosure Letter and subject to the receipt of the consent of Stylus' lenders to the transactions contemplated herein, neither the execution and delivery of this Agreement by Stylus, the completion of the transactions contemplated hereby nor the fulfilment and compliance by Stylus with any of the terms and provisions hereof will:
 - (i) violate, conflict with, or result in breach of any provision of, require any consent, approval or notice under, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) or result in a right of termination or acceleration under, or result in a creation of any Encumbrance upon any of the properties or assets of Stylus under, any of the terms, conditions or provisions of:
 - (A) the Stylus Governing Documents, or

- (B) any material note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other instrument or obligation to which Stylus is a party or to which Stylus or any of its properties or assets may be subject or by which Stylus is bound; or
- (ii) subject to compliance with the statutes and regulations referred to in Section 6.4(b), violate any judgment, ruling, order, writ, injunction, determination, award, decree, statute, ordinance, rule or regulation applicable to Stylus,

except for such violations, conflicts, breaches, defaults, terminations which, or any consents, approvals or notices which if not given or received, would not have a Material Adverse Effect or have a material adverse effect on the ability of Stylus to consummate the transactions contemplated hereby.

- (b) Other than in connection with or in compliance with the provisions of the Competition Act, Securities Laws and the policies of the TSX, or compliance with the statutory rights described in 6.4(a):
 - (i) there is no legal impediment to Stylus' consummation of the transactions contemplated by this Agreement; and
 - (ii) no filing or registration with, or authorization, consent or approval of, any domestic or foreign public body or authority is necessary by Stylus in connection with the making or the consummation of the Offer,

except for such filings or registrations which, if not made, or for such authorizations, consents or approvals, which, if not received, would not have a Material Adverse Effect or have a material adverse effect on the ability of Stylus to consummate the transactions contemplated hereby.

6.5 Capitalization

- (a) As of the date hereof, the authorized share capital of Stylus consists solely of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series, of which only 27,670,910 Stylus Shares and no preferred shares are issued and outstanding.
- (b) As of the date hereof, 2,348,472 Stylus Shares are issuable pursuant to the exercise of outstanding Stylus Options granted under the Stock Option Plan which has not been amended.
- (c) Except for the Stylus Options outstanding as of the date hereof, there are no options, warrants or other rights, agreements or commitments of any character whatsoever requiring the issuance, sale or transfer by Stylus of any securities of Stylus (including the Stylus Shares) or any securities convertible into, or exchangeable or exercisable for, or otherwise evidencing a right to acquire, any shares of Stylus (including the Stylus Shares), nor are there any outstanding stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the book value, income or other attribute of Stylus.

- (d) All outstanding Stylus Shares have been duly authorized and validly issued, are fully paid and non-assessable and all Stylus Shares issuable upon exercise of outstanding Stylus Options in accordance with their respective terms will be duly authorized and validly issued, fully paid and non-assessable.

6.6 No Material Adverse Change

Since December 31, 2006, there has not been any Material Adverse Change.

6.7 Information

All information provided by Stylus and its representatives and agents to the Offeror and its representatives and agents, taken as a whole, is complete and true in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading.

6.8 No Undisclosed Material Liabilities

Except:

- (a) as disclosed or reflected in the Financial Statements previously delivered to the Offeror; and
- (b) for liabilities and obligations (i) pursuant to the terms of this Agreement, or (ii) as set forth in the Disclosure Letter,

Stylus has not incurred any liabilities of any nature, whether accrued, contingent or otherwise (or which would be required by Canadian generally accepted accounting principles to be reflected on a consolidated balance sheet of Stylus) that have constituted or would be reasonably likely to constitute a Material Adverse Change.

6.9 Impairment

The making of the Offer will not result in Material Adverse Change pursuant to or as a result of any agreement or arrangement to which Stylus is a party.

6.10 Brokerage Fees

Stylus has not retained nor will it retain any financial advisor, broker, agent or finder or paid or agreed to pay any financial advisor, broker, agent or finder on account of this Agreement, any transaction contemplated hereby or any transaction presently ongoing or contemplated, except that Peters & Co. Limited has been retained as Stylus' financial advisors in connection with certain matters including the transactions contemplated hereby. Stylus has delivered to the Offeror a true and complete copy of its agreements with, and financial obligations to such party.

6.11 Conduct of Business

Since January 1, 2007, Stylus has not:

- (a) amended any of the Stylus Governing Documents;

- (b) except as set forth in the Financial Statements and related management's discussion and analysis, made any change in its accounting principles and practices as previously applied including, without limitation, the basis upon which its assets and liabilities are recorded on its books and its earnings and profits and losses are ascertained; or
- (c) declared, paid or set aside for payment any dividend or distribution of any kind in respect of any of its outstanding securities nor made any repayments of capital to shareholders.

6.12 Reports

Stylus has heretofore delivered to the Offeror true and complete copies of the information circular relating to Stylus' 2007 annual and special meeting of shareholders, its 2006 annual report to shareholders, its annual information form in respect of 2006, and the Financial Statements. As of their respective dates, such documents (as well as all other documents filed by Stylus with Securities Authorities since December 31, 2006) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and complied in all material respects with all applicable requirements of Law. Stylus has not filed with Securities Authorities any confidential material change reports still maintained on a confidential basis. The Financial Statements have been prepared in accordance with generally accepted accounting principles applicable in Canada on a consistent basis with prior periods (except as otherwise indicated in such financial statements and the notes thereto or in the related report of Stylus' independent accountants) and fairly present the consolidated financial position, results of operations and changes in financial position of Stylus as of the dates thereof and for the periods indicated therein.

6.13 Litigation

There are no actions, suits, complaints, proceedings or investigations commenced, or, to the knowledge of Stylus, contemplated or threatened against or affecting Stylus, at law or in equity, before or by any Governmental Body, domestic, or foreign, of any kind, nor to the knowledge of Stylus are there any existing facts or conditions which may reasonably be expected to be a proper basis for any actions, suits, proceedings or investigations, which in any case would prevent or hinder the consummation of the transactions contemplated by this Agreement or which can reasonably be expected to constitute a Material Adverse Change.

6.14 Books and Records and Shareholder Agreements

The minute books of Stylus are correct in all material respects and contain the minutes of all meetings and all resolutions of the directors and shareholders thereof (other than certain minutes that are in draft form yet to be approved and there are no unanimous, or to the knowledge of Stylus other, shareholder agreements among Stylus' shareholders. The books of account and other records, whether of a financial or accounting nature or otherwise, of Stylus have been maintained in all material respects in accordance with prudent business practices.

6.15 Officer Obligations

The maximum Officer Obligations of Stylus if the Offer is completed shall not exceed \$1,250,000.

6.16 Absence of Guarantees

Except as expressly disclosed in the notes to the Financial Statements, Stylus has not given or agreed to give, nor is it a party to or bound by, any guarantee, surety or indemnity in respect of indebtedness or other obligations of any Person, or any other commitment by which Stylus is, or is contingently, responsible for such indebtedness or other obligations (other than indemnification of directors and officers in accordance with Law, the by-laws of Stylus or applicable agreements relating thereto (the form of which has been provided to the Offeror) and other than rights of indemnification granted under registrar and transfer agency agreements, agency or underwriting agreements, to Stylus' bankers or pursuant to operating or similar agreements in the ordinary course of business.)

6.17 Securities Law Matters

- (a) Stylus is a reporting issuer under, and, to its knowledge is, in material compliance with, the Securities Laws of Alberta, British Columbia, Saskatchewan and Ontario.
- (b) Stylus has implemented and maintains a system disclosure controls and procedures and internal control over financial reporting sufficient to provide reasonable assurance regarding financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles applicable in Canada, including, without limitation, that (i) all information required to be disclosed by Stylus in the reports that it files with Securities Authorities is recorded, processed, summarized and reported within the time periods specified by applicable Securities Laws, and (ii) all such information is accumulated and communicated to management of Stylus, including its chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.
- (c) Other than as disclosed in Stylus' management's discussion and analysis prepared and filed with the Securities Authorities in accordance with Securities Laws there have not been any changes in Stylus' internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Stylus' internal control over financial reporting. All significant deficiencies and material weaknesses in the design or operation of Stylus' internal control over financial reporting which are reasonably likely to adversely affect Stylus' ability to record, process, summarize and report financial information have been disclosed to Stylus' outside auditors and the audit committee of Stylus' board of directors. To the knowledge of Stylus, there has not been any fraud, whether or not material, that involves management or other employees who have a significant role in Stylus' internal control over financial reporting.
- (d) Stylus:
 - (i) is a "foreign private issuer" as defined in Rule 3b-4 under the U.S. Exchange Act;
 - (ii) is not aware, based on inquiry within 30 days of the commencement of the Offer, that 40 percent or more of the Stylus Shares are held by U.S. holders for purposes of Rule 14d-1(b) under the U.S. Exchange Act;
 - (iii) is not an investment company registered or required to be registered under the *United States Investment Company Act of 1940*, as amended;

- (iv) does not have, and does not have an obligation to have, a class of securities registered under section 12 of the U.S. Exchange Act and does not have a reporting obligation under section 13(a) or 15(d) of the U.S. Exchange Act; and
- (v) Stylus, including all entities “controlled by” Stylus for purposes of the *Hart-Scott-Rodino Antitrust Improvements Act of 1976*, as amended, does not hold assets located in the United States with a fair market value in excess of U.S.\$59.8 million in the aggregate and, during the 12-month period ended December 31, 2006, did not make sales in or into the United States in excess of U.S.\$59.8 million in the aggregate. For purposes of the foregoing sentence, the term “United States” shall include the several States, the territories, possessions and commonwealths of the United States, the District of Columbia.

