

ARRANGEMENT AGREEMENT

between

QUESTERRE ENERGY CORPORATION

and

MAGNUS ENERGY INC.

Dated the 20th day of August, 2007, as amended and
restated effective the 3rd day of October, 2007

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ARRANGEMENT AGREEMENT

THIS AGREEMENT made as of the 20th day of August, 2007, as amended and restated effective the 3rd day of October, 2007.

BETWEEN:

QUESTERRE ENERGY CORPORATION, a corporation existing under the *Business Corporations Act* (Alberta) ("**Questerre**")

- and -

MAGNUS ENERGY INC., a corporation existing under the *Business Corporations Act* (Alberta) ("**Magnus**")

WHEREAS Questerre and Magnus propose to effect a business combination to combine the business and assets of Magnus with those of Questerre;

AND WHEREAS the parties hereto intend to carry out the proposed business combination by way of a plan of arrangement under the provisions of the *Business Corporations Act* (Alberta);

AND WHEREAS the parties hereto have entered into this Agreement, as amended and restated, to provide for the matters referred to in the foregoing recitals and other matters relating to such arrangement;

NOW THEREFORE in consideration of the mutual covenants and agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each of the parties hereto, the parties hereto hereby covenant and agree as follows:

ARTICLE 1

DEFINITIONS, INTERPRETATION AND SCHEDULES

1.1 Definitions

In this Agreement, unless the context otherwise requires, the following words and terms with the initial letter or letters thereof capitalized shall have the meaning ascribed to such capitalized word or term below:

- (a) "**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as from time to time amended or re-enacted;
- (b) "**Acquisition Proposal**" means with respect to Magnus, any inquiry or the making of any proposal to Magnus or the Magnus Shareholders 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): (i) an acquisition from Magnus or the Magnus Shareholders of any securities of Magnus (other than on exercise of currently outstanding Magnus Options); (ii) any acquisition of more than 20% of the total assets of Magnus; (iii) an amalgamation, arrangement, merger, or consolidation involving Magnus; or (iv) any take-over bid, issuer bid, exchange offer, recapitalization, liquidation, dissolution, reorganization into a royalty trust or income fund or similar transaction involving Magnus;
- (c) "**affiliate**" has the meaning set forth in the ABCA;

- (d) **“Agreement”, “this Agreement”, “herein”, “hereto”, and “hereof”** and similar expressions refer to this arrangement agreement, as the same may be amended or supplemented from time to time and, where applicable, to the appropriate Schedules hereto;
- (e) **“Arrangement”** means the arrangement under the provisions of section 193 of the ABCA on the terms and conditions set forth in the Plan of Arrangement, subject to any amendment, modification or supplement thereto made in accordance therewith or at the direction of the Court in the Final Order;
- (f) **“Articles of Arrangement”** means articles of arrangement in respect of the Arrangement required by the ABCA to be filed by the Registrar after the Final Order is made;
- (g) **“BOE”** means barrels of oil equivalent of natural gas and crude oil converted on the basis of 1 BOE for 6 Mcf of natural gas and **“MBOE”** means 1,000 BOEs;
- (h) **“Business Day”** means a day, other than a Saturday, Sunday or other day when banks in the City of Calgary, Alberta are not generally open for business;
- (i) **“Canadian GAAP”** means generally accepted accounting principles in Canada;
- (j) **“Certificate”** means the certificate giving effect to the Arrangement issued by the Registrar pursuant to subsection 193(11) of the ABCA;
- (k) **“Court”** means the Court of Queen’s Bench of Alberta;
- (l) **“Debt Conversion”** means the proposed conversion of the Magnus debt set out in section 3.9 hereof into Magnus A Shares for which Magnus will seek the approval of the TSXV and Magnus Shareholders at the Meeting;
- (m) **“Disclosed Information”** means: (i) all information disclosed pursuant to the Disclosure Letter provided by Magnus to Questerre dated August 20, 2007; (ii) the Magnus Confidentiality Agreement prior to the date hereof; and (ii) the Public Record;
- (n) **“Disclosure Letter”** means the disclosure letter provided by Magnus or Questerre, as the case may be, dated the date hereof;
- (o) **“Documents of Title”** means, collectively, any and all certificates of title, leases, permits, licences, unit agreements, assignments, trust declarations, royalty agreements, operating agreements or procedures, participation agreements, farm in and farm out agreements, sale and purchase agreements, pooling agreements and other agreements by virtue of which the Magnus Interests or the Questerre Interests, as the case may be, are derived;
- (p) **“Effective Date”** means the date Articles of Arrangement are filed with the Registrar;
- (q) **“Effective Time”** means the time on the Effective Date at which Articles of Arrangement are filed with the Registrar;
- (r) **“Escrow Agreement”** means the escrow agreement dated June 24, 2005 among Magnus, certain Magnus Shareholders and Olympia Trust Company;
- (s) **“Final Order”** means the order of the Court, as such order may be amended at any time prior to the Effective Date, pursuant to subsection 193(9) of the ABCA approving the Arrangement or, if appealed, then unless such appeal is withdrawn or denied, as affirmed;

- (t) **“Governing Documents”** means either the Questerre Governing Documents or the Magnus Governing Documents, as the case may be;
- (u) **“Governmental Entity”** means any: (i) multinational, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau or agency, domestic or foreign; (ii) any subdivision, agency, commission, board or authority of any of the foregoing; or (iii) any quasigovernmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing;
- (v) **“Information Circular”** means the management information circular to be prepared by Magnus for the Meeting;
- (w) **“Interim Order”** means an interim order of the Court concerning the Arrangement under subsection 193(4) of the ABCA, containing declarations and directions with respect to the Arrangement and the holding of the Meeting, as such order may be affirmed, amended or modified by any court of competent jurisdiction;
- (x) **“in writing”** means written information including documents, files, records, books and other materials made available, delivered or produced to a party hereto by or on behalf of another party hereto in the course of the former’s due diligence review of the latter;
- (y) **“Law”** means any law, by-law, rule, regulation, order, ordinance, protocol, code, guideline, policy, notice, direction and judgement or other requirement of any Governmental Entity;
- (z) **“Letter of Transmittal”** means the letter of transmittal provided for use by Magnus Shareholders in connection with the Arrangement;
- (aa) **“Lock-Up Agreements”** means agreements between Questerre and each of the Lock-Up Securityholders pursuant to which the Lock-Up Securityholders agree to (i) vote the Magnus Shares beneficially owned or controlled by the Lock-Up Securityholders in favour of the Arrangement and to otherwise support the Arrangement and (ii) cancel their Magnus Options in conjunction with the completion of the Arrangement, as provided therein and in the form attached hereto as Schedule B;
- (bb) **“Lock-Up Securityholders”** means those Magnus Shareholders that have entered into Lock-Up Agreements with Questerre;
- (cc) **“Magnus”** means Magnus Energy Inc., a corporation existing under the ABCA;
- (dd) **“Magnus A Shares”** means the class A shares of Magnus, as constituted on the date hereof;
- (ee) **“Magnus B Shares”** means the class B shares of Magnus, as constituted on the date hereof;
- (ff) **“Magnus Confidentiality Agreement”** means the confidentiality agreement entered into between Questerre and Magnus in favour of Magnus dated January 24, 2007;
- (gg) **“Magnus GLJ Report”** has the meaning ascribed thereto in section 3.11 hereto;
- (hh) **“Magnus Governing Documents”** means the articles and by-laws of Magnus, as amended to the date hereof;

- (ii) **“Magnus Interests”** has the meaning ascribed thereto in section 3.23 hereof;
- (jj) **“Magnus Net Debt”** means, as at any date, the aggregate consolidated long-term liabilities excluding future taxes, less working capital surplus or plus working capital deficiency, as the case may be, of Magnus, as at such date, calculated in accordance with Canadian GAAP. For greater certainty, the Magnus Net Debt shall exclude any proceeds from the proposed sale by Magnus of its interests in the Kakwa area of Alberta and shall take into account Magnus Severance Obligations, transaction costs (including legal and audit fees), brokerage fees, estimated abandonment and reclamation costs (excluding the Antler and Kakwa wells), current income, and income tax interest and penalties, including Part XII.6 tax of the Tax Act;
- (kk) **“Magnus Options”** means the options to purchase 1,250,000 Magnus A Shares outstanding under the Magnus Share Option Plan, at exercise prices between \$0.40 and \$1.50, or an average price of \$1.41 per share;
- (ll) **“Magnus Optionholders”** means holders of Magnus Options;
- (mm) **“Magnus Parties”** means, collectively and taken as a whole, Magnus, Magnus Energy Partnership and Magnus One Energy Corp., a direct and wholly-owned subsidiary of Magnus, and **“Magnus Party”** means any of them;
- (nn) **“Magnus Severance Obligations”** means obligations or liabilities of Magnus to pay any amount to its officers, directors, employees or consultants, other than: (i) for salary, bonuses under existing bonus arrangements, directors’ fees and consulting fees payable in the ordinary course of the business of Magnus, in each case in amounts consistent with historic practices; and (ii) obligations or liabilities in respect of insurance or indemnification contemplated by this Agreement or arising in the ordinary and usual course of business, and, without limiting the generality of the foregoing, Magnus Severance Obligations shall include the obligations of Magnus with respect to any severance or termination payments which Magnus is or may become liable to make to its officers, employees or contractors after the date of this Agreement, including as a result of the completion of the Arrangement;
- (oo) **“Magnus Share Option Plan”** means that stock option plan adopted by Magnus, as amended;
- (pp) **“Magnus Shareholders”** means the holders of Magnus Shares at the applicable time;
- (qq) **“Magnus Shares”** means the Magnus A Shares and the Magnus B Shares;
- (rr) **“Material Adverse Change”** means, in respect of either Questerre or Magnus, as the case may be, any change in the business, operations, results of operations, assets, capitalization, financial condition, licenses, permits, leases, concessions, rights, privileges or liabilities, whether contractual or otherwise, of such party or any subsidiary, which is materially adverse to the business of such party and its subsidiaries (considered as a whole), other than a change: (i) that arises out of a matter that has been publicly disclosed or otherwise disclosed in writing by a party to the other prior to the date hereof; (ii) that results from conditions affecting the oil and gas industry generally; (iii) that results from general economic, financial, currency exchange, securities or commodity prices in Canada or elsewhere; (iv) relating to any change in the trading price of the Questerre Shares or the Magnus Shares, respectively, that arises from the announcement of execution of this Agreement; or (v) that is consented to by the other party hereto or results from any matter consented to by the other party hereto;

- (ss) **“Material Adverse Effect”** means, in relation to any event or change, an effect that is or would reasonably be expected to be materially adverse to the financial condition, operations, assets, liabilities, or business of Questerre or Magnus, as the case may be, and their respective subsidiaries (considered as a whole); provided that a Material Adverse Effect shall not include an adverse effect: (i) that arises out of a matter that has been publicly disclosed or otherwise disclosed in writing by a party to the other prior to the date hereof; (ii) that results from conditions affecting the oil and gas industry generally; (iii) that results from general economic, financial, currency exchange, securities or commodity prices in Canada or elsewhere; (iv) relating to any change in the trading price of the Questerre Shares or the Magnus Shares, respectively, that arises from the announcement of execution of this Agreement; or (v) that is consented to by the other party hereto or results from any matter consented to by the other party hereto;
- (tt) **“Meeting”** means the annual and special meeting, including any adjournments or postponements thereof, of the Magnus Shareholders to be held, among other things, to consider, and if thought fit; authorize, approve and adopt the Arrangement in accordance with the Interim Order;
- (uu) **“misrepresentation”** has the meaning ascribed hereto under the *Securities Act* (Alberta);
- (vv) **“OSE”** means the Oslo Stock Exchange;
- (ww) **“Plan”** or **“Plan of Arrangement”** means a plan of arrangement substantially in the form and content of the plan of arrangement attached as Schedule A hereto and any amendment or variation thereto made in accordance with Article 6 of the plan of arrangement or Sections 9.1 and 9.2 of this Agreement;
- (xx) **“Private Placement”** means the private placement of Magnus A Shares to be completed immediately prior to the Arrangement;
- (yy) **“Public Record”** means all documents or information filed by or on behalf of either Magnus or Questerre on or after the respective date of the party’s most recent audited balance sheet, in compliance with or intended compliance with applicable Laws and which are accessible by a member of the general public through the System for Electronic Document Analysis and Retrieval (SEDAR) website maintained by the Canadian Securities Administrators;
- (zz) **“Questerre”** means Questerre Energy Corporation, a corporation existing under the ABCA;
- (aaa) **“Questerre Counsel”** means Borden Ladner Gervais LLP;
- (bbb) **“Questerre Governing Documents”** means the articles and by-laws of Questerre, as amended to the date hereof;
- (ccc) **“Questerre Interests”** means has the meaning ascribed thereto in section 4.19 hereof;
- (ddd) **“Questerre McDaniel Report”** has the meaning ascribed there to in section 4.9 hereof;
- (eee) **“Questerre Options”** means the options to purchase Questerre Shares outstanding under the Questerre Share Option Plan or its predecessor;
- (fff) **“Questerre Parties”** means, collectively and taken as a whole, Questerre and each of Questerre Beaver River Inc. and 6058931 Canada Inc., direct and wholly-owned subsidiaries of Questerre, and **“Questerre Party”** means any of them;

- (ggg) “**Questerre Shares**” means the common shares which Questerre is authorized to issue as constituted on the date hereof;
- (hhh) “**Questerre Shareholders**” means the holders of Questerre Shares at the applicable time;
- (iii) “**Questerre Share Option Plan**” means the stock option plan adopted by Questerre, as amended;
- (jjj) “**Registrar**” means the Registrar of Corporations or a Deputy Registrar of Corporations appointed pursuant to section 263 of the ABCA;
- (kkk) “**Returns**” means all reports, estimates, declarations of estimated tax, information statements, elections and returns relating to, or required to be filed in connection with, any Taxes;
- (lll) “**Securities Authorities**” means, collectively, the Alberta Securities Commission and the other applicable securities regulatory authorities in Canada;
- (mmm) “**subsidiary**” has the meaning set forth in the ABCA (and shall include all partnerships directly or indirectly owned by Questerre, or Magnus as the case may be);
- (nnn) “**Superior Proposal**” means an unsolicited bona fide written Acquisition Proposal which the board of directors of Magnus determines in good faith that, if consummated in accordance with the terms thereof, would result in a transaction more favourable from a financial point of view to the Magnus Shareholders than the Arrangement;
- (ooo) “**Swaps**” means any transaction which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option, forward sale, exchange traded futures contract or any other similar transaction (including any option with respect to any of these transactions or any combination of these transactions);
- (ppp) “**Tax Act**” means the *Income Tax Act* (Canada), R.S.C. 1985, c.1 (5th Supp.), as amended, including the regulations promulgated thereunder;
- (qqq) “**Taxes**” shall mean, with respect to any person, all taxes, however denominated, including any interest, penalties or other additions thereto that may become payable in respect thereof, imposed by any federal, provincial, state, local or foreign government or any agency or political subdivision of any such government, which taxes shall include, without limiting the generality of the foregoing, all income or profits taxes (including, but not limited to, federal income taxes and provincial income taxes), capital, payroll and employee withholding taxes, labour taxes, employment insurance, employment insurance premiums, social insurance taxes, Canada Pension Plan contributions, sales and use taxes, ad valorem taxes, value added taxes, Goods and Services Tax, excise taxes, franchise taxes, gross receipts taxes, business license taxes, occupation taxes, real and personal property taxes, stamp taxes, environmental taxes, transfer taxes, workers’ compensation and other governmental charges, and other obligations of the same or of a similar nature to any of the foregoing;
- (rrr) “**TSX**” means the Toronto Stock Exchange; and
- (sss) “**TSXV**” means the TSX Venture Exchange.

In addition, words and phrases used but not otherwise defined herein and defined in the ABCA shall have the same meaning herein as in the ABCA unless the context otherwise requires.

1.2 Interpretation Not Affected by Headings

The division of this Agreement into Articles, Sections, Subsections, Paragraphs and Subparagraphs and the insertion of headings are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement. The terms “this Agreement”, “hereof”, “herein”, “hereto”, “hereunder” and similar expressions refer to this Agreement and the schedules attached hereto and not to any particular article, section or other portion hereof and include any agreement, schedule or instrument supplementary or ancillary hereto or thereto.

1.3 Number, Gender and Persons

In this Agreement, unless the context otherwise requires, words importing the singular only shall include the plural and vice versa, words importing the use of either gender shall include both genders and neuter and words importing a person or persons shall include a natural person, firm, trust, partnership, association, corporation, joint venture or government (including any governmental agency, political subdivision or instrumentality thereof) and any other entity of any kind or nature whatsoever.

1.4 Date for any Action

If the date on which any action is required to be taken hereunder by any party hereto is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

1.5 Statutory References

Any reference in this Agreement to a statute includes all regulations and rules made thereunder, all amendments to such statute, regulation or rule in force from time to time and any statute or regulation that supplements or supersedes such statute, regulation or rule.

1.6 Currency

Unless otherwise stated, all references in this Agreement to amounts of money are expressed in lawful money of Canada.

1.7 Invalidity of Provisions

Each of the provisions contained in this Agreement is distinct and severable and a declaration of invalidity or unenforceability of any such provision or part thereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision hereof. To the extent permitted by applicable Law, the parties hereto waive any provision of law which renders any provision of this Agreement invalid or unenforceable in any respect. The parties hereto will engage in good faith negotiations to replace any provision hereof which is declared invalid or unenforceable with a valid and enforceable provision, the economic effect of which approximates as much as possible the invalid or unenforceable provision which it replaces.

1.8 Accounting Matters

Unless otherwise stated, all accounting terms used in this Agreement shall have the meanings attributable thereto under Canadian GAAP and all determinations of an accounting nature required to be made hereunder shall be made in a manner consistent with Canadian GAAP.

1.9 Knowledge

Where the phrase “to the best of the knowledge” is used, such phrase shall mean, in respect of each representation and warranty or other statement which is qualified by such phrase, that such representation and warranty or other statement is being made based upon the collective knowledge of the senior officers of the party making the representation and warranty after having conducted an actual investigation as to the subject matter relating thereto, with the level of such investigation in each case being that of a reasonably prudent person investigating a material consideration in the context of a material transaction, and the use of such phrase herein shall constitute a representation and warranty by the party making the representation and warranty in each case that such investigation has been actually made.

1.10 Interpretation Not Affected by Party Drafting

The parties hereto acknowledge that their respective legal counsel has reviewed and participated in settling the terms of this Agreement, and the parties hereby agree that any rule of construction to the effect that any ambiguity is to be resolved against the drafting party will not be applicable in the interpretation of this Agreement.

1.11 Schedules

The following schedules are attached to, and are deemed to be incorporated into and form part of, this Agreement:

Schedule A - Plan of Arrangement
Schedule B - Form of Lock-Up Agreement

ARTICLE 2 **THE ARRANGEMENT**

2.1 Arrangement

As soon as is reasonably practicable after the execution of this Agreement and in any event, on or before October 3, 2007, Magnus shall apply to the Court pursuant to section 193 of the ABCA for the Interim Order and, in connection with such application shall:

- (a) forthwith file, proceed with and diligently prosecute an application to the Court for the Interim Order which shall provide for, among other things, the calling and holding of the Meeting for the purpose of considering and, if deemed advisable, approving the Arrangement and thereafter proceed with and diligently seek the Interim Order in form and substance satisfactory to Magnus and Questerre, acting reasonably;
- (b) subject to obtaining the approvals contemplated in the Interim Order and as may be directed by the Court in the Interim Order, take all actions and steps necessary or desirable to submit the Arrangement to the Court and apply for the Final Order; and
- (c) subject to obtaining the Final Order and the satisfaction or waiver of the other conditions herein contained in favour of each party, send to the Registrar for filing under the ABCA, the Articles of Arrangement and such other documentation as may be required in connection therewith under the ABCA to give effect to the Arrangement.

The notice of motion for the application referred to in this Section shall be satisfactory to each of Questerre and Magnus, acting reasonably, and shall request that the Interim Order provide, among other things:

- (a) for the persons to whom notice is to be provided in respect of the Arrangement and the Magnus Meeting and for the manner in which such notice is to be provided; and
- (b) that the requisite approval of the Magnus Shareholders for the Arrangement shall be two-thirds of the votes cast thereon by the holders of each of the Magnus A Shares and the Magnus B Shares present in person or represented by proxy at the Magnus Meeting, voting together as a single class.

2.2 Effective Date

The Arrangement shall become effective at the Effective Time on the Effective Date on the terms and subject to the conditions contained in this Agreement and the Plan of Arrangement.

2.3 Consultation

Questerre and Magnus agree to consult with each other prior to issuing any press release or otherwise making any public statement with respect to this Agreement or the Arrangement or making any filing with any federal, provincial or state governmental or regulatory agency or with any stock exchange with respect thereto, except as may be required by applicable law or by obligations pursuant to any listing agreement with a stock exchange and only after using its reasonable commercial 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. Each of Questerre and Magnus shall use its commercially reasonable efforts to enable the other of them to review and comment on all such press releases and filings prior to the release thereof. Questerre and Magnus agree to issue a joint press release with respect to this Agreement as soon as practicable after the execution hereof, in a form acceptable to each of them.

2.4 Pre-closing

Unless this Agreement is terminated pursuant to the provisions hereof, Questerre and Magnus shall meet at the offices of Borden Ladner Gervais LLP, 1000 Canterra Tower, 400 Third Avenue S.W., Calgary, Alberta T2P 4H2 offices on the day immediately prior to the Meeting or at such other time or on such other date at they may mutually agree upon and each of them shall then table the documents required to be delivered by such party hereunder to complete the transaction contemplated hereby, provided that each such document required to be dated the Effective Date shall be dated as of, or become effective on, the Effective Date and shall be held in escrow to be released upon the Arrangement becoming effective.

2.5 Articles of Arrangement

Subject to the rights of termination contained in Article 9 hereof, upon the Magnus Shareholders approving the Arrangement in accordance with the Interim Order, the Final Order being issued and the other conditions contained in Article 8 hereof being complied with or waived, Magnus shall file Articles of Arrangement, in duplicate, with the Registrar together with such other documents as may be required in order to effect the Arrangement.

2.6 Privacy Issues

- (a) For the purposes of this Section 2.6, the following definitions shall apply:
 - (i) “**applicable law**” means, in relation to any person, transaction or event, all applicable provisions of laws, statutes, rules, regulations, official directives and orders of and the terms of all judgments, orders and decrees issued by any authorized authority by which such person is bound or having application to the transaction or any event in question, including applicable privacy laws.

- (ii) **“applicable privacy laws”** means any and all applicable laws relating to privacy and the collection, use and disclosure of Personal Information in all applicable jurisdictions, including but not limited to the *Personal Information Protection and Electronic Document Act* (Canada) and/or any comparable provincial law including the *Personal Information Protection Act* (Alberta).
 - (iii) **“authorized authority”** means, in relation to any person, transaction or event, any (a) federal, provincial, municipal or local governmental body (whether administrative, legislative, executive or otherwise), both domestic and foreign, (b) agency, authority, commission, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government, (c) court, arbitrator, commission or body exercising judicial, quasi-judicial, administrative or similar functions, and (d) other body or entity created under the authority of or otherwise subject to the jurisdiction of any of the foregoing, including any stock or other securities exchange, in each case having jurisdiction over such person, transaction or event.
 - (iv) **“Personal Information”** means information about an individual transferred by either Questerre or Magnus to the other in accordance with this Agreement and/or as a condition of the Arrangement.
- (b) Each of Questerre and Magnus acknowledges that it is responsible for compliance at all times with applicable privacy laws which govern the collection, use and disclosure of Personal Information acquired by or disclosed to it pursuant to or in connection with this Agreement (the **“Disclosed Personal Information”**).
 - (c) Neither Questerre nor Magnus shall use the Disclosed Personal Information for any purposes other than those related to the performance of this Agreement and the completion of the Arrangement.
 - (d) Each of Questerre and Magnus acknowledges and confirms that the disclosure of Personal Information is necessary for the purposes of determining if the parties shall proceed with the Arrangement, and that the disclosure of Personal Information relates solely to the carrying on of the business and the completion of the Arrangement.
 - (e) Each of Questerre and Magnus acknowledges and confirms that it has and shall continue to employ appropriate technology and procedures in accordance with applicable law to prevent accidental loss or corruption of the Disclosed Personal Information, unauthorized input or access to the Disclosed Personal Information, or unauthorized or unlawful collection, storage, disclosure, recording, copying, alteration, removal, deletion, use or other processing of such Disclosed Personal Information.
 - (f) Each of Questerre and Magnus shall at all times keep strictly confidential all Disclosed Personal Information provided to it, and shall instruct those employees or advisors responsible for processing such Disclosed Personal Information to protect the confidentiality of such information in a manner consistent with the Parties’ obligations hereunder. Each of Questerre and Magnus shall ensure that access to the Disclosed Personal Information shall be restricted to its employees or advisors who have a bona fide need to access to such information in order to complete the Arrangement.
 - (g) Each of Questerre and Magnus shall promptly notify the other of all inquiries, complaints, requests for access, and claims of which it is made aware in connection with the Disclosed Personal Information. Questerre and Magnus shall fully co-operate with one another, with the other persons to whom the Personal Information relates, and any

authorized authority charged with enforcement of applicable privacy laws, in responding to such inquiries, complaints, requests for access, and claims.