6.18 Business in Compliance with Law

To the knowledge of Stylus, the business and operations of Stylus have been and are now conducted in accordance with good oilfield and environmental practices and in compliance in all respects with all applicable Laws and, in particular, all applicable licensing, regulatory approvals and environmental legislation, regulations or by-laws or other requirements of any Governmental Bodies applicable to Stylus in each jurisdiction in which it carries on business and holds licenses, regulatory approvals, registrations and qualifications with respect to its business and assets in all jurisdictions in which it carries on business which are necessary or desirable to carry on the business of Stylus, as now conducted, except where the failure to so conduct its business or to hold such licences, regulatory approvals, registrations or qualifications would not have a Material Adverse Effect, and none of such licenses, registrations or qualifications contains any burdensome term, provision, condition or limitation which has or is likely to have any Material Adverse Effect.

6.19 No Joint Venture Interest, etc.

Except for arrangements typical in the Canadian oil and gas industry and in the ordinary course of business of Stylus, Stylus is not a partner, beneficiary, trustee, co-tenant, joint-venturer or otherwise a participant in any partnership, trust, joint venture, co-tenancy or similar jointly owned business undertaking and Stylus does not have any significant investment interests in any business owned or controlled by any third party.

6.20 Shareholder Rights Plan

There is not in effect with respect to Stylus, and prior to the Expiry Time Stylus will not implement, any shareholder rights plan or any other form of plan, agreement, contract or instrument that will trigger any rights to acquire Stylus Shares or other securities of Stylus (other than the Stylus Options) or rights, entitlements or privileges in favour of any Person upon the entering into of this Agreement or the making of the Offer.

6.21 Employment Matters

- (a) Other than as set forth in the Disclosure Letter, no Employee is on short-term or long-term disability leave, maternity and parental leave, extended absence or receiving benefits pursuant to compensation legislation.
- (b) Other than as set forth in the Disclosure Letter, there are no employment contracts or arrangements which are not terminable on the giving of reasonable notice in accordance with Law, nor are there any management agreements, change of control agreements,

retention bonuses or employment contracts providing for cash or other compensation or benefits upon the consummation of the transactions contemplated by this Agreement.

- (c) To the knowledge of Stylus, Stylus has been and is being operated in material compliance with all Laws relating to Employees, including employment standards, occupational health and safety, workers' compensation, human rights, labour relations, privacy, or pay equity. To the knowledge of Stylus, Stylus has complied with, in all material respects, and posted plans as required under applicable pay equity legislation; and there have been no claims nor, to the knowledge of Stylus, are there any threatened complaints under such employment-related Laws against Stylus.
- (d) All workers compensation premiums have been paid in full and Stylus' workers compensation account is in good standing.
- (e) There are no claims or complaints nor, to the knowledge of Stylus, are there any threatened claims or complaints, against Stylus pursuant to any Laws relating to Employees, including employment standards, human rights, labour relations, occupational health and safety, workers' compensation, or pay equity, which would reasonably be expected to constitute a Material Adverse Change. To the knowledge of Stylus, there are no existing bases that would support a claim or complaint against Stylus under any such Laws and there are no outstanding decisions, orders or settlements or pending settlements which place any obligation upon Stylus to do or refrain from doing any act under any such Laws which would reasonably be expected to constitute a Material Adverse Change.
- (f) Stylus is not a party, either directly, voluntarily or by operation of law, to any collective agreement, letters of understanding, letters of intent or other written communication with any trade union or association which may qualify as a trade union, which would cover any of the Employees.
- (g) Stylus has provided to the Offeror a correct and complete list of all Employees with all of their terms and conditions of employment, whether written or oral, including salaries, wage rates, commissions, consulting fees, benefits, position, length of service and vacation entitlement.
- (h) There are no outstanding or, to the knowledge of Stylus, threatened unfair labour practices, complaints, or applications of any kind, including any proceedings which could result in certification of a trade union as bargaining agent for Employees.
- (i) Other than as set forth in the Disclosure Letter, there are no pension or other benefit plans for Employees. Stylus has provided the Offeror with correct and complete copies of all employee plans, together with all summary plan descriptions and all material correspondence related thereto.
- (j) Other than as set forth in the Disclosure Letter, all amounts due and payable (and other than accrued amounts) for salaries, wages, consulting fees, bonuses, overtime, commissions vacation pay, sick pay or other compensation and benefits have been paid in full.
- (k) None of the employee plans provide benefits to retired employees or to the beneficiaries of descendants of retired employees.

6.22 Insurance

Stylus maintains 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 businesses, properties and assets. All such policies of insurance are in full force and effect and Stylus is not in default, as to the payment of premium or otherwise, under the terms of any such policy. No material claims have been made by Stylus under any insurance in the past two years.

6.23 Material Contracts

All agreements, permits, licences, regulatory approvals, plans, certificates and other rights and authorizations material to the conduct of the business of Stylus are valid and subsisting and no material default exists under any such agreements, documents, rights or authorizations on the part of Stylus or on the part of any other party to such agreements, documents, rights or authorizations, except where the failure to hold such agreements, permits, licenses, regulatory approvals, plans, certificates and other rights or authorizations or any such default, would not have a Material Adverse Effect. Copies of all such materials provided to the Offeror are accurate and complete in all material respects.

6.24 Tax Matters

- (a) Other than as set forth in the Disclosure Letter, Stylus has duly and timely filed, and will duly and timely file, its Tax Returns with the appropriate Governmental Bodies and has reported, and will, duly, completely and correctly report, all income and all other amounts reported and information required to be reported thereon.
- (b) Other than as set forth in the Disclosure Letter, Stylus has duly and timely paid all Taxes, including all instalments on account of Taxes for the current year that are due and payable by it whether or not assessed by the appropriate Governmental Body. Stylus has established reserves that are reflected in its Financial Statements that are at least equal to the liability of Stylus for all Taxes that are not yet due and payable (and that will not be due and payable by the Expiry Date) and that relate to periods ending on or prior to the Expiry Date. Other than as set forth in the Disclosure Letter, Stylus has not received any refund of Taxes to which it is not entitled.
- (c) Other than as set forth in the Disclosure Letter, Stylus has not requested, or entered into any agreement or other arrangement or executed any waiver providing for, any extension of time within which:
 - (i) to file any Tax Return covering any Taxes for which Stylus is or may be liable;
 - (ii) to file any elections, designations or similar filings relating to Taxes for which Stylus is or may be liable;
 - (iii) Stylus is required to pay or remit any Taxes or amounts on account of Taxes; or
 - (iv) any Governmental Body may assess or collect Taxes for which Stylus is or may be liable.
- (d) Other than as set forth in the Disclosure Letter, all liabilities for Taxes of Stylus have been assessed by the relevant taxing authorities and notices of assessment have been issued to

Stylus by all relevant taxing authorities for all taxation years prior to and including the taxation year ended December 31, 2005.

- (e) Other than as set forth in the Disclosure Letter, there are no proceedings, investigations, audits, claims or other actions now pending or, to the knowledge of Stylus, threatened against Stylus in respect of any Taxes and there are no matters under discussion, audit or appeal with any Governmental Body relating to Taxes. Stylus is not negotiating any final or draft assessment or reassessment in respect of Taxes with any Governmental Body and Stylus has not received any indication from any Governmental Body that an assessment or a reassessment is proposed or may be proposed in respect of any Taxes for any period ending prior to the Expiry Date.
- (f) Stylus 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 Employees and any non-resident Person, the amount of all Taxes and other deductions required by any Laws to be withheld from any such amount and has duly and timely remitted the same to the appropriate Governmental Body.
- (g) Stylus is duly registered under subdivision (d) of Division V of Part IX of the *Excise Tax Act* (Canada) with respect to the goods and services tax and harmonized sales tax and its registration number is 869203588 RT001.
- (h) To the knowledge of Stylus, there are no circumstances existing which could result in the application to Stylus of debt forgiveness tax rules under sections 80 to 80.04 of the Income Tax Act or any equivalent provision under applicable provincial law.

6.25 Non-Arm's Length Transactions

No former or current Employee or any other Person not dealing at arm's length with Stylus has any indebtedness, liability or obligation to Stylus and Stylus is not indebted or otherwise obligated to any such Person except for employment arrangements with Employees.

6.26 Bank Covenants

Stylus' net debt as at June 15, 2007 (on a consolidated basis), including any working capital deficiency, did not exceed \$12.3 million.

6.27 Engineering Report

Stylus made available to McDaniel all material information requested by McDaniel concerning land descriptions and well data respecting the principal oil and gas assets of Stylus effective December 31, 2006, in respect of the McDaniel Report, and, in particular, all material information respecting Stylus' interests in its principal oil and gas assets and the royalty burdens and net profits interest burdens thereon and Stylus is not aware of any information not provided to such consultants that would be material with respect to such report.

6.28 Intellectual Property

To its knowledge, Stylus does not require any patents, patent applications, trademarks and service marks (including registrations and applications therefore), trade names, copyrights and written know-how, trade secrets and all other similar proprietary data and the goodwill associated therewith ("**Intellectual Property**") to operate the business of Stylus as it is currently conducted. Stylus has not

received any notice of infringement, misappropriation or conflict with the intellectual property rights of others in connection with the use by Stylus of any Intellectual Property.

6.29 Confidential Agreements

Stylus has not waived or released the applicability of any “standstill” or other provisions of any confidentiality or standstill agreement, entered into by Stylus.

6.30 Environmental

Stylus:

- (a) has not received notice of any material violation of or investigation relating to any federal, provincial or local environmental or pollution law, regulation or ordinance with respect to the assets, business or operations of Stylus;
- (b) has provided copies of all environmental studies and reports to the Offeror with respect to Stylus and its assets;
- (c) to the knowledge of Stylus, has not experienced any spills, releases or discharges of oil, gas or natural gas liquids or other contaminants or hazardous materials that has not been remedied; and
- (d) to the knowledge of Stylus, has all permits, licenses and other authorizations which are required under Law with respect to pollution or protection of the environment relating to the assets, business or operations of Stylus.