- (h) Upon the expiry or termination of this Agreement, or otherwise upon the reasonable request of the other party, the parties shall forthwith cease all use of the Personal Information acquired by it in connection with this Agreement and will return to the other and cause their advisors to return to the other or, at the other's request, destroy in a secure manner, the Disclosed Personal Information (and any copies).

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF MAGNUS

Magnus hereby represents and warrants to Questerre as follows and acknowledges that Questerre is relying upon such representations and warranties in connection with the entering into of this Agreement and performance of its obligations hereunder.

3.1 Organization and Qualification

Each of the Magnus Parties is a corporation duly incorporated or a partnership duly formed and validly existing under the laws of Alberta and has the requisite corporate power and capacity to carry on business as it is now being conducted. Each of the Magnus Parties 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.

3.2 Authority Relative to this Agreement

Magnus has the requisite corporate power and capacity to enter into this Agreement and, subject to receipt of the approval of the Magnus Shareholders to the Arrangement, to carry out its obligations hereunder. The execution and delivery of this Agreement and the consummation by Magnus of the transactions contemplated hereby have been duly authorized by the board of directors of Magnus, and no other corporate proceedings or other third party consents on the part of Magnus are or will be necessary to authorize the performance of its obligations under this Agreement (except for obtaining securityholder and Court approval in respect of the Arrangement and except for obtaining director approval to the form of Information Circular and the distribution thereof) and the completion of the transactions contemplated hereby, other than the consent of Magnus' bankers, secured lenders and secured creditors, if required, and such other regulatory approvals as may be required. This Agreement has been duly executed and delivered by Magnus and constitutes a legal, valid and binding obligation of Magnus enforceable against Magnus 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 the general principles of equity.

3.3 No Violations

- (a) The execution and delivery of, and the performance of and compliance with, the terms of this Agreement and the performance of any of the transactions contemplated hereby by Magnus does not and will not create a state of facts which, after notice or lapse of time or both, will result in a breach of or constitute a default under any term or provision of the Magnus Governing Documents or, subject to the consent of Magnus' banker's, secured lenders or secured creditors to the Arrangement, any mortgage, note, indenture, contract, agreement (written or oral), instrument, lease or other document to any which Magnus Party is a party or by which any Magnus Party is bound, or any law, judgement, decree, order, statute, rule or regulation applicable to Magnus, which default or breach might reasonably be expected to have a Material Adverse Effect on Magnus or the ability of Magnus to complete the transactions contemplated hereby.

- (b) There is no legal impediment to Magnus' consummation of the transactions contemplated by this Agreement and no filing or registration with, or authorization, consent or approval of, any domestic or foreign public body or authority is required by any Magnus Party in connection with the transactions contemplated hereby, except for: (i) consents or approvals required by the Interim Order or the Final Order, and such other regulatory approvals as may be required; (ii) filings with the Registrar under the ABCA and filings with and approvals required by Securities Authorities and stock exchanges; (iii) any other consent, waiver, permit, order or approval referred to in Section 8.1 hereof; and (iv) such filings or registrations which, if not made, or such authorizations, consents or approvals, which, if not received, would not have a Material Adverse Effect on the ability of Magnus to consummate the transactions contemplated hereby.

3.4 Capitalization

As of the date hereof, the authorized share capital of Magnus consists of an unlimited number of Magnus A Shares, an unlimited number of Magnus B Shares and an unlimited number of preferred shares, issuable in series. As of the date hereof, 68,439,761 Magnus A Shares, 1,044,000 Magnus B Shares and no preferred shares are issued and outstanding. As of the date hereof, Magnus Options to acquire an aggregate of 1,250,000 Magnus A Shares are outstanding. Other than pursuant to this Agreement, the conversion of Magnus B Shares and the exercise or surrender of Magnus Options and except for 293,333,333 Magnus A Shares to be issued in connection with the Private Placement, up to 2,609,752 Magnus A Shares that could be issued in satisfaction of a portion of Magnus' outstanding debt, and 137,105,550 Magnus A Shares to be issued pursuant to Section 3.9 hereof, there are no options, warrants or other rights, agreements or commitments of any character whatsoever (contingent or otherwise) requiring the issuance, sale or transfer by Magnus of any shares of Magnus or any securities convertible into, or exchangeable or exercisable for, or otherwise evidencing a right to acquire Magnus 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 Magnus. All outstanding Magnus Shares have been duly authorized and validly issued, are fully paid and non-assessable and are not subject to, nor were they issued in violation of, any pre-emptive rights and all Magnus A Shares issuable upon exercise of outstanding Magnus Options in accordance with their terms will be duly authorized and validly issued, fully paid and non-assessable and will not be subject to any pre-emptive rights. As at today's date, the number of Magnus A Shares reserved for restructuring of Magnus, subject to TSXV approval, including for the settlement of outstanding debts and director and employee severance obligations is as set forth in the Disclosure Letter.

3.5 Board Approval and Determination

The board of directors of Magnus, following consultation with its financial advisors, has determined that: (i) the Arrangement is fair, from a financial point of view, to Magnus Shareholders; (ii) that the Arrangement is in the best interests of Magnus and Magnus Shareholders; (iii) it will unanimously recommend that Magnus Shareholders vote in favour of the Arrangement; and (iv) has unanimously approved the Arrangement and the entering into of this Agreement.

3.6 No Material Adverse Change or Other Matters

Other than as disclosed in the Disclosure Letter, since December 31, 2006, Magnus has: (i) not amended its articles, bylaws or other governing documents; (ii) no Magnus Party has disposed of any property or assets out of the ordinary course of business; (iii) each Magnus Party has conducted its business in all material respects in the usual, ordinary and regular course and consistent with past practice; (iv) not suffered any Material Adverse Change or any occurrences or circumstances which have resulted or might reasonably be expected to result in a Material Adverse Change thereto or that could affect Magnus' ability to consummate the transactions contemplated by this Agreement; (v) not made any change in its accounting principles and practices as theretofore 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; (vi) each Magnus Party has maintained in effect salary and other compensation levels in accordance with its then existing salary administration program; (vii) other than the Magnus Severance Obligations, not entered into any agreements, whether in writing or verbal, providing for payments to be made to any employees, consultants, officers or directors of Magnus in respect of loss of office or loss of employment in connection with the transactions contemplated hereby; or (viii) not entered into any agreement or transactions with any director, officer, employee, consultant or any party not at arm's length with Magnus.

3.7 No Undisclosed Material Liabilities

Except: (a) as disclosed or reflected in the interim balance sheet of Magnus as at March 31, 2007 or as set forth or included in the Disclosed Information; and (b) for liabilities and obligations: (i) incurred in the ordinary course of business and consistent with past practice; or (ii) pursuant to the terms of this Agreement, no Magnus Party has incurred any liabilities of any nature, whether accrued, contingent or otherwise (or which would be required by Canadian GAAP to be reflected on a balance sheet of Magnus) that have constituted or would be reasonably likely to constitute a Material Adverse Change.

3.8 Magnus Severance Obligations and Directors' Fees

The Magnus Severance Obligations do not exceed cash of \$105,000 and 2,500,000 Magnus A Shares and the obligations or liabilities of Magnus to pay directors' fees to certain of its directors do not exceed 1,875,000 Magnus A Shares, the full particulars of all such obligations have been disclosed in full by Magnus to Questerre in the Disclosure Letter.

3.9 Brokerage Fees

Magnus has not retained nor will it retain, without Questerre's written consent not to be unreasonably withheld, any consulting, financial advisor, broker, agent or finder or paid or agreed to pay any consulting, financial advisor, broker, agent or finder on account of this Agreement, any transaction contemplated hereby or any transaction presently ongoing or contemplated, except that (i) Dundee Securities Corporation ("**Dundee**") has been retained by Magnus as agent in respect of the Private Placement, as financial advisors and to provide a fairness opinion in accordance with the terms of their engagement (the "**Dundee Engagement**") as disclosed to Questerre and will receive a fee for such services, which fee shall not exceed 45,701,850 Magnus A Shares in accordance with the terms of the Dundee Engagement, and (ii) Avonlea Investments Ltd. ("**Avonlea**") and its designated representative Michael Steele of the Steele Consulting Group has been retained as consultant by Magnus to work as a Chief Restructuring Consultant on behalf of Magnus to act as a business planning and development consultant of Magnus in accordance with the terms of their engagement (the "**Steele Engagement**") as disclosed to Questerre and will receive a fee for such services, which fee shall not exceed 91,403,700 Magnus A Shares. A true and complete copy of the Dundee Engagement and the Steele Engagement has been provided to Questerre and shall not be amended without prior consent of Questerre, not to be unreasonably withheld.

3.10 Financial Statements

Magnus' audited financial statements as at and for the year ended December 31, 2006 have been prepared in accordance with Canadian GAAP and fairly present the financial position, results of operations and changes in financial position of Magnus as of the dates thereof and for the periods indicated therein (subject, in the case of any unaudited financial statements, to year-end audit adjustments in accordance with Canadian GAAP).

3.11 Reserve Report

Magnus has made available to GLJ Petroleum Consultants prior to the issuance of their report effective December 31, 2006 (the "**Magnus GLJ Report**") all information requested by GLJ Petroleum

Consultants material to an adequate determination of oil and gas reserves, none of which information contained a material misrepresentation and (other than as may be affected by the disposition of petroleum and natural gas assets in the ordinary course) and Magnus has no knowledge of any Material Adverse Change to the oil and gas reserves of Magnus since the effective date of such report other than as set forth in the Disclosure Letter. Magnus believes that such report reasonably presented the quantity and pre-tax present worth values of Magnus as at December 31, 2006 based upon information available at the time such report was prepared and the assumptions as to commodity prices and costs contained therein.

3.12 Subsidiaries

Other than the Magnus Energy Partnership and Magnus One Energy Corp., Magnus has no direct or indirect, wholly-owned or partially-owned subsidiaries.

3.13 Compliance with Law

Each Magnus Party has complied with and is in compliance with all laws and regulations applicable to the operation of its business, except where such non-compliance would not, considered individually or in the aggregate, give rise to a Material Adverse Effect or materially affect the ability of Magnus to perform its obligations hereunder.

3.14 Material Agreements

Except as set forth in the Disclosure Letter, all agreements, permits, licenses, approvals, certificates or other rights or authorizations material to the conduct of the Magnus Parties' business are valid and subsisting and the Magnus Parties are not in material default under any such agreements, permits, licences, approvals, certificates and other rights and authorizations, except where a failure to hold such licenses or the result of any such default would not have a Material Adverse Effect or materially affect or delay the ability of Magnus to perform its obligations hereunder.

3.15 Employment and Consulting Agreements

Except as set out in the Disclosure Letter and the Magnus Severance Obligations, Magnus is not a party to any written employment or consulting agreement or any verbal employment or consulting agreement which cannot be terminated without cause upon giving such notice as may be required by law and without the payment of any additional amount or any written agreement that provides for a payment by Magnus on a change of control of Magnus or severance of employment and Magnus agrees not to amend the terms and conditions of any of the foregoing agreements that were set forth or included in the Disclosed Information.

3.16 Employee Benefit Plans

Except as set out in the Disclosed Information, Magnus does not have any employee benefit plans, other than the Magnus Share Option Plan, health, dental, vision, parking and vehicle allowance and short and long term disability plans of general application, and has made no promises with respect to increased benefits under such plans.

3.17 Books and Records

The corporate records and minute books of the Magnus Parties have been maintained in accordance with all applicable statutory requirements and are complete and up to date in all material respects.

3.18 Reporting Issuer Status

Magnus is a “reporting issuer” or the equivalent under securities laws of the Provinces of British Columbia, Alberta, Saskatchewan and Ontario and to the best of the knowledge of Magnus, is not in default of its obligations as a reporting issuer in such jurisdictions and the Magnus Shares are listed and trade on the TSXV and Magnus is in material compliance with all rules, regulations and by-laws of the TSXV.

3.19 Public Disclosure

To the best of the knowledge of Magnus, all documents or information sent by or on behalf of Magnus to holders of Magnus Shares or otherwise filed with regulatory authorities in Canada since December 31, 2006 did not, as of their respective dates, 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 the light of the circumstances under which they were made, not misleading, and no material change has occurred in relation to Magnus which is not disclosed in the Public Record. Magnus has not filed any confidential material change reports which continue to be confidential. Magnus is in compliance with the filing and certification requirements of each of National Instrument 51-102 (Continuous Disclosure Obligations) and Multilateral Instrument 52-109 (Certificate of Disclosure in Issuers’ Annual and Interim Filings).

3.20 No Orders

No securities commission or similar regulatory authority or stock exchange in Canada or the United States has issued any order which is currently outstanding preventing or suspending trading in any securities of Magnus, no such proceeding is, to the knowledge of Magnus, pending, contemplated or threatened and Magnus is not in default of any requirement of any securities laws, rules or policies applicable to Magnus or its securities.

3.21 Disclosure to Questerre

The data and information in respect of the Magnus Parties and their business and operations provided by Magnus to Questerre, taken as a whole, was and is accurate in all material respects as of the respective dates thereof.

3.22 Litigation

Except as set forth in the Disclosure Letter, (i) there are no actions, suits or proceedings pending, or to the knowledge of Magnus, threatened against any Magnus Party by any person or before or by any federal, provincial, state, local, foreign, municipal or other governmental department, commission, board, bureau, agency, court or instrumentality, which action, suit or proceeding involves the possibility of any judgement against any Magnus Party and, (ii) to the best of Magnus’ knowledge, there are no grounds upon which any such action, suits or proceedings may be commenced with reasonable likelihood of success.

3.23 Petroleum and Natural Gas Property Interests

Except as set forth in the Disclosure Letter, the interests of Magnus in its petroleum and natural gas properties (the “**Magnus Interests**”) are free and clear of adverse claims created by, through or under Magnus, except for those that would not have a Material Adverse Effect on Magnus and, to its knowledge, Magnus holds the Magnus Interests under valid and subsisting licenses, leases, permits, concessions, concession agreements, contracts, subleases, reservations or other agreements, except where the failure to so hold the Magnus Interests would not have a Material Adverse Effect on Magnus.

3.24 Title to Oil and Gas Properties

Although it does not warrant title, except as set forth in the Disclosure Letter, Magnus is not aware of any defects, failures or impairments to the title to its oil and gas properties or facilities, whether or not an action, suit, proceeding or inquiry is pending or threatened and whether or not discovered by any third party which in the aggregate could reasonably be expected to have a Material Adverse Effect on Magnus or: (i) the quantity and pre-tax present worth values of the oil and gas reserves shown in the Magnus GLJ Report; (ii) the current production attributable to such properties; or (iii) the current cash flow from such properties.

3.25 Documents of Title

To the best of Magnus' knowledge, Magnus has made available to Questerre all Documents of Title and other documents and agreements in its possession affecting the title of Magnus to its oil and gas properties.

3.26 Environmental

Except as set forth or included in the Disclosed Information:

- (a) Magnus is not aware of, and has not received, and is not aware of any circumstances which could lead to:
 - (i) any order or directive that relates to environmental matters and that requires any material work, repairs, construction or capital expenditures that is still outstanding; or
 - (ii) any demand or notice with respect to the material breach of any environmental, health or safety laws applicable to any Magnus Party, including, without limitation, any regulations respecting the use, storage, treatment, transportation, or disposition of environmental contaminants that is still outstanding;
- (b) no Magnus Party has received notice of, nor is any Magnus Party aware of any material environmental liabilities related to its assets, other than obligations in the ordinary course of business to abandon wells when they have ceased to be productive, remove production equipment when such equipment is no longer being used and restore and reclaim the surface sites thereof;
- (c) all material environmental and health and safety permits, licenses, approvals, consents, certificates and other authorizations of any kind or nature ("**Environmental Permits**") necessary to be held by the Magnus Parties or, to the best of the knowledge of Magnus, any third party for the ownership, operation, development, maintenance, or use of any of the assets of Magnus have been obtained and maintained in effect;
- (d) the Magnus Parties, their assets and the ownership, operation, development, maintenance and use of its assets are in material compliance with all environmental laws and with all material terms and conditions of all Environmental Permits; and
- (e) there are no spills, releases, deposits or discharges of hazardous or toxic substances, contaminants or wastes, which have not been rectified, on any of the properties or assets owned or leased by any Magnus Party or in which any Magnus Party has an interest or over which Magnus Party has control, except for any such spills, releases, deposits or discharges which, in aggregate, would not have a Material Adverse Effect.

3.27 Lease and Royalty Obligations

Except as set forth in the Disclosure Letter, each Magnus Party has paid all lease and royalty obligations due in respect of its properties and is not in default in any respect of its obligations under any lease or other document evidencing title to any of its properties, except where the failure to make such payments or any such default would not have a Material Adverse Effect.

3.28 Operations

Any and all operations of any Magnus Party and, to the knowledge of Magnus, any and all operations by third parties, on or in respect of the assets and properties of any Magnus Party, have been conducted in accordance with good oilfield practices.

3.29 Operating Limitations

No Magnus Party is a party to or bound or affected by any commitment, agreement or document containing any covenant expressly limiting its freedom to compete in any line of business, compete in any geographic region, transfer or move any of its assets or operations, where such covenant would have a Material Adverse Effect.

3.30 Tax Matters

- (a) Magnus has been, is now and will, at all relevant times be a Taxable Canadian Corporation, as defined in the Tax Act;
- (b) All Returns required to be filed by or on behalf of Magnus have been duly filed on a timely basis and such Returns are true, complete and correct in all material respects. All Taxes shown to be payable on the Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis, and no other Taxes are payable by Magnus or any of its subsidiaries with respect to items or periods covered by such Returns.
- (c) For all periods covered by the filed tax Returns disclosed in the Disclosed Information, Questerre has been furnished by Magnus with true and complete copies of: (i) the relevant portions of income tax audit reports, statements of deficiencies, closing or other agreements received by Magnus or on behalf of Magnus relating to Taxes; and (ii) all federal, provincial, state, local or foreign income or franchise tax Returns for Magnus.
- (d) No material deficiencies exist or have been asserted with respect to Taxes of Magnus. Magnus is not a party to any action or proceeding for assessment or collection of Taxes, nor has such event been asserted or threatened against Magnus or any of its assets. No waiver or extension of any statute of limitations is in effect with respect to Taxes or Returns of Magnus. The Returns of Magnus have not been audited by a government or taxing authority since Magnus' incorporation, nor is any such audit in process, pending or, to the knowledge of Magnus, threatened.
- (e) Magnus has paid or provided adequate accruals in its audited financial statements for the year ended December 31, 2006 and interim financial statements for the three months ended March 31, 2007 for Taxes in accordance with Canadian GAAP.
- (f) All filings made by Magnus under which it has received or is entitled to government incentives have been made in all material respects in accordance with all applicable legislation and contain no misrepresentations of material fact and do not omit to state any material fact which could cause any amount previously paid or previously accrued on its accounts to be recovered or disallowed.

- (g) Except for payments to consultants as disclosed in the Disclosed Information, Magnus has withheld from each payment made to any of its present or former employees, officers and directors, and to all persons who are non-residents of Canada for the purposes of the Tax Act, all amounts required by law and will continue to do so until the Effective Time and has remitted such withheld amounts within the prescribed periods to the appropriate governmental authority. Except for payments to consultants as disclosed in the Disclosed Information, Magnus has remitted all Canada Pension Plan contributions, employment insurance premiums, employer health taxes and other Taxes payable by it in respect of its employees and has or will have remitted such amounts to the proper governmental authority within the time required by applicable law. Magnus has charged, collected and remitted on a timely basis all Taxes as required by applicable law on any sale, supply or delivery whatsoever, made by Magnus.

3.31 Swaps

Magnus does not currently have any Swaps outstanding.

3.32 Guarantees

Except as set forth in the Disclosure Letter, no Magnus Party is a party to or bound by any agreement, guarantee, indemnification (other than in the ordinary course of business and to officers and directors pursuant to their by-laws and standard indemnity agreements and pursuant to underwriting, agency or financial advisor agreements pursuant to the standard indemnity provisions in agreements of that nature), or endorsement or like commitment of the obligations, liabilities (contingent or otherwise) or indebtedness of any person, firm or corporation.

3.33 U.S. Matters

Magnus:

- (a) currently holds no assets (on a book-value basis) located in the United States and had no sales in or from the United States in its most recently completed fiscal year; and
- (b) is a “foreign private issuer” as defined in Rule 3b-4 under the *United States Securities Exchange Act of 1934*, as amended, and the level of ownership by U.S. holders of Magnus Shares does not equal or exceed 40% of the outstanding Magnus Shares. The term “**U.S. holder**” means any person whose address appears on the records of Magnus, any voting or other trustee, any depositary, any share transfer agent or any person acting in a similar capacity on behalf of Magnus, as being located in the United States.

3.34 Information Circular

The information, data and other material (financial or otherwise) in respect of Magnus to be included in the Information Circular will be complete and correct in all material respects at the date thereof and will not contain any misrepresentations or any untrue statement of a material fact in respect of Magnus and will not omit to state a material fact in relation to Magnus necessary to make such information not misleading in light of the circumstances under which it is presented.

3.35 Sales

Magnus’ sales of production as at 12:00 p.m. on August 13, 2007 was not less than 210 BOE per day.

3.36 Financial Commitments

Except as set out in the Disclosed Information, and except for operating costs incurred in the ordinary course of business, as of the date hereof, Magnus has no outstanding authorizations for expenditures or other financial commitments in respect of the Magnus Interests.

3.37 No Default Under Lending Agreements

As of the date hereof, there is no event of default or breach of any covenant under Magnus' existing banking and lending agreements.

3.38 Processing and Transportation Commitments

Except as set out in the Disclosure Letter, Magnus has no material third party processing or transportation agreements or any obligations to deliver sales volumes to any other person.

3.39 Flow-Through Obligations

Except for unexpended commitments for Canadian exploration expenditures not in excess of \$10.8 million, Magnus does not have any outstanding obligations to incur or renounce any Canadian exploration expenditures or Canadian development expenditures to any purchaser of Magnus Shares that have not yet been fully expended and renounced and reflected in the audited financial statements of Magnus for the year ended December 31, 2006.

3.40 Voting Arrangements

To the best of the knowledge of Magnus, neither Magnus nor any of the Magnus Shareholders is a party to any unanimous shareholder agreement, pooling agreement, voting trust, escrow agreement or other similar type of arrangements in respect of outstanding securities of Magnus other than the Lock-Up Agreements and the Escrow Agreement.

3.41 Rights Plan

Magnus does not have in place a shareholder rights protection plan.

3.42 No Net Profits or Other Interests

No officer, director, employee or any other person not dealing at arm's length with any Magnus Party or, to the knowledge of Magnus, any associate or affiliate of any such person, owns, has or is entitled to any royalty, net profits interest, carried interest or any other encumbrances or claims of any nature whatsoever which are based on production from the properties or assets of any Magnus Party or any revenue or rights attributed thereto.