To the knowledge of Stylus, all of the assets of Stylus operated and maintained by Stylus are in compliance with all terms and conditions of such Laws, permits, licenses and authorizations, and are also in compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in such Laws or contained in any regulation, code, plan, order, decree, judgment, notice or demand letter issued, entered, promulgated or approved thereunder relating to the assets operated by Stylus, except where the failure to be in such compliance would not have a Material Adverse Effect.

6.31 Tax Pools

Stylus estimates that its consolidated tax pools at December 31, 2006 are as set forth in the Disclosure Letter.

6.32 Flow-Through Shares

Stylus has fulfilled all of its obligations to incur and renounce exploration and development expenses in the full amount of any subscription funds received pursuant to any flow-through common share subscription agreements, other than approximately \$2.5 million to be incurred pursuant to obligations to incur Canadian exploration expenses under previous flow-through share offerings.

6.33 Title

To the knowledge of Stylus, all of the assets or properties which generate the revenues (including all seismic data used by Stylus in its business) of Stylus are free and clear of all Encumbrances created by, through or under any of Stylus, except:

- (a) as set out or taken into account in the engineering report referenced in Section 6.27;
- (b) liens for taxes, assessments or governmental charges which are not due or delinquent or the validity of which is being diligently contested in good faith by Stylus;
- (c) liens incurred or created in the ordinary course of business as security in favour of any other Person who is conducting the development or operation of the property to which such liens relate for Stylus' share of the costs and expenses of such development or operation which are not due or delinquent;
- (d) mechanics', builders' or materialmen's liens in respect of services rendered or goods supplied for which payment is not due;
- (e) easements, rights of way, servitudes or other similar rights in land (including, without limitation, rights or way and servitudes for railways, sewers, drains, gas and oil pipelines, gas and water mains, and electric light, power, telephone, telegraph and cable television conduits, poles, wires and cables);
- (f) the right reserved to or vested in any Governmental Body by the terms of any lease, license, franchise, grant or permit or by any statutory provision to terminate any such lease, license, franchise, grant or permit or to require annual or other periodic payments as a condition of the continuance thereof;
- (g) governmental requirements of general application, including, without limitation, those respecting production rates or other operational matters;
- (h) the reservations, limitations, provisos and conditions in any original grants from the Crown or interests therein and statutory exceptions to title;
- (i) the terms and conditions of any leases related to Stylus' assets and any and all agreements and other documents of title applicable thereto, including, without limitation, unit agreements or pooling agreements, farmout or farmin agreements entered into in connection therewith;
- (j) any rights of first refusal;
- (k) any provisions for penalties or forfeitures contained in the title and operating documents relevant to Stylus; and
- (l) security in favour of Canadian Imperial Bank of Commerce to secure Stylus' loan facilities with Canadian Imperial Bank of Commerce.

ARTICLE 7

CONDUCT OF BUSINESS

7.1 Conduct of Business by Stylus

Stylus covenants and agrees that, during the period from the date of this Agreement until this Agreement is terminated by its terms, unless the Offeror shall otherwise agree in writing, except as required by Law or as otherwise expressly permitted or specifically contemplated by this Agreement:

- (a) the business of Stylus shall be conducted only in, and Stylus shall not take any action except in, the usual and ordinary course of business and consistent with past practice and in accordance with good oilfield practices. Stylus shall use all commercially reasonable efforts to maintain and preserve its business organization, assets and advantageous business relationships, and shall not make any material change in the business, assets, liabilities, operations, capital or affairs of Stylus;
- (b) Stylus shall not directly or indirectly do or permit to occur any of the following:
 - (i) amend the Stylus Governing Documents,
 - (ii) declare, set aside or pay any dividend or other distribution or payment (whether in cash, shares or property) in respect of its shares owned by any Person,
 - (iii) issue, grant, sell or pledge or agree to issue, grant, sell or pledge any shares of Stylus, or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, shares of Stylus, other than Stylus Shares issuable pursuant to the terms of the Stylus Options outstanding on the date hereof,
 - (iv) redeem, purchase or otherwise acquire any of its outstanding shares or other securities,
 - (v) split, combine or reclassify any of its shares,
 - (vi) adopt a plan of liquidation or resolutions providing for the liquidation, dissolution, merger, consolidation or reorganization of Stylus, or
 - (vii) enter into or modify any contract, agreement, commitment or arrangement with respect to any of the foregoing, except as permitted above;
- (c) without limiting the generality of Section 7.1(a), except as set out in the Disclosure Letter, which are hereby consented to by the Offeror, Stylus shall not without prior consultation with and the express written consent of the Offeror (such consent not to be unreasonably withheld) directly or indirectly do any of the following other than pursuant to commitments entered into prior to the date of this Agreement:
 - (i) other than the disposition of properties pursuant to the June 28, 2007 Oil and Gas Clearing House auction of non-core properties as disclosed in writing to the Offeror, sell, pledge, dispose of or encumber any assets except in the ordinary course of business for a consideration not in excess of \$25,000 individually or \$100,000 in aggregate,
 - (ii) acquire (by merger, amalgamation, consolidation or acquisition of shares or assets) any corporation, partnership or other business organization or division thereof,
 - (iii) incur any indebtedness for borrowed money or any other material liability or obligation or issue any debt securities or assume, guarantee, endorse or otherwise as an accommodation become responsible for, the obligations of any other individual or entity, or make any loans or advances, in each case in excess of \$5,000 individually or \$10,000 in aggregate, except, in each case, in the

- ordinary course of business, other than in respect of Officer Obligations and fees payable to legal, financial and other advisors in respect of the Offer.
- (iv) except where necessary to preserve an asset in an emergency, expend or commit to expend any amounts with respect to operating or other similar expenses except in the ordinary course of business,
 - (v) spend or commit to spend any amounts in respect of capital expenditures in excess of \$25,000 individually or \$100,000 in aggregate,
 - (vi) except for the Officer Obligations and fees payable to legal, financial and other advisors in respect of the Offer or amounts less than \$5,000 in the aggregate, pay, discharge or satisfy any material claims, liabilities or obligations other than the payment, discharge or satisfaction in the ordinary course of business consistent with past practice of liabilities reflected or reserved against in the Financial Statements or incurred in the ordinary course of business consistent with past practice,
 - (vii) authorize, recommend or propose any release or relinquishment of any material contract right other than in the ordinary course of business consistent with past practice,
 - (viii) enter into any agreement which would result in a material variation from that disclosed in the McDaniel Report in Stylus' interests in its assets or in the Encumbrances thereon,
 - (ix) waive, release, grant or transfer any rights of material value or modify or change in any material respect any existing material license, lease, contract, production sharing agreement, government land concession or other document, other than in the ordinary course of business consistent with past practice,
 - (x) enter into any interest rate swaps, currency swaps or any other rate fixing agreement for a financial transaction or enter into any call arrangement of any sort or any forward sale agreement for commodities, other than in the ordinary course of business consistent with past practice and in any event for a period not longer than 30 days,
 - (xi) adopt a shareholders' rights plan; or
 - (xii) authorize or propose any of the foregoing, or enter into or modify any contract, agreement, commitment or arrangement to do any of the foregoing;
- (d) Stylus shall use its reasonable commercial efforts to cause the current insurance (or re-insurance) policies of Stylus not to be cancelled or terminated or any of the coverage thereunder to lapse, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance and re-insurance companies of nationally recognized standing providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies for substantially similar premiums are in full force and effect;

- (e) Stylus shall not take any action that would render, or that reasonably may be expected to render, any representation or warranty made by it in this Agreement untrue in any material respect;
- (f) Stylus shall not create any new Officer Obligations and, except for payment of the existing Officer Obligations, Stylus shall not grant to any officer or director an increase in compensation in any form, grant any general salary increase, grant to any other Employee any increase in compensation in any form, make any loan to any officer or director, or take any action with respect to the grant of any severance or termination pay arising from the Offer or a change of control of Stylus or the entering into of any employment agreement with, any officer or director, or with respect to any increase of benefits payable under its current severance or termination pay policies;
- (g) Stylus shall not adopt or amend or make any contribution to any bonus, profit sharing, option, pension, retirement, deferred compensation, insurance, incentive compensation, other compensation or other similar plan, agreement, trust, fund or arrangements for the benefit of Employees, except as contemplated in this Agreement and as is necessary to comply with the Law or with respect to existing provisions of any such plans, programs, arrangements or agreements; provided that the Offeror acknowledges that bonuses will be paid by Stylus prior to the Expiry Time to eligible officers, Employees and consultants pursuant to Stylus' bonus plan in amounts disclosed in writing to the Offeror;
- (h) Stylus agrees to work with the Offeror to ensure Stylus operates in accordance with good Canadian oilfield practices and to ensure the proper and effective maintenance of the assets of Stylus as may be required from time to time and shall consult with the Offeror with respect to any matter which the Offeror might reasonably consider to be significant regarding the business and affairs of Stylus;.

ARTICLE 8

COVENANTS OF STYLUS

8.1 Notice of Material Change

From the date hereof until the termination of this Agreement, Stylus shall promptly notify the Offeror in writing of:

- (a) any material change (actual, anticipated, contemplated or, to the knowledge of Stylus, threatened, financial or otherwise) in the business, affairs, operations, assets, liabilities (contingent or otherwise) or capital of Stylus, on a consolidated basis; or
- (b) any change in any representation or warranty set forth in Article 6 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.

Stylus shall in good faith discuss with the Offeror any change in circumstances (actual, anticipated, contemplated or, to the knowledge of Stylus, 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 Offeror pursuant to this section.