3.43 Non-Arm's Length Debt

No director, officer, insider or other party not at arm's length to any Magnus Party is indebted to any Magnus Party and no Magnus Party is a party to or bound by any agreement, guarantee, indemnification or endorsement or like commitment of the obligations, liabilities, (contingent or otherwise) or indebtedness of any person, firm or corporation.

3.44 Non-Arm's Length Interests

No director, officer, insider or other non-arm's length party to any Magnus Party, or any associate or affiliate thereof, has any right, title or interest in (or the right to acquire any right, title or interest in) any royalty, interest, carried interest, participation interest or any other interest whatsoever which are

based on production from or in respect of any properties of any Magnus Party which will be effective after the Effective Date.

3.45 Insurance

The policies of insurance in force at the date hereof naming Magnus as an insured and as disclosed in the Disclosed Information adequately covers all risks reasonably and prudently foreseeable in the operation and conduct of the business of Magnus which would be customary in the business carried on by Magnus, and to the knowledge of Magnus, all such policies and insurance remain in force and effect and should not be cancelled or otherwise terminated as a result of the transactions contemplated herein.

3.46 Transaction Costs

All transaction costs (including all severance, advisory and legal expenses related to the Arrangement and transactions contemplated hereby) of Magnus related to the Arrangement and the transactions contemplated hereby will not exceed \$1,200,000 without the prior written consent of Questerre, such consent not to be unreasonably withheld.

3.47 Restrictions on Business

Except as set out in the Disclosed Information, there is no non-competition, exclusivity or other similar agreement, commitment or understanding in place to which any Magnus Party is a party or by which it is otherwise bound that would now or hereafter in any way may limit its business or operations in a particular manner or to a particular locality or geographic region or for a specified period of time and the execution, delivery and performance of this Agreement does not and will not result in any restriction of any Magnus Party from engaging in its business or from competing with any person or in any geographic area.

3.48 Determinations of Magnus Board re: Collateral Benefit

An independent committee of the Magnus board of directors has examined the consideration to be received by the related parties of Magnus and after such determinations, the only related parties of Magnus that have or will receive a collateral benefit (as such term is defined for purposes of Ontario Securities Commission Rule 61-501) are Murray M. Stewart, Owen C. Pinnell, Ross O. Drysdale, J. Ronald Woods, Shona J. Gillis and Leslie Nagel, who hold 360,000 Magnus A Shares, 800,000 Magnus A Shares, 954,000 Magnus A Shares, 760,000 Magnus A Shares, 35,000 Magnus A Shares and 4,350 Magnus B Shares and Nil Magnus A Shares, respectively, and in all cases, the collateral benefit received relates solely to amounts payable under employment or consulting agreements as a result of the change of control occurring as a result of the acquisition contemplated by the Arrangement.

3.49 Outstanding Acquisitions or Disposition

Except as set out in the Disclosure Letter, no Magnus Party has rights to purchase any assets, properties or undertakings of third parties nor have any obligation to sell (other than in relation to Swaps) assets, properties or undertakings with a value in excess of \$10,000, in the aggregate, under any agreements to purchase or sell that have not closed.

3.50 Private Placement

Magnus has commitments, subject to the terms and conditions of subscription agreements to be entered into for a private placement of \$9,300,000 of Magnus A Shares which private placement will close immediately prior to the Effective Time.

3.51 Magnus Net Debt

The Magnus Net Debt does not and will not prior to or at the Effective Time exceed \$18.5 million.

ARTICLE 4 **REPRESENTATIONS AND WARRANTIES OF QUESTERRE**

Questerre hereby represents and warrants to Magnus as follows and acknowledges that Magnus is relying upon such representations and warranties in connection with the entering into of this Agreement and the performance of its obligations hereunder.

4.1 Organization and Qualification

Each of Questerre and Questerre Beaver River Inc. is a corporation duly incorporated and validly existing under the laws of Alberta and has the requisite corporate power and capacity to carry on its business as it is now being conducted. 6058931 Canada Inc. is a corporation duly incorporated and validly existing under the *Business Corporation Act* (Canada) and has the requisite corporation power and authority to carry on its business as it is now being conducted. The Questerre Parties are 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.

4.2 Authority Relative to this Agreement

Subject to receipt of the approval of the TSX and the OSE to the Arrangement, Questerre has the requisite corporate power and capacity to enter into this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement and the consummation by Questerre of the transactions contemplated hereby have been duly authorized by the board of directors of Questerre, and no other corporate proceedings or other third party consents on the part of Questerre are or will be necessary to authorize the performance of its obligations under this Agreement (except for obtaining TSX and OSE approvals in respect of the Arrangement) and the completion of the transactions contemplated hereby. This Agreement has been duly executed and delivered by Questerre and constitutes a legal, valid and binding obligation of Questerre enforceable against Questerre 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 the general principles of equity.

4.3 No Violations

- (a) The execution and delivery of, and the performance of and compliance with, the terms of this Agreement and the performance of any of the transactions contemplated hereby by Questerre does not and will not create a state of facts which, after notice or lapse of time or both, will result in a breach of or constitute a default under any term or provision of the Questerre Governing Documents or any mortgage, note, indenture, contract, agreement (written or oral), instrument, lease or other document to which any Questerre Party is a party or by which any Questerre Party is bound, or any law, judgement, decree, order, statute, rule or regulation applicable to Questerre, which default or breach might reasonably be expected to have a Material Adverse Effect on Questerre or the ability of Questerre to complete the transactions contemplated hereby.
- (b) There is no legal impediment to Questerre's consummation of the transactions contemplated by this Agreement and no filing or registration with, or authorization, consent or approval of, any domestic or foreign public body or authority is required by any Questerre Party in connection with the transactions contemplated hereby, except for:
 - (i) consents or approvals required by the Interim Order or the Final Order; (ii) filings with

the Registrar under the ABCA and filings with and approvals required by Securities Authorities and stock exchanges; (iii) any other consent, waiver, permit, order or approval referred to in Section 8.1 hereof; and (iv) such filings or registrations which, if not made, or such authorizations, consents or approvals, which, if not received, would not have a Material Adverse Effect on the ability of Questerre to consummate the transactions contemplated hereby.

4.4 Capitalization

As of the date hereof, the authorized share capital of Questerre consists of an unlimited number of Questerre Shares and an unlimited number of preferred shares issuable in series, each without par value. As of the date hereof, 155,207,583 Questerre Shares are issued and outstanding. As of the date hereof, Questerre Options to acquire an aggregate of 12,946,253 Questerre Shares are outstanding and no preferred shares are issued and outstanding. Other than pursuant to this Agreement, the exercise of Questerre Options and the exercise of warrants to purchase up to 291,270 Questerre Shares, there are no options, warrants or other rights, agreements or commitments of any character whatsoever (contingent or otherwise) requiring the issuance, sale or transfer by Questerre of any shares of Questerre or any securities convertible into, or exchangeable or exercisable for, or otherwise evidencing a right to acquire Questerre 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 Questerre. All outstanding Questerre Shares have been duly authorized and validly issued, are fully paid and non-assessable and are not subject to, nor were they issued in violation of, any pre-emptive rights and all Questerre Shares issuable upon exercise of outstanding Questerre Options in accordance with their terms will be duly authorized and validly issued, fully paid and non-assessable and will not be subject to any pre-emptive rights.

4.5 Board Approval

The board of directors of Questerre has unanimously approved the Arrangement, the entering into of this Agreement and the issuance of Questerre Shares pursuant to the Arrangement.

4.6 No Material Adverse Change and Other Matters

Other than as disclosed in the Disclosed Information, since December 31, 2006: (i) Questerre has not amended its articles, bylaws or other governing documents; (ii) no Questerre Party has disposed of any property or assets out of the ordinary course of business; (iii) each Questerre Party has conducted its business in all material respects in the usual, ordinary and regular course and consistent with past practice; (iv) Questerre has not suffered any Material Adverse Change or any occurrences or circumstances which have resulted or might reasonably be expected to result in a Material Adverse Change; (v) Questerre has not made any change in its accounting principles and practices as theretofore 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; (vi) each Questerre Party has maintained in effect salary and other compensation levels in accordance with its then existing salary administration program; or (vii) Questerre has not entered into any agreement or transactions with any director, officer, employee, consultant or any party not at arm's length with Questerre.

4.7 No Undisclosed Material Liabilities

Except: (a) as disclosed or reflected in the audited consolidated balance sheet of Questerre as at December 31, 2006 and the interim financial statements of Questerre for the three month period ended March 31, 2007, or as set forth or included in the Disclosed Information; and (b) for liabilities and obligations: (i) incurred in the ordinary course of business and consistent with past practice; or (ii) pursuant to the terms of this Agreement, no Questerre Party has incurred any liabilities of any nature, whether accrued, contingent or otherwise (or which would be required by Canadian GAAP to be reflected

on a balance sheet of Questerre) that have constituted or would be reasonably likely to constitute a Material Adverse Change.

4.8 Financial Statements

Questerre's audited consolidated financial statements as at and for the period ended December 31, 2006 have been prepared in accordance with Canadian GAAP (except as otherwise indicated in such financial statements and the notes thereto) and fairly present the financial position, results of operations and changes in financial position of Questerre as of the dates thereof and for the periods indicated therein (subject, in the case of any unaudited financial statements, to year end audited adjustments in accordance with Canadian GAAP).

4.9 Reserve Report

Questerre has made available to McDaniel & Associates Consultants Ltd. prior to the issuance of their report effective December 31, 2006 (the "**Questerre McDaniel Report**") all information requested by McDaniel & Associates Consultants Ltd. material to an adequate determination of oil and gas reserves, none of which information contained a material misrepresentation and (other than as may be affected by the disposition of petroleum and natural gas assets in the ordinary course) and Questerre has no knowledge of any Material Adverse Change to the oil and gas reserves of Questerre since the effective date of such report. Questerre believes that such report reasonably presented the quantity and pre-tax present worth values of Questerre as at December 31, 2006 based upon information available at the time such report was prepared and the assumptions as to commodity prices and costs contained therein.

4.10 Subsidiaries

Other than Questerre Beaver River Inc. and 6058931 Canada Inc., Questerre has no direct or indirect, wholly-owned or partially-owned subsidiaries.

4.11 Compliance with Law

Each Questerre Party has complied with and is in compliance with all laws and regulations applicable to the operation of its business, except where such non-compliance would not, considered individually or in the aggregate, give rise to a Material Adverse Effect or materially affect the ability of Questerre to perform its obligations hereunder.

4.12 Material Agreements

All agreements, permits, licenses, approvals, certificates or other rights or authorizations material to the conduct of the Questerre Parties' business are valid and subsisting and the Questerre Parties are not in material default under any such agreements, permits, licences, approvals, certificates and other rights and authorizations, except with a failure to hold such licenses or the result of any such default would not have a Material Adverse Effect or materially affect or delay the ability of Questerre to perform its obligations hereunder.

4.13 Books and Records

The corporate records and minute books of the Questerre Parties have been maintained in accordance with all applicable statutory requirements and are complete and up to date in all material respects.

4.14 Reporting Issuer Status

Questerre is a "reporting issuer" or the equivalent under securities laws of the Provinces of British Columbia, Alberta and Ontario and to the best of the knowledge of Questerre, is not in default of

its obligations as a reporting issuer in such jurisdictions and the Questerre Shares are listed and trade on the TSX and the OSE and Questerre is in material compliance with all rules, regulations and by-laws of the TSX and the OSE.

4.15 Public Disclosure

To the best knowledge of Questerre, all documents or information sent by or on behalf of Questerre to holders of Questerre Shares or otherwise filed with regulatory authorities in Canada since December 31, 2006 did not, as of their respective dates, 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 the light of the circumstances under which they were made, not misleading, and no material change has occurred in relation to Questerre which is not disclosed in the Public Record. Questerre has not filed any confidential material change reports which continue to be confidential. Questerre is in compliance with the filing and certification requirements of each of National Instrument 51-102 (Continuous Disclosure Obligations) and Multilateral Instrument 52-109 (Certificate of Disclosure in Issuers' Annual and Interim Filings).

4.16 No Orders

No securities commission or similar regulatory authority or stock exchange in Canada or the United States has issued any order which is currently outstanding preventing or suspending trading in any securities of Questerre, no such proceeding is, to the knowledge of Questerre, pending, contemplated or threatened and Questerre is not in default of any requirement of any securities laws, rules or policies applicable to Questerre or its securities.