8.2 Non-Completion Fee

- (a) Provided that there is no material breach by the Offeror of a provision of this Agreement in any material respect, which breach has not been waived by Stylus, Stylus shall pay to the Offeror the sum of \$2 million (the “**Stylus Non-Completion Fee**”) if:
 - (i) the Offer shall have expired and not been consummated by reason of the Minimum Condition not having been satisfied as a result of a Superior Proposal having been publicly announced and not withdrawn prior to the Expiry Time which Superior Proposal is ultimately completed;
 - (ii) the board of directors of Stylus shall or shall resolve to:
 - (A) fail to make any of its recommendations, approvals, resolutions or determinations required in Section 2.3,
 - (B) withdraw, modify or change its recommendation regarding the Offer, except if such withdrawal, modification or change is permitted pursuant to Section 2.3(d), or
 - (C) fail to publicly reaffirm its recommendation of the Offer within 10 days of the public announcement of a *bona fide* Take-over Proposal;
 - (iii) this Agreement has been terminated by the Offeror pursuant to Section 11.1(e); or
 - (iv) this Agreement has been terminated by the Offeror pursuant to Section 11.1(f).

Such payment shall be made by Stylus to the Offeror within three Business Days of the event giving rise to the payment in immediately available funds to an account designated by the Offeror.

- (b) For the purposes of Section 8.2(a)(ii), an announcement by the board of directors of Stylus that it does not have all the information necessary to properly evaluate the Take-Over Proposal and is reaffirming and maintaining its recommendation of the Offer pending receipt and analysis of additional information shall not constitute an event within the meaning of Section 8.2(a)(ii) or require Stylus to make a payment contemplated by this Section 8.2.

8.3 No Solicitation

- (a) Stylus shall immediately cease and cause to be terminated all existing discussions and negotiations, if any, with any parties conducted before the date of this Agreement with respect to any Take-over Proposal. Stylus shall immediately advise the Offeror orally and in writing of any response or action (actual, anticipated, contemplated or threatened) by any such party which could hinder, prevent or delay or otherwise adversely affect the completion of the Offer. Stylus agrees not to release any third party from any confidentiality or standstill obligation set forth in any agreement to which Stylus and such third party are parties.
- (b) Stylus shall not, nor shall it authorize or permit any of its Employees, financial advisors, counsel or other representatives to, directly or indirectly:

- (i) solicit, initiate or knowingly encourage the initiation or continuation of any inquiries, discussions, negotiations, proposals or offers from any Person (other than the Offeror and its Subsidiaries and their respective directors, officers, employees, agents, financial advisors, counsel or other representatives) in respect of any matter or thing which is inconsistent with the successful completion of the Offer and the acquisition by the Offeror of the Stylus Shares and Stylus Options, including any Take-over Proposal; or
- (ii) provide any confidential information to, participate in any discussions or negotiations relating to any Take-over Proposal with, or otherwise cooperate with or assist or participate in any effort to consider, review or initiate a Take-over Proposal by, any Person; *provided, however,* that Stylus and Stylus' Employees, financial advisors, counsel or other representatives shall not be bound by the foregoing restrictions in this Section 8.3(b)(ii) and, notwithstanding the other provisions of this Section 8.3(b)(ii), they may take any of the actions referenced above in this Section 8.3(b)(ii) (including, without limitation, subject to Section 2.3(c)(iii), accepting, approving and entering into an agreement to implement the same), in respect of any proposal or offer in writing received by Stylus from another third party, which offer was not solicited by Stylus or any of Stylus' Employees, agents, financial advisors, counsel or other representatives after the date hereof, which the board of directors of Stylus, after receiving advice from its financial and outside legal advisors as reflected in the minutes of the board of directors of Stylus (confirmation of which shall be immediately delivered to the Offeror) that they believe is reasonably likely to become a Superior Proposal and at any such time that Stylus or its board of directors starts to provide any confidential information in accordance with this proviso, Stylus shall so immediately notify the Offeror of any such provision of confidential information and *provided further* that the provision of any such confidential information shall be on terms and conditions no more favourable to such other party than those contained in the Confidentiality Agreement.

8.4 Stylus Board of Directors

The board of directors of Stylus immediately following the acquisition by the Offeror of more than the Minimum Condition pursuant to the Offer and the payment by the Offeror for such Stylus Shares shall be reconstituted through resignations of all existing Stylus directors and the appointment of nominees of the Offeror in their stead. Stylus shall, in accordance with the foregoing and subject to the provisions of the ABCA, assist the Offeror to secure the resignations of all Stylus directors to be effective at such time as may be required by the Offeror and to use reasonable commercial efforts to cause the election of the Offeror nominees to fill the vacancies so created in order to effect the foregoing without the necessity of a shareholder meeting.

8.5 Officer's Certificate

Stylus shall deliver a certificate of its President or other officer of Stylus acceptable to the Offeror, acting reasonably, dated the Take-up Date to the effect that the representations and warranties of Stylus as contained in this Agreement are true and correct in all material respects as of such date (except to the extent such representations and warranties are varied as a result of any matter permitted or consented to under this Agreement or consented to expressly in writing by the Offeror) and that all obligations of Stylus under this Agreement have been performed, in all material respects, as of such date.

ARTICLE 9 COVENANTS OF OFFEROR

9.1 Availability of Funds

The Offeror covenants and agrees that at all times when the Offer is outstanding, the Offeror shall not take any action, or fail to take any action, which would or could result in the representation and warranty set out in Section 5.4 being untrue in any material respect at any time while the Offer is outstanding.

9.2 Officers' and Directors' Insurance

The Offeror agrees to use reasonable commercial efforts to secure directors' and officers' liability insurance coverage for Stylus' current and former directors and officers on a five year "trailing" or "runoff" basis from and after the Effective Time. If a "trailing" policy is not available, then the Offeror agrees that for the entire period from the Effective Time until five years after the Effective Time, the Offeror will cause Stylus or any successor to Stylus to maintain Stylus' current directors' and officers' insurance policy or an equivalent policy subject in either case to terms and conditions no less advantageous to the directors and officers of Stylus than those contained in the policy in effect on the date hereof, for all present and former directors and officers of Stylus, covering claims made prior to or within five years after the Effective Time.

9.3 Indemnities and Officer Obligations

The Offeror agrees that if it acquires Stylus Shares under the Offer it shall cause Stylus to fulfil its obligations pursuant to:

- (a) indemnities provided or available to past and present officers and directors of Stylus pursuant to the provisions of the by-laws of Stylus, the ABCA or indemnity agreements with such officers or directors, a sample of which has been provided to the Offeror, (and further agrees that it will not take any action and will ensure that Stylus takes no action that would have the effect of terminating such indemnity rights or rendering the same unavailable to such directors and officers); and
- (b) the Officer Obligations to the maximum amount as set forth in Section 6.15.

9.4 Employee Severance

In the event that the employment of any Employee (other than the executive officers of Stylus pursuant to employment agreements as disclosed herein) has not been offered comparable employment with Stylus or another affiliate of the Offeror immediately following the Effective Time, the Offeror shall permit Stylus to pay severance amounts to such employees as set forth in the Disclosure Letter.

9.5 Third Party Beneficiaries

The provisions of Section 9.3 are:

- (a) intended for the benefit of all present and former directors and officers of Stylus and its predecessors, as and to the extent applicable in accordance with their terms, and shall be enforceable by each of such Persons and his or her heirs, executors, administrators and other legal representatives (collectively, the "**Third Party Beneficiaries**"); and Stylus shall hold the rights and benefits of Section 9.3 in trust for and on behalf of the Third

Party Beneficiaries and Stylus hereby accepts such trust and agrees to hold the benefit of and enforce performance of such covenants on behalf of the Third Party Beneficiaries; and

- (b) in addition to, and not in substitution for, any other rights that the Third Party Beneficiaries may have by contract or otherwise.

ARTICLE 10

MUTUAL COVENANTS

10.1 Other Filings

The Offeror and Stylus shall, as promptly as practicable hereafter, prepare and file any filings required under the Competition Act, any Securities Law, or any other Law relating to the transactions contemplated herein.

10.2 Additional Agreements

Subject to the terms and conditions herein provided and to fiduciary obligations under the Law, each of the parties agrees to use all commercially reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective as promptly as practicable the transactions contemplated by this Agreement and to cooperate with each other in connection with the foregoing, including using commercially reasonable efforts:

- (a) to obtain all necessary waivers, consents and approvals from other parties to material agreements, leases and other contracts or agreements (including, without limitation, the agreement of any Persons as may be required pursuant to any agreement, arrangement or understanding relating to Stylus' operations);
- (b) to obtain all necessary consents, approvals and authorizations as are required to be obtained under any Law including Competition Act Approval;
- (c) to defend all lawsuits or other legal proceedings challenging this Agreement or the consummation of the transactions contemplated hereby;
- (d) to cause to be lifted or rescinded any injunction or restraining order or other order adversely affecting the ability of the parties to consummate the transactions contemplated hereby;
- (e) to effect all necessary registrations and other filings and submissions of information requested by Governmental Bodies; and
- (f) to fulfil all conditions and satisfy all provisions of this Agreement and the Offer.

For purposes of the foregoing provisions of this Section 10.2, the obligation to use "commercially reasonable efforts" to obtain waivers, consents and approvals to loan agreements, leases and other contracts shall not include any obligation to agree to a materially adverse modification of the terms of such documents or to prepay or incur additional material obligations to such other parties.

10.3 Competition Act Filing

- (a) Each of the Offeror and Stylus shall use its commercially reasonable efforts to take such action as may be required to secure Competition Act Approval with respect to the transactions contemplated by this Agreement. Notwithstanding any other provision herein, in no event will the Offeror or any of its affiliates be required hereunder or otherwise to agree to any hold-separate, divestiture or other order, decree or restriction on the businesses of the Offeror, Stylus or their respective affiliates, or any other business, the conduct thereof or future transactions.
- (b) Stylus and the Offeror shall coordinate and cooperate in exchanging information and supplying assistance that is reasonably requested in connection with this Agreement including providing each other with advanced copies and reasonable opportunity to comment on all notices and information supplied to or filed with any Governmental Body (except for notices and information which Stylus or the Offeror, in each case acting reasonably, considers highly confidential and sensitive which may be provided on a confidential and privileged basis to outside counsel of the other party), and all notices and correspondence received from any Governmental Body. Each party shall provide the other party with the opportunity to participate in conferences and meetings with the relevant Governmental Body.

10.4 Access to Information

Subject to the existing Confidentiality Agreement, Stylus shall afford the Offeror's officers, employees, counsel, accountants and other authorized representatives and advisors reasonable access, during normal business hours and at such other time or times as the Offeror may reasonably request from the date hereof and until the expiration of this Agreement, to its properties, books, contracts and records as well as to its management personnel, and, during such period, Stylus shall furnish promptly to the Offeror all information concerning its business, properties and personnel as the Offeror may reasonably request, provided such access does not cause any unreasonable disruptions to Stylus' business or operations prior to the Effective Time.

10.5 Compliance with Privacy Laws

None of the parties shall use the disclosed Personal Information for any purposes other than those related to the performance of this Agreement and the completion of the transactions contemplated by this Agreement. Each of the parties acknowledges and confirms that the disclosure of Personal Information is necessary for the purposes of determining if the parties shall proceed with the transactions contemplated hereby, and that the disclosure of Personal Information relates solely to the carrying on of the business, or the completion of the transactions contemplated hereby. The Offeror shall at all times keep strictly confidential all disclosed Personal Information provided to it, and shall instruct those employees responsible for processing such disclosed Personal Information to protect the confidentiality of that information in a manner consistent with Offeror's obligations hereunder. Offeror shall ensure that access to the disclosed Personal Information shall be restricted to those employees or service providers of the Offeror who have a bona fide need to access to that information. If this Agreement is terminated, the Offeror shall forthwith cease all use of the disclosed Personal Information acquired by Offeror in connection with this Agreement and will return to Stylus or, at Stylus' request, destroy in a secure manner, the disclosed Personal Information (and any copies thereof).

ARTICLE 11
TERMINATION, AMENDMENT AND WAIVER

11.1 Termination

This Agreement may be terminated by written notice given to the other party, at any time prior to completion of the transactions contemplated hereby:

- (a) by mutual written consent of Stylus and the Offeror;
- (b) by either the Offeror or Stylus if the Offeror shall not have taken up and paid for the Minimum Required Shares under the Offer on or before the times required by this Agreement, unless the absence of such occurrence shall be due to the failure of the party seeking to terminate this Agreement to perform the obligations under this Agreement required to be performed by it;
- (c) by either the Offeror or Stylus if a Governmental Body shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting any of the transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and non-appealable, provided that the party seeking to terminate this Agreement pursuant to this Section 11.1(c) shall have used all commercially reasonable efforts to remove such order, decree, ruling or injunction;
- (d) by either the Offeror or Stylus if the Offer terminates or expires at the Expiry Time, without the Offeror taking up and paying for any Stylus Shares on account of the failure of any condition specified in Schedule 2.1(a) which has not been waived by the Offeror, unless the absence of such occurrence shall be due to the failure of the party seeking to terminate this Agreement to perform the obligations under this Agreement required to be performed by it;
- (e) by either the Offeror or Stylus if there has been a misrepresentation, breach or non-performance by the other party of any representation, warranty, obligation or covenant contained in this Agreement which would have or would be reasonably likely to have a material adverse effect on the party seeking to terminate the Offer or would materially impede completion of the Offer, provided the breaching party has been given notice of and three Business Days to cure any such misrepresentation, breach or non-performance including, without limitation, any withdrawal of the recommendation of Stylus' board of directors as set forth in Section 2.3(a) contrary to the provisions hereof (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the time specified in Section 11.1(h));
- (f) by the Offeror if Stylus enters into an agreement providing for a Superior Proposal;
- (g) by Stylus if the Offeror has not mailed the Offer Documents to the holders of the Stylus Shares by 11:59 p.m. (Calgary time) on July 20, 2007 (provided such failure to mail has not been caused by any act or failure to act by Stylus);
- (h) by Stylus if the Take-up Date has not occurred within 60 days of the Initial Expiry Time;

- (i) by the Offeror if the Offeror has the right pursuant to Section 2.2 to refuse to make the Offer;
- (j) by the Offeror if the Stylus Non-Completion Fee is payable in accordance with Section 8.2; or
- (k) by Stylus if the Stylus Non-Completion Fee is payable in accordance with Section 8.2 and is paid by Stylus.

11.2 Effect of Termination

In the event of the termination of this Agreement as provided in Section 11.1, this Agreement shall forthwith have no further force or effect and there shall be no obligation on the part of the Offeror or Stylus hereunder except for the obligations Sections 8.2, 10.5 and 12.4 and this Section 11.2, which provisions shall survive the termination of this Agreement, *provided* that in the case of Section 8.2, the right of payment arose prior to termination. Nothing herein shall relieve any party from liability for any breach of this Agreement.

11.3 Amendment

This Agreement may be amended by mutual agreement between the parties. This Agreement may not be amended except by an express instrument in writing signed by the appropriate officers on behalf of each of the parties.

11.4 Waiver

Each of the Offeror, on the one hand, and Stylus, on the other hand, may:

- (a) extend the time for the performance of any of the obligations or other acts of the other;
- (b) waive compliance with any of the other's agreements or the fulfilment of any conditions to its own obligations contained herein; or
- (c) waive inaccuracies in any of the other's representations or warranties contained herein or in any document delivered by the other party,

provided, however, that any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

ARTICLE 12 GENERAL PROVISIONS

12.1 Notices

All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made as of the date delivered or sent if delivered personally or sent by telecopier to the parties at the following addresses (or at such other addresses as shall be specified by the parties by like notice):

(a) if to Stylus:

Stylus Energy Inc.
530, 400 – 5th Avenue S.W.

Calgary, Alberta

T2P 0L6

Attention: Paul Evans, President and CEO

Facsimile No.: (403) 517-8798

with a copy to:

Burnet, Duckworth & Palmer

1400, 350 – 7th Avenue S.W.

Calgary, Alberta

T2P 3N9

Attention: Steven Cohen

Facsimile No.: (403) 260-0332; and

(b) if to the Offeror:

Compton Petroleum Corporation

Suite 3100, 150 - 6th Avenue SW

Calgary, Alberta

T2P 3Y7

Attention: T.G. Millar, Vice-President, General Counsel & Corporate Secretary

Facsimile No.: (403) 237-9410

with a copy to:

Stikeman Elliott LLP

4300 Bankers Hall West

888 – 3rd Avenue S.W.

Calgary, Alberta

T2P 5C5

Attention: David R.J. Lefebvre

Facsimile No.: (403) 266-7821.

12.2 Miscellaneous

This Agreement:

- (a) except for the Confidentiality Agreement and the Disclosure Letter, constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the parties, with respect to the subject matter hereof; and
- (b) shall be binding upon and enure to the benefit of the parties and their respective successors and assigns.

The parties shall be entitled to rely upon delivery of an executed facsimile copy of the Agreement, and such facsimile copy shall be legally effective to create a valid and binding agreement among the parties. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the Province of Alberta having jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

12.3 Assignment

Except as expressly permitted by the terms hereof, neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by either of the parties without the prior express written consent of the other party. Notwithstanding the foregoing provisions of this Section 12.3, Compton may assign all or any part of its rights or obligations under this Agreement to a direct or indirect wholly-owned Subsidiary of Compton, *provided* that any such assignment will have no material adverse tax or other effects to Stylus or the holders of Stylus Shares, and *provided further* that if such assignment takes place, Compton shall continue to be liable to Stylus for any default in performance by the assignee.

12.4 Expenses

Except as provided in Section 8.2, all fees, costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such cost or expense, whether or not the Offer is consummated.

12.5 Severability

Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under Law. Any provision of this Agreement that is invalid or unenforceable in any jurisdiction shall be ineffective to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable the remaining provisions hereof, and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

12.6 Counterpart Execution

This Agreement may be executed in any number of counterparts and each such counterpart shall be deemed to be an original instrument but all such counterparts together shall constitute one agreement. A counterpart delivered by way of facsimile or electronic mail shall be as effective as an originally signed and delivered counterpart.

IN WITNESS WHEREOF, Stylus and the Offeror have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

COMPTON PETROLEUM CORPORATION

By: (signed) "T.G. Millar"
Name: T.G. Millar
Title: Vice-President, General Counsel &
Corporate Secretary

By: (signed) "N.G. Knecht"
Name: N.G. Knecht
Title: Vice-President, Finance & CFO

STYLUS ENERGY INC.

By: (signed) "Paul Evans"
Name: Paul Evans
Title: President and CEO

By: (signed) "William Dyer"
Name: William Dyer
Title: Vice-President, Finance and CFO

SCHEDULE 2.1(a)
CONDITIONS TO THE OFFER

The capitalized terms used in this Schedule 2.1(a) have the meanings set forth in the attached Pre-acquisition Agreement dated as of June 25, 2007 (the “**Agreement**”) between Stylus and the Offeror.