4.17 Disclosure to Magnus

The data and information in respect of the Questerre Parties and their business and operations provided by Questerre to Magnus, taken as a whole, was and is accurate in all material respects as of the respective dates thereof.

4.18 Litigation

There are no actions, suits or proceedings pending, or to the knowledge of Questerre, threatened against any Questerre Party before or by any federal, provincial, state, local, foreign, municipal or other governmental department, commission, board, bureau, agency, court or instrumentality, which action, suit or proceeding involves the possibility of any judgement against any Questerre Party and, to the best of Questerre's knowledge, there are no grounds upon which any such action, suits or proceedings may be commenced with reasonable likelihood of success.

4.19 Petroleum and Natural Gas Property Interests

The interests of Questerre in its petroleum and natural gas properties (the "**Questerre Interests**") are free and clear of adverse claims created by, through or under Questerre, except for those that would not have a Material Adverse Effect on Questerre and, to its knowledge, Questerre holds the Questerre Interests under valid and subsisting licenses, leases, permits, concessions, concession agreements, contracts, subleases, reservations or other agreements, except where the failure to so hold the Questerre Interests would not have a Material Adverse Effect on Questerre.

4.20 Title to Oil and Gas Properties

Although it does not warrant title, Questerre is not aware of any defects, failures or impairments to the title to its oil and gas properties or facilities, whether or not an action, suit, proceeding or inquiry is pending or threatened and whether or not discovered by any third party which in the aggregate could reasonably be expected to have a Material Adverse Effect on Questerre or: (i) the quantity and pre-tax

present worth values of the oil and gas reserves shown in the Questerre GLJ Report; (ii) the current production attributable to such properties; or (iii) the current cash flow from such properties.

4.21 Documents of Title

To the best of Questerre's knowledge, Questerre has made available to Questerre all Documents of Title and other documents and agreements in its possession affecting the title of Questerre to its oil and gas properties.

4.22 Environmental

Except as set forth or included in the Disclosed Information:

- (a) Questerre is not aware of, and has not received, and is not aware of any circumstance which could lead to:
 - (i) any order or directive that relates to environmental matters and that requires any material work, repairs, construction or capital expenditures that is still outstanding; or
 - (ii) any demand or notice with respect to the material breach of any environmental, health or safety laws applicable to any Questerre Party, including, without limitation, any regulations respecting the use, storage, treatment, transportation, or disposition of environmental contaminants that is still outstanding;
- (b) no Questerre Party has received notice, nor is any Questerre Party aware of any material environmental liabilities related to its assets, other than obligations in the ordinary course of business to abandon wells when they have ceased to be productive, remove production equipment when such equipment is no longer being used and restore and reclaim the surface sites thereof;
- (c) all material Environmental Permits necessary to be held by the Questerre Parties or, to the best of the knowledge of Questerre, any third party for the ownership, operation, development, maintenance, or use of any of its assets have been obtained and maintained in effect;
- (d) the Questerre Parties, their assets and the ownership, operation, development, maintenance and use of their assets are in material compliance with all environmental laws and with all material terms and conditions of all Environmental Permits; and
- (e) there are no spills, releases, deposits or discharges of hazardous or toxic substances, contaminants or wastes, which have not been rectified, on any of the properties or assets owned or leased by any Questerre Party or in which any Questerre Party has an interest or over which any Questerre Party has control, except for any such spills, releases, deposits or discharges which, in aggregate, would not have a Material Adverse Effect.

4.23 Lease and Royalty Obligations

Each Questerre Party has paid all lease and royalty obligations due in respect of its material properties and is not in default in any material respect of its obligations under any lease or other document evidencing title to any of its material properties, except where the failure to make such payments or any such default would not have a Material Adverse Effect.

4.24 Operations

Any and all operations of any Questerre Party and, to the knowledge of Questerre, any and all operations by third parties, on or in respect of the assets and properties of any Questerre Party, have been conducted in accordance with good oilfield practices.

4.25 Tax Matters

- (a) Questerre has been, is now, and will continue to be, at all relevant times, a Taxable Canadian Corporation, as defined in the Tax Act.
- (b) All Returns required to be filed by or on behalf of Questerre have been duly filed on a timely basis and such Returns are true, complete and correct in all material respects. All Taxes shown to be payable on the Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis, and no other Taxes are payable by Questerre with respect to items or periods covered by such Returns.
- (c) For all periods covered by the filed tax Returns disclosed in the Disclosed Information, Magnus has been furnished by Questerre with true and complete copies of: (i) the relevant portions of income tax audit reports, statements of deficiencies, closing or other agreements received by Questerre or on behalf of Questerre relating to Taxes; and (ii) all federal, provincial, state, local or foreign income or franchise tax Returns for Questerre.

No material deficiencies exist or have been asserted with respect to Taxes of Questerre. Questerre is not a party to any action or proceeding for assessment or collection of Taxes, nor has such event been asserted or threatened against Questerre or any of its assets. No waiver or extension of any statute of limitations is in effect with respect to Taxes or Returns of Questerre. The Returns of Questerre have not been audited by a government or taxing authority since Questerre's incorporation, nor is any such audit in process, pending or, to the knowledge of Questerre, threatened.

- (d) Questerre has paid or provided adequate accruals in its financial statements for the period ended December 31, 2006 for Taxes in accordance with Canadian GAAP.
- (e) All filings made by Questerre under which it has received or is entitled to government incentives have been made in all material respects in accordance with all applicable legislation and contain no misrepresentations of material fact and do not omit to state any material fact which could cause any amount previously paid or previously accrued on its accounts to be recovered or disallowed.
- (f) Questerre has withheld from each payment made to any of its present or former employees, officers and directors, and to all persons who are non-residents of Canada for the purposes of the Tax Act, all amounts required by law and will continue to do so until the Effective Time and has remitted such withheld amounts within the prescribed periods to the appropriate governmental authority. Questerre has remitted all Canada Pension Plan contributions, employment insurance premiums, employer health taxes and other Taxes payable by it in respect of its employees and has or will have remitted such amounts to the proper governmental authority within the time required by applicable law. Questerre has charged, collected and remitted on a timely basis all Taxes as required by applicable law on any sale, supply or delivery whatsoever, made by Questerre.

4.26 Net Debt

As at June 30, 2007, Questerre had no consolidated net debt.

4.27 Information Circular

The information, data and other material (financial or otherwise) in respect of Questerre to be included in the Information Circular will be complete and correct in all material respects at the date thereof and will not contain any misrepresentations or any untrue statement of a material fact in respect of Questerre and will not omit to state a material fact in relation to Questerre necessary to make such information not misleading in light of the circumstances under which it is presented.

4.28 Non-Arm's Length Debt

No director, officer, insider or other party not at arm's length to Questerre is indebted to Questerre and Questerre is not a party to or bound by any agreement, guarantee, indemnification or endorsement or like commitment of the obligations, liabilities, (contingent or otherwise) or indebtedness of any person, firm or corporation.

4.29 Non-Arm's Length Interests

No director, officer, insider or other non-arm's length party to Questerre, or any associate or affiliate thereof, has any right, title or interest in (or the right to acquire any right, title or interest in) any royalty, interest, carried interest, participation interest or any other interest whatsoever which are based on production from or in respect of any properties of Questerre which will be effective after the Effective Date.

4.30 Insurance

The policies of insurance in force at the date hereof naming Questerre as an insured and as disclosed in the Disclosed Information adequately covers all risks reasonably and prudently foreseeable in the operation and conduct of the business of Questerre which would be customary in the business carried on by Questerre, and to the knowledge of Questerre, all such policies and insurance remain in force and effect and should not be cancelled or otherwise terminated as a result of the transactions contemplated herein.

4.31 Questerre Shares

All Questerre Shares issued pursuant to the Arrangement will be duly and validly issued as fully paid and non-assessable common shares in the capital of the Questerre.

ARTICLE 5 **CONDUCT OF BUSINESS**

5.1 Conduct of Business

Each of Questerre and Magnus covenants and agrees that, during the period from the date of this Agreement until the earlier of: (i) the Effective Time; or (ii) the date that this Agreement is terminated, except as required by law or as otherwise expressly permitted or specifically contemplated by this Agreement, except with the written consent of the other party hereto (not to be unreasonably withheld):

- (a) it shall conduct its business only in the usual and ordinary course of business and consistent with past practice, and shall use all commercially reasonable efforts to maintain and preserve its business, assets, employees and advantageous business relationships;
- (b) it shall not: (i) amend its Governing Documents; or (ii) declare, set aside or pay any dividend or make any other distribution or payment (whether in cash, shares or property) in respect of its outstanding shares;

- (c) it shall not take any actions which would or might be reasonably expected to materially impede or otherwise frustrate the completion of the Arrangement; and
- (d) it shall refrain from taking 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;

provided that Questerre may carry out arm's length third party business combinations or asset acquisitions which its management and board of directors believe to be in the best interest of Questerre and Questerre Shareholders.

5.2 Integration of Operations

- (a) From the date hereof, each of Questerre and Magnus and their respective representatives will be permitted reasonable access to each other's offices and management personnel to permit them to be in a position to expeditiously integrate the business and operations of Magnus with those of Questerre immediately upon but not prior to, the Effective Time, provided the activities of either party pursuant to this Section 5.2 do not cause any unreasonable disruptions to the other party's business or operations prior to the Effective Time and all such disclosure shall still be subject to the terms of the Magnus Confidentiality Agreement.
- (b) Each of the parties hereto shall provide the other with all information reasonably necessary relating to its business and affairs, including access to officers, employees and field sites which each party may reasonably acquire in connection with the transaction contemplated hereby, which information shall be and remain subject to the Magnus Confidentiality Agreement. Each party shall conduct itself so as to keep the other fully informed as to its business and affairs and as to decisions required with respect to the most advantageous methods for supplying, operating and producing from its assets and shall co-operate with the other in respect thereof.

ARTICLE 6 COVENANTS OF MAGNUS

6.1 Interim Order

As soon as practicable, Magnus shall file, proceed with and diligently prosecute an application to the Court for the Interim Order on terms and conditions acceptable to Questerre and Magnus, acting reasonably.

6.2 Magnus Meeting

In a timely and expeditious manner, Magnus shall:

- (a) use its commercially reasonable efforts to carry out such terms of the Interim Order as are required under the terms thereof to be carried out by Magnus, provided that nothing shall require Magnus to consent to any modifications of this Agreement, the Plan of Arrangement or any of the obligations of Magnus hereunder or thereunder;
- (b) prepare, in consultation with Questerre, and file the Information Circular in all jurisdictions where the Information Circular is required to be filed and mail the Information Circular, as ordered by the Interim Order and in accordance with all applicable Laws, in all jurisdictions where the Information Circular is required to be mailed, complying in all material respects with all applicable Laws on the date of mailing thereof and containing full, true and plain disclosure of all material facts relating to the

Arrangement and Questerre and not containing any misrepresentation (as defined under applicable securities laws) with respect thereto and which Information Circular shall include: (i) the unanimous determination of the board of directors of Magnus that the Arrangement is fair, from a financial point of view, to Magnus Shareholders, and in the best interests of Magnus and Magnus Shareholders; (ii) the unanimous recommendation of the board of directors of Magnus that the Magnus Shareholders vote in favour of the Arrangement; and (iii) the fairness opinion of Magnus' financial advisor that the Arrangement is fair, from a financial point of view, to the Magnus Shareholders;

- (c) convene the Magnus Meeting as soon as practicable and in any event no later than, October 31, 2007 as ordered by the Interim Order;
- (d) provide notice to Questerre of the Magnus Meeting and allow representatives of Questerre to attend the Magnus Meeting unless such attendance is prohibited by the Interim Order;
- (e) solicit proxies to be voted at the Magnus Meeting in favour of the Arrangement;
- (f) promptly advise Questerre of the number of Magnus Securities for which Magnus receives notices of dissent or written objections to the Arrangement and provide Questerre with copies of such notices and written objections;
- (g) conduct the Magnus Meeting in accordance with the Interim Order, the ABCA, the Magnus Governing Documents and as otherwise required by applicable Laws; and
- (h) take all such actions as may be required under the ABCA in connection with the transactions contemplated by this Agreement and the Plan of Arrangement.

6.3 Amendments

In a timely and expeditious manner, Magnus shall prepare, in consultation with Questerre, and file any mutually agreed (or otherwise required by applicable Laws) amendments or supplements to the Information Circular with respect to the Magnus Meeting and mail such amendments or supplements, as required by the Interim Order and in accordance with all applicable Laws, in all jurisdictions where such amendments or supplements are required to be mailed, complying in all material respects with all applicable legal requirements on the date of mailing thereof.

6.4 Final Order

Subject to the approval of the Arrangement at the Magnus Meeting, in accordance with the provisions of the Interim Order, Magnus shall forthwith file, proceed with and diligently prosecute an application for the Final Order.

6.5 Articles of Arrangement

Magnus shall use commercially reasonable efforts to forthwith carry out the terms of the Interim Order and the Final Order and, no later than the day following the receipt of the Final Order and the satisfaction or waiver of the conditions in favour of Questerre and Magnus to be agreed by Magnus and Questerre, file the Articles of Arrangement with the Registrar in order for the Arrangement to become effective.

6.6 Copy of Documents

Except for non-substantive communications, Magnus shall, as soon as reasonably possible, furnish to Questerre a copy of each notice, report, schedule or other document or communication

delivered, filed or received by Magnus in connection with the Arrangement, the Interim Order or the Magnus Meeting or any other meeting at which all Magnus Shareholders are entitled to attend, any filings under applicable Laws and any dealings with regulatory agencies (including the TSXV) in connection with, or in any way affecting, the transactions contemplated in this Agreement.

6.7 Insurance

Magnus shall use its reasonable commercial efforts to cause its current insurance (or reinsurance) policies 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.

6.8 Certain Actions

Magnus shall:

- (a) not take any action that would interfere with or be inconsistent with the completion of the transactions contemplated hereunder or would render, or that reasonably may be expected to render, any representation or warranty made by Magnus in this Agreement untrue in any material respect at any time prior to the Effective Time if then made;
- (b) not: (i) issue or agree to issue any shares, or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, shares, other than pursuant to the exercise or surrender of Magnus Options; (ii) redeem, purchase or otherwise acquire any of its outstanding shares or other securities; (iii) split, combine or reclassify any of its shares; (iv) adopt a plan of liquidation or resolutions providing for its liquidation, dissolution, merger, consolidation or reorganization; (v) merge, amalgamate, or consolidate into or with any other person or company or enter into any other corporate reorganization, or sell all or any substantial part of its assets to any person or company, or perform any act or enter into any transaction or negotiation which can reasonably be expected to interfere or be inconsistent with the consummation of the Agreement; or (vi) enter into or modify any contract, agreement, commitment or arrangement with respect to any of the foregoing, except in any of the circumstances described in (i) through (vi) above as otherwise permitted by this Agreement or agreed to in writing by the other party hereto;
- (c) not, nor shall any Magnus Party create any new Magnus Severance Obligations without the prior consent of Questerre and, except with respect to payment of the existing Magnus Severance Obligations (from which it shall make appropriate withholdings as required by applicable tax laws), it shall not grant to any officer or director of the Magnus Parties an increase in compensation in any form, grant any general salary increase other than in accordance with the requirements of any existing agreements, grant to any other employee of the Magnus Parties any increase in compensation in any form other than routine increases in the ordinary course of business, or make any loan to any officer or director of the Magnus Parties;
- (d) not, nor shall any Magnus Party, without the prior written consent of Questerre, adopt or amend or make any contribution to any bonus, profit sharing, option, deferred compensation, insurance, incentive compensation, other compensation or other similar plan, agreement, trust, fund or arrangements for the benefit of employees, except as is necessary to comply with the law or with respect to existing provisions of any such plans, programs, arrangements or agreements;

- (e) not, directly or indirectly other than as contemplated by this Agreement or pursuant to binding commitments entered into prior to the date hereof and disclosed to Questerre without the prior written consent of Questerre: (i) sell, pledge, dispose of or encumber any assets except for production in the ordinary course of business; (ii) expend or commit to expend more than \$1,000 individually or \$5,000 in the aggregate with respect to capital expenses; (iii) incur any indebtedness for borrowed money or other liability or obligation or issue any debt securities or assume, guarantee, endorse or otherwise as an accommodation become responsible for, the obligation of any other individual or entity make any other loans or advances, except in the ordinary course of business and in any event in excess of \$1,000 individually or \$5,000 in the aggregate; or (iv) enter into any hedges, swaps or other financial instruments or like transactions; (v) enter into any agreements for the sale and production having a term of more than (30) days; (vi) enter into any consulting or contract operating agreement; or (vii) pay discharge or satisfy and material claims, liabilities as obligations other than as reflected or reserved against in Magnus' published financial statements or as contemplated by item (iii) above; (viii) enter to or modify the contract, agreement, commitment or arrangement with respect to any of the foregoing, except as otherwise permitted by this Agreement, or as agreed to in writing by Questerre, such agreement not to be unreasonably withheld;
- (f) ensure that it has available funds under its lines of credit or other bank facilities to permit the payment of the amount which may be required by Section 6.16 and shall take all such actions as may be necessary to ensure that it maintains such availability to ensure that it is able to pay such amount when required;
- (g) use its commercially reasonable efforts to obtain the consent of each holder of Magnus Options to the Plan of Arrangement and to have each holder of Magnus Options enter into surrender or termination agreements on terms satisfactory to Questerre, acting reasonably;
- (h) use all commercially reasonable efforts to obtain receipt of the consents of any and all Lenders to Magnus whose consent is required to prevent a default or any event that with the passage of time may constitute an event of default thereunder, to the transactions contemplated herein;
- (i) confer on a regular basis with respect to material operational matters of the Magnus Parties; and
- (j) promptly notify Questerre of: (i) any Material Adverse Change, or any change which could reasonably be expected to become a Material Adverse Change in respect of Magnus; (ii) any material Governmental Entity or third person complaints, investigations or hearings (or communications indicating that the same may be contemplated); (iii) any breach by Magnus of any covenant or agreement contained in this Agreement; and (iv) any event occurring subsequent to the date hereof that would render any representation or warranty of Magnus contained in this Agreement, if made on or as of the date of such event or the Effective Date, to be untrue or incorrect in any material respect.

6.9 No Compromise

Magnus shall not settle or compromise any claim brought by any present, former or purported holder of any securities of Magnus in connection with the transactions contemplated by this Agreement prior to the Effective Time without the prior written consent of Questerre, such consent not to be unreasonably withheld or delayed.

6.10 Satisfaction of Conditions

Magnus shall use all commercially reasonable efforts to satisfy or cause the satisfaction of the conditions precedent to their obligations and the obligations of Questerre hereunder set forth in Article 9 hereof to the extent the same is within their control and to take, or cause to be taken, all other actions and to do, or cause to be done, all other things necessary, proper or advisable under all applicable Laws to complete the transactions contemplated by this Agreement, including using their commercially reasonable efforts to:

- (a) seek the approval of Magnus Shareholders to the Arrangement, subject to the proviso set forth in Section 6.15 hereof;
- (b) obtain all consents, approvals and authorizations as are required to be obtained by them under any applicable Law or from any Governmental Entity which would, if not obtained, materially impede the completion of the transactions contemplated hereby or have a Material Adverse Effect on Magnus;
- (c) effect all necessary registrations, filings and submissions of information requested by Governmental Entities required to be effected by them in connection with the transactions contemplated by this Agreement and participate, and appear in any proceedings of, any party hereto before any Governmental Entity;
- (d) oppose, lift or rescind any injunction or restraining order or other order or action challenging or affecting this Agreement, the transactions contemplated hereby or seeking to stop, or otherwise adversely affecting the ability of the parties hereto to consummate, the transactions contemplated hereby;
- (e) fulfil all conditions and satisfy all provisions of this Agreement and the Plan of Arrangement required to be fulfilled or satisfied by Magnus; and
- (f) co-operate with Questerre in connection with the performance by Questerre of its obligations hereunder.

6.11 Refrain from Certain Actions

Magnus shall not take any action, refrain from taking any action (subject to its commercially reasonable efforts), or permit any action to be taken or not taken, inconsistent with this Agreement or which would reasonably be expected to materially impede the completion of the transactions contemplated hereby or which would have a Material Adverse Effect on Magnus provided that where Magnus is required to take any such action or refrain from taking such action (subject to its commercially reasonable efforts) as a result of this Agreement, it shall immediately notify Questerre in writing of such circumstances.

6.12 Employment Agreements

Magnus shall not, without the prior consent of Questerre, enter into any new written or verbal employment agreements or consulting agreements.

6.13 Co-operation

Magnus shall make, or co-operate as necessary in the making of, all other necessary filings and applications under all applicable Laws required in connection with the transactions contemplated hereby and take all reasonable action necessary to be in compliance with such Laws.

6.14 Closing Documents

Magnus shall execute and deliver, deliver or cause to be delivered at the closing of the transactions contemplated hereby such customary certificates, resolutions and other closing documents as may be required by the other parties hereto, acting reasonably.

6.15 Non-Solicitation

Magnus covenants and agrees that, during the period from the date of this Agreement until the earlier of: (i) the Effective Time; or (ii) the date that this Agreement is terminated, except with the written consent of Questerre or as otherwise expressly permitted or specifically contemplated by this Agreement Magnus shall:

- (a) immediately cease and cause to be terminated any existing discussions or negotiations or other proceedings initiated prior to the date hereof by Magnus, or its officers, directors, employees, financial advisors, representatives and agents (“**Representatives**”) or others with respect to any proposed Acquisition Proposal and shall request the return or destruction of any confidential information previously provided to any such third parties;
- (b) not directly or indirectly, solicit, initiate or encourage (including by way of furnishing information) any inquiries or the making of any proposal or offer that constitutes or may reasonably be expected to lead to a Acquisition Proposal from any person, or engage in any discussion, negotiations or inquiries relating thereto or accept any Acquisition Proposal;
- (c) not release any person from any confidentiality or standstill agreement to which Magnus and such person are parties or amend any such agreement; and
- (d) exercise all rights to require the return of information regarding Magnus previously provided to such persons and shall exercise all rights to require the destruction of all materials including or incorporating any information regarding Magnus.

Notwithstanding the above, Magnus may:

- (e) engage in discussions or negotiations with any person who (without any solicitation, initiation or encouragement, directly or indirectly, by Magnus or its Representatives) seeks to initiate such discussions or negotiations and may furnish such third person information concerning Magnus and its business, properties and assets if, and only to the extent that:
 - (i) the other person has first made a Superior Proposal in respect of which the funds or other consideration necessary for completion thereof are or are reasonably likely to be available and Magnus’ board of directors has concluded in good faith, after considering applicable Law and receiving the advice of its counsel, that a failure to respond or act would be inconsistent with the performance by the board of directors of Magnus of its fiduciary duties under applicable Law;
 - (ii) prior to furnishing such information to or entering into discussions or negotiations with such person or entity, Magnus provides immediate notice orally and in writing to Questerre specifying that it is furnishing information to or entering into discussions or negotiations with such person or entity in respect to a Superior Proposal, receives from such person or entity an executed Magnus Confidentiality Agreement having confidentiality terms substantially similar to those contained in the Magnus Confidentiality Agreement, and provides Questerre with a copy of such Superior Proposal and any amendments thereto

and confirming in writing the determination of Magnus' board of directors that the Acquisition Proposal, if completed, would constitute a Superior Proposal;

- (iii) Magnus provides immediate notice to Questerre at such time as it or such person or entity terminates any such discussions or negotiations; and
- (iv) Magnus immediately provides or makes available to Questerre any information provided to any such person or entity whether or not previously made available to Questerre;
- (f) comply with Part 13 of the *Securities Act* (Alberta) with regard to a tender or exchange offer, if applicable, and similar rules under applicable Canadian securities laws relating to the provision of directors' circulars, and make appropriate disclosure with respect thereto to Magnus' shareholders;

and

- (g) accept, recommend, approve or implement a Superior Proposal from a third person, but only (in the case of this Subsection 6.15(g)) if prior to such acceptance, recommendation, approval or implementation, Magnus' board of directors shall have concluded in good faith after considering all proposals to adjust the terms and conditions of this Agreement and the Arrangement which may be offered by Questerre during the three Business Day notice period set forth below and after receiving the advice of its counsel, that a failure to take such action would be inconsistent with the performance by the board of directors of Magnus of fiduciary duties under applicable Law and subject to the next paragraph hereof.