Notwithstanding any other provision of the Offer, but subject to the provisions of the Agreement, the Offeror reserves the right to withdraw or terminate the Offer and not take up and pay for, or to extend the period of time during which the Offer is open and postpone taking up and paying for, any Stylus Shares deposited under the Offer unless all of the following conditions are satisfied or waived by the Offeror:

- (a) at the Expiry Time, and at the time the Offeror first takes up and pays for Stylus Shares under the Offer, there shall have been validly deposited under the Offer and not withdrawn at least 66 $\frac{2}{3}$ % of the outstanding Stylus Shares, other than any Stylus Shares held at the date of the Offer by or on behalf of the Offeror or its affiliates (the “**Minimum Condition**”);
- (b) the Offeror shall have determined in its sole judgment, acting reasonably, that all necessary governmental, regulatory, and third party (under Stylus’ material contracts), approvals, orders, rulings, exemptions and consents (including without limitation, those of any stock exchanges or other securities or regulatory authorities) which, in the sole judgment of the Offeror, acting reasonably, are necessary or desirable shall have been obtained on terms and conditions satisfactory to the Offeror in its sole judgment, acting reasonably, and shall be in full force and effect, including without limiting the generality of the foregoing, any applicable waiting periods under any competition, merger control or similar laws, regulation or other Governmental Body having jurisdiction over Stylus, the Offeror, the Offer, or any other transaction contemplated by the Offer with respect to such matters shall have expired or been terminated in respect of such transactions and no objection or opposition shall have been filed, initiated or made during any applicable statutory or regulatory period;
- (c) without restricting the generality of paragraph (b) above, the Competition Act Approval shall have been granted;
- (d) no act, action, suit or proceeding shall have been threatened or taken before or by any domestic or foreign Governmental Body or 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 of the Offeror, acting reasonably:
 - (i) has the effect or may have the effect to cease trade, enjoin, prohibit or impose material limitations or conditions on the purchase by or the sale to the Offeror of the Stylus Shares or the right of the Offeror to own or exercise full rights of ownership of the Stylus Shares,
 - (ii) has a Material Adverse Effect; or
 - (iii) has a material adverse effect on the completion of any Subsequent Acquisition Transaction;

- (e) the Offeror shall have determined in its sole judgment, acting reasonably, that there shall not exist any prohibition at law against the Offeror making the Offer or taking up and paying for all of the Stylus Shares under the Offer or completing any Subsequent Acquisition Transaction in respect of any Stylus Shares not acquired under the Offer;
- (f) the Offeror shall have determined in its sole judgment, acting reasonably, that a Material Adverse Change has not occurred since the date of the Agreement;
- (g) the Offeror shall have determined in its sole judgment, acting reasonably, that no covenant, term or condition of any instrument or agreement of Stylus exists which might preclude the Offeror from proceeding with the Offer and/or with taking up and paying for the Stylus Shares under the Offer or completing any Subsequent Acquisition Transaction (including, without limitation, any default, acceleration or other adverse event that may ensue as a result of the Offeror taking up and paying for the Stylus Shares under the Offer or completing any Subsequent Acquisition Transaction);
- (h) Stylus shall not have breached, or failed to comply with, in any material respect, any of its covenants or other obligations under the Agreement and all representations and warranties of Stylus contained therein shall be true and correct in all material respects at the time of taking up and paying for Stylus Shares under the Offer, provided that Stylus shall have been given notice of three Business Days to cure any such breach or non-performance (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the time specified in Section 11.1(h) of the Agreement);
- (i) all outstanding Stylus Options to acquire Stylus Shares shall have been exercised or terminated or shall otherwise have been dealt with in a manner satisfactory to the Offeror; and
- (j) the Agreement shall not have been terminated pursuant to its terms.

SCHEDULE 2.3(b)
STYLUS ENERGY INC.
LOCK-UP AGREEMENT
FOR
MANAGEMENT SHAREHOLDERS

June ___, 2007

BETWEEN COMPTON PETROLEUM CORPORATION, a body corporate, incorporated under the laws of the Province of Alberta with an office in Calgary, Alberta ("**Compton**"); and

Name of Securityholder:	(the " Securityholder ")
-------------------------	---------------------------------

The Securityholder is the beneficial owner of, or exercises control and direction over _____ common shares ("**Stylus Shares**") and _____ convertible securities to acquire Stylus Shares (including options and other rights to acquire Stylus Shares) ("**Stylus Options**") of Stylus Energy Inc. ("**Stylus**").

Subject to the terms of an agreement dated as of June 25, 2007 entered into between Compton and Stylus (the "**Pre-acquisition Agreement**"), a copy of which is provided herewith, Compton has agreed that it or its wholly-owned subsidiary nominee (the "**Offeror**"), will make an offer (as amended, extended or varied from time to time, the "**Offer**") to all holders of all Stylus Shares (and all Stylus Shares issued on exercise of outstanding Stylus Options) on the basis of \$2.70 in cash per Stylus Share.

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, this document sets forth the agreement (the "**Agreement**") between the Securityholder and Compton, relating to the Securityholder tendering to the Offer (i) all of the Stylus Shares that the Securityholder beneficially owns, or over which it exercises control or direction, and (ii) any additional Stylus Shares that the Securityholder may become the beneficial owner of, or exercise control or direction over, including without limitation, any Stylus Shares acquired pursuant to the terms of the Stylus Options, after the date hereof.

Capitalized terms used in this Agreement and not otherwise defined shall have the meanings ascribed thereto in the Pre-acquisition Agreement.

ACKNOWLEDGED AND AGREED TO:

Witness as to the signature of Securityholder

(Signature of Securityholder)

(Please print name)

(Address, including postal code)

COMPTON PETROLEUM CORPORATION

By: _____

1. The Offer

- (a) The Offer will consist of an offer to purchase all of the issued and outstanding Stylus Shares (and all Stylus Shares issued on the exercise of outstanding Stylus Options) on the basis of \$2.70 in cash per Stylus Share. The Offer shall be made by way of a take-over bid and take-over bid circular prepared in accordance with the requirements of all applicable securities legislation and the regulations thereunder. The obligation of the Offeror to make the Offer and the obligations of the Offeror under the Offer to take up and pay for any Stylus Shares thereunder shall be subject to the conditions set forth in the Pre-acquisition Agreement, which are for the exclusive benefit of the Offeror, and, subject to the provisions of the Pre-acquisition Agreement, the Offeror shall have the right, in its sole discretion, to waive any of these conditions in whole or in part without prejudice to any other rights that it may have under the Offer.
- (b) The Offeror shall have the right to vary the Offer in such manner as the Offeror considers necessary or desirable and as is not inconsistent with any of the provisions of the Pre-acquisition Agreement and this Agreement. Without limitation, the Offeror and the Securityholder agree that the Offeror shall have the right, prior to making the Offer and at any time or times during the period that the Offer is outstanding, to increase the consideration for the Stylus Shares under the Offer and the Securityholder shall be entitled to receive any increased consideration in excess of the initial consideration that might be offered by the Offeror under the Offer.

2. Agreement to Tender and Not Withdraw

- (a) Subject to the terms and conditions hereof, the Securityholder hereby unconditionally and irrevocably agrees to deposit all of the Stylus Shares that the Securityholder beneficially owns, or over which it exercises control or direction and any additional Stylus Shares that the Securityholder may hereafter become the beneficial holder of or exercise control or direction over (including without limitation any Stylus Shares acquired pursuant to the terms of the Stylus Options) under the Offer not later than 10 days prior to the Initial Expiry Date (or such other date as may be agreed to by the Offeror).
- (b) Notwithstanding the rights granted to the Securityholder by applicable securities legislation or the terms of the Offer, but subject however to the provisions of Section 8 hereof, the Securityholder unconditionally and irrevocably agrees not to withdraw any of the Stylus Shares deposited by the Securityholder under the Offer until the earliest of:
 - (i) the date on which the Offer expires or is terminated without the Offeror taking up and paying for the Stylus Shares deposited under the Offer; and
 - (ii) the date on which this Agreement is terminated pursuant to Section 7 hereof.

3. Obligation of the Offeror to Purchase the Securities

Upon the terms and subject to the conditions of the Offer and the Pre-acquisition Agreement, the Offeror will accept for payment, and will take up and pay for, all Stylus Shares deposited and not withdrawn under the Offer promptly after the Expiry Time, and in any event within three Business Days of taking up the Stylus Shares.

4. Representations and Warranties of the Securityholder

The Securityholder represents and warrants to the Offeror, and acknowledges that the Offeror is relying upon such representations and warranties in entering into this Agreement, that:

- (a) the Securityholder has good and sufficient power, authority and right to enter into this Agreement and to complete the transactions contemplated hereby;
- (b) assuming the due execution and delivery of this Agreement by the Offeror, upon the execution and delivery of this Agreement by the Securityholder, this Agreement shall be a legal, valid and binding obligation of the Securityholder enforceable by the Offeror against the Securityholder in accordance with its terms, and the consummation by the Securityholder of the transactions contemplated hereby will not constitute a violation of or default under, or conflict with, any contract, commitment, agreement, arrangement, understanding or restriction of any kind to which the Securityholder is a party or by which the Securityholder is bound;
- (c) the Securityholder is the beneficial owner of the Stylus Shares and Stylus Options listed on the face page of this Agreement (and the Stylus Shares and Stylus Options listed on the face page of this Agreement represent all of the Stylus Shares and rights to acquire Stylus Shares beneficially owned or over which control or direction is exercised by the Securityholder), and such Stylus Shares and Stylus Options, as of the date of deposit of the Stylus Shares hereunder and as at the Take-up Date, will be, free and clear of all Encumbrances, and the Securityholder has, and at the Take-up Date will have, good and sufficient power, authority and right to transfer or cause to be transferred the legal and beneficial title to such Stylus Shares to the Offeror with good and marketable title thereto;
- (d) no person, firm or corporation will have, as of the date of deposit of the Stylus Shares hereunder and as at the Take-up Date, any agreement or option, or any right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement or option, for the purchase, acquisition or transfer of any of the Stylus Shares or Stylus Options or any interest therein or right thereto, except pursuant to this Agreement;
- (e) the Securityholder is resident in the jurisdiction given as the Securityholder's address on the face page of this Agreement;
- (f) the Securityholder, persons with whom the Securityholder does not deal at arm's length within the meaning of the *Income Tax Act* (Canada), or the Securityholder together with all such persons, do not own, and have not owned at any time during the preceding five years, 25% or more of the issued shares of any class of the capital stock of Stylus; and
- (g) the foregoing representations and warranties will be true, correct and complete on the date on which the Offer is made and on the date on which the Offeror purchases the Stylus Shares.

5. Covenants of the Securityholder

- (a) The Securityholder covenants and agrees with the Offeror that so long as the Securityholder is not entitled to withdraw the Stylus Shares owned by the Securityholder from the Offer, the Securityholder will not, and, subject to the terms of the Pre-acquisition Agreement, will use its commercially reasonable efforts to cause its representatives and advisors not to, directly or indirectly:

- (i) solicit, initiate, assist, facilitate, promote or encourage (including, without limitation, by way of furnishing information) any inquiry or the making of any inquiry, discussion, negotiation or proposal to Stylus or its securityholders from any person which constitutes, or may reasonably be expected to lead to (in either case whether in one transaction or a series of transactions) a Take-over Proposal (as defined in the Pre-acquisition Agreement) or any other transaction, the consummation of which would or could reasonably be expected to impede, interfere with, prevent or delay the transactions contemplated by the Pre-acquisition Agreement or the Offer or which would or could reasonably be expected to materially reduce the benefits to the Offeror under the Pre-acquisition Agreement or the Offer (any such inquiry or proposal in respect of any of the foregoing being an “**Acquisition Proposal**”);
- (ii) enter into or participate in any discussions or negotiations regarding a Take-over Proposal or an Acquisition Proposal, or, except in the ordinary course of business, furnish to any other person any information with respect to the business, properties, operations, prospects or conditions (financial or otherwise) of Stylus or its subsidiaries (if any) or otherwise cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt of any other person to do or seek to do any of the foregoing;
- (iii) furnish or cause to be furnished any non-public information concerning the business, results of operations, assets, liabilities, prospects, financial condition or affairs of Stylus or any of its subsidiaries (if any) to any person, company or other entity other than the Offeror and its representatives, other than as disclosed prior to the date hereof, or in accordance with the terms of the Pre-acquisition Agreement; or
- (iv) take any action that might reasonably be expected to reduce the likelihood of success of the Offer, subject to the fiduciary duties of a Securityholder who is a director or officer of Stylus,

subject in each case to the fiduciary duties of a Securityholder who is a director or officer of Stylus and, without limiting the generality of the foregoing, the Securityholder shall be entitled to recommend to holders of Stylus Shares acceptance of a Superior Proposal (as defined in the Pre-acquisition Agreement) and take any action permitted under the Pre-acquisition Agreement in respect of a Superior Proposal.

- (b) The Securityholder will immediately cease and cause to be terminated all existing discussions and negotiations, if any with any party other than the Offeror conducted before the date of this Agreement with respect to a Take-over Proposal or an Acquisition Proposal.
- (c) The Securityholder covenants and agrees with the Offeror, so long as the Securityholder is not entitled to withdraw the Stylus Shares owned by the Securityholder from the Offer, and (as applicable) thereafter, so long as it is subject to the terms of this Agreement, that it shall:
 - (i) not sell, assign, convey or otherwise dispose any of the Stylus Shares other than as contemplated herein;

- (ii) not exercise any shareholder rights or remedies available at common law or pursuant to applicable securities or corporate laws to delay, hinder, upset or challenge the Offer;
- (iii) if a director, officer or employee of Stylus:
 - (A) exercise, prior to the Expiry Time, all existing Stylus Options issued pursuant to the Stock Option Plan held by it to acquire Stylus Shares, or agree to terminate all remaining Stylus Options as contemplated by the Pre-acquisition Agreement, and
 - (B) take all necessary actions to effect the reconstitution of the board of directors of Stylus contemplated by the Pre-acquisition Agreement and to resign as a director and/or officer of Stylus effective on such date as provided for pursuant to the Pre-acquisition Agreement;
- (iv) subject to the provisions of Section 8 hereof, exercise all voting rights attached to the Stylus Shares and Stylus Options owned or controlled by the Securityholder, to vote against any resolution to be considered by the Securityholders of Stylus that, if approved, could reasonably be considered to reduce the likelihood of success of the Offer;
- (v) subject to the provisions of Section 8 hereof and, to the extent it is within its power, support, and will request its agents and representatives (subject to any fiduciary duties to which they may be subject) to take or do all reasonable actions and steps necessary, proper or advisable toward, the successful completion of the Offer on the terms contained therein; and
- (vi) not take any action or fail to take any action, that would render, or that reasonably may be expected to render, any representation or warranty made by the Securityholder in this Agreement untrue in any material respect.

6. Representations and Warranties of Offeror

The Offeror represents and warrants to the Securityholder, and acknowledges that the Securityholder is relying upon such representations and warranties in entering into this Agreement, that:

- (a) it has good and sufficient power, authority and right to enter into this Agreement and to complete the transactions contemplated hereby;
- (b) upon the due execution and delivery of this Agreement by the Securityholder, this Agreement shall be a legal, valid and binding obligation of the Offeror enforceable by the Securityholder against the Offeror in accordance with its terms, and the consummation by it of the transactions contemplated hereby will not constitute a violation of or default under, or conflict with, any contract, commitment, agreement, arrangement, understanding or restriction of any kind to which it is a party or by which it is bound; and
- (c) the foregoing representations and warranties will be true, correct and complete on the date on which the Offer is made and on the date on which the Offeror purchases the Stylus Shares.

7. Termination

- (a) Subject to Section 8 hereof, the obligations of the Securityholder under this Agreement shall terminate at the option of the Securityholder:
 - (i) upon written notice given by the Securityholder to the Offeror, if the Offeror has not mailed the Offer Documents to the Securityholder by 11:59 p.m. (Calgary time), on July 20, 2007 (provided such failure has not been caused by any act or failure to act by Stylus);
 - (ii) upon written notice given by the Securityholder to the Offeror, if the Offeror has breached or failed to perform any of its covenants or agreements herein contained in a material respect or any of the representations and warranties of the Offeror set forth herein are not true and correct in any material respect;
 - (iii) with no further action on behalf of the Securityholder, if the Pre-acquisition Agreement is terminated pursuant to Article 11 thereof; or
 - (iv) the Take-up Date shall not have occurred within 60 days of the Initial Expiry Time.
- (b) The obligations of the Offeror under this Agreement shall terminate at the option of the Offeror:
 - (i) upon written notice given by the Offeror to the Securityholder, if the Securityholder has breached or failed to perform and satisfy any of its covenants or agreements herein contained in a material respect or any of the representations and warranties of the Securityholder contained herein are not true and correct in any material respect; or
 - (ii) with no further action on behalf of the Offeror, if the Pre-acquisition Agreement has terminated.
- (c) This Agreement may also be terminated by the mutual written consent of the Securityholder and the Offeror.
- (d) In the event of the termination of this Agreement, this Agreement shall forthwith become void and of no further force or effect and there shall be no liability on the part of any party hereto, provided that the foregoing shall not relieve any party from any liability for any breach of this Agreement.

8. Ability to Tender to a Superior Proposal

In the event that a Superior Proposal is made to purchase Stylus Shares and the Offeror does not increase the consideration offered under the Offer (as hereinafter provided) to a price equal to or greater than such higher consideration offered under the Superior Proposal (as determined by Stylus' board of directors on the advice of its financial advisors) by the earlier of:

- (a) three Business Days after the date the Competing Offer is made, and
- (b) the date on which the Offer expires or is terminated,

then the Securityholder shall be entitled to withdraw any of the Stylus Shares deposited to the Offer (and shall not be required to deposit any Stylus Shares under the Offer) in order to deposit such Stylus Shares to, or to vote them in favour of, the Superior Proposal. In the event the Superior Proposal has expired and any Stylus Shares deposited to the Superior Proposal have not been acquired pursuant to the Superior Proposal and the Offer has not expired or been terminated, then the Securityholder shall redeposit such Stylus Shares in acceptance of the Offer as herein provided.

9. Notice

Any notice or other communication required or permitted to be given hereunder shall be sufficiently given if delivered personally or by fax:

- (a) in the case of the Securityholder, to the address appearing on the first page of this letter:
- (b) in the case of Compton, to:

Compton Petroleum Corporation

Fifth Avenue Place, East Tower

Suite 3300, 425 - 1st Street S.W.

Calgary, Alberta T2P 3L8

Facsimile: (403) 237-9410

Attention: Vice-President, General Counsel & Corporate Secretary

or at such other address as the party to which such notice or other communication is to be given has last notified the party giving the same in the manner provided in this paragraph.

10. Expenses

Each party hereto agrees to pay its own expenses incurred in connection with this Agreement.

11. Public Disclosure

No disclosure of the subject matter of this Agreement shall be made by the Securityholder or by the Offeror except to their respective counsel or to any other professional advisor engaged by them or to their respective counsel or as may be required by applicable law or regulatory authorities; *provided, however*, that the foregoing shall not prevent the Offeror from disclosing the terms of this Agreement in the Offer in such manner as the Offeror or its counsel, acting reasonably, consider appropriate. Subject to compliance with any disclosure obligation imposed by law, the parties shall co-ordinate the making and dissemination of any public announcement relating to the subject matter of this Agreement.

12. Amendments

This Agreement may not be modified, amended, altered or supplemented except upon the execution and delivery of a written agreement executed by the Offeror and the Securityholder.

13. Time

Time shall be of the essence of this Agreement.

14. Successors and Assigns

- (a) The Offeror may assign its rights under this Agreement to a wholly-owned direct or indirect subsidiary of the Offeror but, if such assignment takes place, the Offeror shall continue to be liable to the Securityholder hereunder and for any default in performances by the assignee.
- (b) This Agreement shall not otherwise be assignable by any party hereto. Subject to the foregoing, this Agreement shall be binding upon, enure to the benefit of and be enforceable by the Securityholder, the Offeror and their respective heirs, legal representatives, successors and permitted assigns, as applicable.

15. Survival

The representations, warranties and covenants of the Securityholder and of the Offeror herein shall survive the consummation of the Offer and the purchase of Stylus Shares by the Offeror thereunder and shall continue in full force and effect for a period of two years from the date hereof.

16. Remedies

The Securityholder agrees that if this Agreement is breached, or if a breach hereof is threatened, damages may be an inadequate remedy, and, therefore, without limiting any other remedy available at law or in equity, an injunction, restraining order, specific performance, and other forms of equitable relief for damages, or any combination thereof shall be available to the Offeror.

17. Further Assurances

The Securityholder shall from time to time and at all times hereafter at the request of the Offeror or Stylus but without further consideration, do and perform all such further acts, matters and things and execute and deliver all such further documents, deeds, assignments, agreements, notices and writings and give such further assurances as shall be reasonably required for the purpose of giving effect to this Agreement.

18. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Alberta and the federal laws of Canada applicable therein and the parties irrevocably attorn to the jurisdiction of the courts of the Province of Alberta.

19. Execution

This Agreement may be executed in one or more counterparts, and each such counterpart shall be deemed to be an original instrument but all such counterparts together shall constitute one agreement. A counterpart delivered by way of facsimile or electronic mail shall be as effective as an originally signed and delivered counterpart.

20. Alternative Structure

The Securityholder and the Offeror acknowledge and agree that, based upon tax, corporate, securities and other considerations, the Offeror may determine that it is more advantageous or appropriate to carry out the proposed acquisition contemplated by this Agreement by way of plan of arrangement, amalgamation or other procedure. In the event that the Offeror determines to carry out the proposed acquisition pursuant to such alternative procedure, the terms and conditions hereof shall apply, *mutatis mutandis*, to the alternate arrangement with such changes and modifications thereto as are necessary or desirable to implement such alternate procedure and give effect to the intentions of the parties contained herein.

21. Severance

If any term, condition or provision in this Agreement is determined to be void or unenforceable in whole or in part, such term, condition or provision shall be severable from all other terms conditions and provisions hereof and shall not affect or impair the validity of any other term, condition or provision hereof.

SCHEDULE 2.3(d)
CONDITIONS IN FAVOUR OF STYLUS

The capitalized terms used in this Schedule 2.3(d) have the meanings set forth in the attached Pre-Acquisition Agreement dated as of June 25, 2007 (the “**Pre-Acquisition Agreement**”) between the Offeror and Stylus.

Notwithstanding any other provision of the Pre-Acquisition Agreement, the board of directors of Stylus reserves the right to withdraw, modify or amend its recommendation with respect to the Offer unless all of the following conditions are satisfied or waived by Stylus prior to the Expiry Time:

- (a) all requisite regulatory approvals and consents (including, without limitation, those of any stock exchanges or other securities or regulatory authorities) shall have been obtained and all applicable statutory or regulatory waiting periods shall have expired or been terminated and no objection or opposition shall have been filed, initiated or made during any applicable statutory or regulatory period;
- (b) without restricting the generality of paragraph (b) above, the Competition Act Approval shall have been granted; and
- (c)
 - (i) no order shall have been issued by any domestic or foreign Governmental Body, and
 - (ii) no law shall have been enacted;

which has the effect or may have the effect of cease trading, enjoining or prohibiting the purchase by, or the sale to, the Offeror of the Stylus Shares.

SCHEDULE 3.1(c)
FORM OF PRESS RELEASE

COMPTON PETROLEUM CORPORATION
TO MAKE OFFER TO ACQUIRE
STYLUS ENERGY INC.

Calgary, Alberta, June 25, 2007 – Compton Petroleum Corporation (“Compton”) and Stylus Energy Inc. (“Stylus”) are pleased to jointly announce that they have entered into an agreement whereby Compton will offer to acquire, by way of a take-over bid, all of the issued and outstanding common shares of Stylus on a fully diluted basis (the “Offer”) for cash consideration of \$2.70 per common share of Stylus. The total value of the Offer is approximately \$91 million, including the assumption of approximately \$12 million of net debt (before option proceeds and transaction costs). The Offer represents a 20% premium to the most recent closing price of the common shares of Stylus.

“I am pleased to be able to announce the proposed acquisition of Stylus,” said Ernie Sapieha, President & C.E.O. of Compton. “This transaction fits with our strategy of continued growth in our core areas and our focus on natural gas resource plays. The acquisition of Stylus creates significant operational synergies at Vulcan, Alberta and adds an attractive portfolio of additional drilling prospects which will enhance our ability to execute our business plan.”

Paul Evans, President & C.E.O. of Stylus, added, “This transaction represents excellent value for Stylus shareholders. Compton, with its large land holdings and operational expertise, is the logical company for us to transact with.”

Compton will acquire an attractive suite of natural gas focused properties in Compton’s existing core areas. The majority of the properties are operated and are characterized by high working interests, low operating costs and high field netbacks.

Transaction highlights:

- reserve acquisition metrics (based on Compton’s internal estimates of reserves effective June 1, 2007 and net of undeveloped land and seismic value) of \$24.49/boe on proved reserves of 2,677 mboe and \$16.24/boe on proved plus probable reserves of 4,038 mboe;
- production acquisition metric (net of undeveloped land value) of \$40,279/boe/d based on Stylus’ production of approximately 2,000 boe/d;
- Stylus’ has 131,706 net acres of undeveloped land with an ascribed value of \$10.6 million;
- Additionally, Stylus has a proprietary interest in 4,852 kilometers of 2D and 962 sq. kilometers of new 3D seismic with a combined value of approximately \$15 million.

Management and Board Recommendations

The Offer will be subject to certain conditions, including the deposit of not less than 66 2/3% of the outstanding common shares of Stylus (on a fully diluted basis), receipt of all regulatory approvals and other customary conditions. In addition, Stylus has agreed that it will not solicit or initiate discussions or negotiations with any third party for any take-over bid or other business combination involving Stylus and Compton has the right to match any unsolicited competing proposals. Under certain circumstances, Stylus has agreed to pay a non-completion fee of \$2 million to Compton. A take-over bid circular detailing the Offer is anticipated to be mailed to shareholders of Stylus on or about July 9, 2007, with closing anticipated in mid August 2007.

The Offer has the unanimous support of the board of directors of both Compton and Stylus. Peters & Co. Limited acted as exclusive financial advisor to Stylus and has provided Stylus' board of directors with its opinion, subject to review of final documentation, that the consideration to be received under the Offer is fair from a financial point of view to the shareholders of Stylus. The board of directors of Stylus has unanimously approved the Offer and has concluded that the Offer is in the best interests of Stylus shareholders and is unanimously recommending that shareholders of Stylus tender their shares to the Offer. Shareholders of Stylus, including all directors and officers, holding approximately 5.5% of the issued and outstanding common shares of Stylus, have entered into lock-up agreements with Compton whereby they have agreed to tender their shares to the Offer, subject to certain exceptions.

FirstEnergy Capital Corp. is acting as exclusive financial advisor to Compton in connection with the Offer.

Compton Petroleum Corporation is a Calgary-based public company actively engaged in the exploration, development, and production of natural gas, natural gas liquids, and crude oil in the Western Canada Sedimentary Basin. Compton's shares are listed on the Toronto Stock Exchange under the symbol "CMT" and on the New York Stock Exchange under the symbol "CMZ".

Stylus is a Calgary based junior oil and natural gas company with operations in Alberta. The common shares of Stylus are listed on the Toronto Stock Exchange and trade under the symbol "STY".

This press release shall not constitute an offer to sell or the solicitation of an offer to buy any securities nor shall there be any sale of securities in any state in the United States in which such offer, solicitation or sale would be unlawful. The securities will not be and have not been registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States, or to a U.S. person, absent registration or applicable exemption from registration requirements.

READER ADVISORY

The term "boe" may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Statements in this press release may contain forward-looking information including the making of the Offer by Compton, and the timing and conditions thereof. The reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect. Events or circumstances may cause actual results to differ materially from those predicted, as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the companies. These risks include, but are not limited to: the risks associated with the oil and gas industry, commodity prices and exchange rate changes. Industry related risks include, but are not limited to; operational risks in exploration, development and production, delays or changes in plans, risks associated with the uncertainty of reserve estimates, health and safety risks and the uncertainty of estimates and projections of reserves, production, costs and expenses. The reader is cautioned not to place undue reliance on this forward-looking information.

The reader is further cautioned that the preparation of financial statements in accordance with generally accepted accounting principles requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Estimating reserves is also critical to several accounting estimates and requires judgments and decisions based upon available geological, geophysical, engineering and economic data. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes.

For further information please contact:

Compton Petroleum Corporation

E.G. Sapieha,
President and Chief Executive Officer
or
N.G. Knecht,
Vice President, Finance and Chief Financial Officer

Telephone: (403) 237-9400
Facsimile: (403) 237-9410
Email: investorinfo@comptonpetroleum.com
Website: www.comptonpetroleum.com

Stylus Energy Inc.

Paul Evans,
President and Chief Executive Officer
or
William Dyer
Vice President, Finance and Chief Financial
Officer

Telephone: (403) 517-8799
Facsimile: (403) 264-8798
Email: pevans@stylusenergy.com
Website: www.stylusenergy.com