Magnus shall give to Questerre, orally and in writing, at least three Business Day advance notice of any decision by the board of directors of Magnus to accept, recommend, approve or implement a Superior Proposal, which notice shall identify the party making the Superior Proposal and shall provide a true and complete copy thereof and any amendments thereto. In addition, Magnus shall and shall cause its financial and legal advisors to negotiate in good faith with Questerre to make such adjustments in the terms and conditions of this Agreement and the Arrangement as would enable Magnus to proceed with the Arrangement as amended rather than the Superior Proposal. In the event Questerre proposes to amend this Agreement and the Arrangement to provide financially equal or superior value to that provided under the Superior Proposal within the three Business Day time period specified above, then Magnus shall not enter into any definitive agreement regarding the Superior Proposal.

6.16 Magnus Break Fee

Provided Questerre is not in material breach of this Agreement, Magnus agrees to pay Questerre in cash the amount of \$2,000,000 (the "**Magnus Break Fee**") if:

- (a) other than as a result of a Material Adverse Change in respect of Questerre, the board of directors of Magnus fails to recommend that Magnus Shareholders vote in favour of the Arrangement or the board of directors of Magnus withdraws or, in a manner materially adverse to the Arrangement or the completion thereof, modifies or changes its recommendation to Magnus Shareholders to vote in favour of the Arrangement;
- (b) the board of directors of Magnus recommends that Magnus Shareholders deposit their Magnus Shares under, or vote in favour of, or otherwise accept an Acquisition Proposal other than with Questerre;

- (c) Magnus enters into an agreement with respect to an Acquisition Proposal (other than a Magnus Confidentiality Agreement contemplated by Section 6.15 hereof), prior to the date of the Magnus Meeting;
- (d) the Plan of Arrangement is not approved at the Magnus Meeting by at least 66 2/3% of the votes of the Magnus Shareholders; or
- (e) a breach by Magnus of any of its covenants, agreements, representations and warranties in the Agreement which breach individually or in the aggregate: (i) causes a Material Adverse Change in Magnus; or (ii) makes it impossible that all of the conditions of the Arrangement will be satisfied, and Magnus fails to cure such breach within five Business Days after receipt of written notice thereof from Questerre.

The provisions of this Section 6.16 shall survive termination of this Agreement (provided in the case of Subsection 6.16(d)) hereof, such Acquisition Proposal shall have been made or announced prior to notice of termination).

Magnus shall never be obligated to make more than one payment of the Magnus Break Fee pursuant to this Section 6.16. Magnus acknowledges that the Magnus Break Fee payment amount set out in this Section 6.16 is payment of liquidated damages which is a genuine pre-estimate of the damages which Questerre will suffer or incur as a result of the event giving rise to such damages and is not a penalty. Magnus irrevocably waives any right they may have to raise as a defence that any such liquidated damages are excessive or punitive. Questerre agrees that payment of the Magnus Break Fee amount provided for in this Section 6.16 shall be Questerre's sole remedy in connection with such event, however, Questerre shall not be precluded from exercising its right provided herein.

Magnus agrees that the Magnus Break Fee will be paid within 3 Business Days of the date of earliest of any of the events referred to in Subsections 6.16 (a) to (e) occur. Upon the date of the earliest such event occurring, Magnus shall be deemed to hold such sum in trust for Questerre.

ARTICLE 7

COVENANTS OF QUESTERRE

7.1 Questerre Assistance

In a timely and expeditious manner, Questerre shall:

- (a) assist Magnus in filing, proceeding with and diligently prosecuting an application to the Court for the Interim Order and Final Order;
- (b) use its commercially reasonable efforts to carry out such terms of the Interim Order and Final Order as applicable to it and will use its reasonable commercial efforts to assist Magnus in obtaining such orders, provided that nothing shall require Questerre to consent to any modifications of this Agreement, the Plan of Arrangement or any of the obligations of Questerre hereunder or thereunder;
- (c) provide to Magnus the Questerre information for inclusion in the Information Circular and all other information as may be reasonably requested by Magnus or as is required by the Interim Order or applicable Laws with respect to Questerre for inclusion in the Information Circular and any amendments or supplements thereto, in each case complying in all material respects with all applicable Laws on the date of issue thereof; and
- (d) take all such actions as may be required under the ABCA in connection with the transactions contemplated by this Agreement and the Plan of Arrangement.

7.2 Articles of Arrangement

Questerre shall, as applicable to it, use commercially reasonable efforts to carry out the terms of the Interim Order and the Final Order and, no later than the day following the receipt of the Final Order and the satisfaction or waiver of the conditions in favour of Questerre and Magnus to be agreed by Magnus and Questerre, file, or assist Magnus in filing, the Articles of Arrangement with the Registrar in order for the Arrangement to become effective.

7.3 Copy of Documents

Except for non-substantive communications, Questerre shall, as soon as reasonably possible, furnish to Magnus a copy of each notice, report, schedule or other document or communication delivered, filed or received by Questerre in connection with the Arrangement or the Interim Order, any filings under applicable Laws and any dealings with regulatory agencies (including the TSX and the OSE) in connection with, or in any way affecting, the transactions contemplated in this Agreement.

7.4 Insurance

Questerre shall use its reasonable commercial efforts to cause its current insurance (or re-insurance) policies 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.

7.5 Certain Actions

Questerre shall:

- (a) not take any action that would interfere with or be inconsistent with the completion of the transactions contemplated hereunder or would render, or that reasonably may be expected to render, any representation or warranty made by Questerre in this Agreement untrue in any material respect at any time prior to the Effective Time if then made;
- (b) use commercially reasonable efforts to obtain conditional approval of the listing of Questerre Shares issuable under the Arrangement on the TSX and the OSE prior to the mailing of the Information Circular;
- (c) use commercially reasonable efforts to maintain its status as a “reporting issuer” (or similar designated entity) not in default in all of the provinces of Canada where it is currently a reporting issuer in material compliance with all applicable Laws and to maintain the listing of the outstanding Questerre Shares on the TSX and the OSE; and
- (d) promptly notify Magnus of: (i) any Material Adverse Change, or any change which could reasonably be expected to become a Material Adverse Change, in respect of the business or in the conduct of the business of Questerre; (ii) any material Governmental Entity or third person complaints, investigations or hearings (or communications indicating that the same may be contemplated); (iii) any breach by Questerre of any covenant or agreement contained in this Agreement; and (iv) any event occurring subsequent to the date hereof that would render any representation or warranty of Questerre contained in this Agreement, if made on or as of the date of such event or the Effective Date, to be untrue or incorrect in any material respect.

7.6 Satisfaction of Conditions

Questerre shall use all commercially reasonable efforts to satisfy or cause the satisfaction of the conditions precedent to its obligations and the obligations of Magnus hereunder set forth in Article 9 hereof to the extent that the same is within its control and to take, or cause to be taken, all other action and to do, or cause to be done, all other things necessary, proper or advisable under all applicable Laws to complete the transactions contemplated by this Agreement, including using its commercially reasonable efforts to:

- (a) obtain all consents, approvals and authorizations as are required to be obtained by Questerre under any applicable Law or from any Governmental Entity which would, if not obtained, materially impede the completion of the transactions contemplated hereby or have a Material Adverse Effect on Questerre;
- (b) effect all necessary registrations, filings and submissions of information requested by Governmental Entities required to be effected by it in connection with the transactions contemplated by this Agreement and participate, and appear in any proceedings of, any party hereto before any Governmental Entity;
- (c) oppose, lift or rescind any injunction or restraining order or other order or action challenging or affecting this Agreement, the transactions contemplated hereby or seeking to stop, or otherwise adversely affecting the ability of the parties hereto to consummate, the transactions contemplated hereby;
- (d) fulfil all conditions and satisfy all provisions of this Agreement and the Plan of Arrangement required to be fulfilled or satisfied by Questerre; and
- (e) co-operate with Magnus in connection with the performance by each of them of their obligations hereunder.

7.7 Refrain from Certain Actions

Questerre shall not take any action, refrain from taking any action (subject to its commercially reasonable efforts), or permit any action to be taken or not taken, inconsistent with this Agreement or which would reasonably be expected to materially impede the completion of the transactions contemplated hereby or which would have a Material Adverse Effect on Questerre, provided that where Questerre is required to take any such action or refrain from taking such action (subject to its commercially reasonable efforts) as a result of this Agreement, Questerre shall immediately notify Magnus in writing of such circumstances.

7.8 Co-operation

Questerre shall make, or co-operate as necessary in the making of, all other necessary filings and applications under all applicable Laws required in connection with the transactions contemplated hereby and take all reasonable action necessary to be in compliance with such Laws.

7.9 Closing Documents

Questerre shall execute and deliver, deliver or cause to be delivered at the closing of the transactions contemplated hereby such customary certificates, resolutions and other closing documents as may be required by the other parties hereto, acting reasonably.

7.10 Escrow Funds

Questerre shall deposit \$2.7 million with Questerre Counsel pursuant to the terms of an escrow agreement between Questerre, Magnus and Questerre Counsel.

ARTICLE 8 **CONDITIONS**

8.1 Mutual Conditions

The respective obligations of Questerre and Magnus to complete the transactions contemplated hereby are subject to the fulfilment of the following conditions at the Effective Time or such other time as is specified below:

- (a) on or prior to October 3, 2007, the Interim Order shall have been granted in form and substance satisfactory to the parties hereto, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to the parties hereto, acting reasonably, on appeal or otherwise;
- (b) one or more resolutions in respect of the Arrangement, with or without amendment, shall have been approved at the Magnus Meeting by the holders of not less than 66 2/3% of each of the Magnus Shareholders present in person or represented by proxy at the Magnus Meeting, in accordance with the provisions of the ABCA, the Interim Order and the requirements of any applicable regulatory authorities;
- (c) the Final Order shall have been granted in form and substance satisfactory to the parties hereto, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to such parties, acting reasonably, on appeal or otherwise;
- (d) the Articles of Arrangement shall be in form and substance satisfactory to the parties hereto, acting reasonably;
- (e) the Effective Date shall be on or before October 31, 2007, subject to any extension available to a party hereto pursuant to Section 8.4 hereof;
- (f) there shall not be in force any Law, ruling, order or decree, and there shall not have been any action taken under any Law or by any Governmental Entity or other regulatory authority, that makes it illegal or otherwise directly or indirectly restrains, enjoins or prohibits the consummation of the Arrangement in accordance with the terms hereof or results or could reasonably be expected to result in a judgment, order, decree or assessment of damages, directly or indirectly, relating to the Arrangement which is materially adverse to Questerre or Magnus;
- (g) the TSX and the OSE shall have conditionally approved the listing thereon of the Questerre Shares to be issued pursuant to the Arrangement as of the Effective Date, or as soon as possible thereafter, subject to compliance with the usual requirements of the TSX and the OSE and such shares shall not be subject to a hold period;
- (h) all consents, waivers, permits, exemptions, orders and approvals of, and any registrations and filings with, any Governmental Entity and the expiry of any waiting periods, in connection with, or required to permit, the completion of the Arrangement, the failure of which to obtain or the non-expiry of which would be materially adverse to Questerre or Magnus or materially impede the completion of the Arrangement, shall have been obtained or received on terms that are reasonably satisfactory to each party hereto;

- (i) holders of not less than 24.6% of the currently outstanding Magnus A Shares (including all directors and officers of Magnus) shall have entered into, concurrently with the execution of this Agreement by both parties, Lock-Up Agreements in the form attached hereto as Schedule B;
- (j) no action, suit or proceeding has been taken or threatened against Magnus or Questerre with the aim of preventing the Arrangement; and
- (k) this Agreement shall not have been terminated pursuant to Article 9 hereof.

The foregoing conditions are for the mutual benefit of the parties hereto and may be waived, in whole or in part, by a party hereto in writing at any time. If any of such conditions shall not be complied with or waived as aforesaid on or before October 31, 2007 or, if earlier, the date required for the performance thereof, then, subject to Section 8.4 hereof, a party hereto may rescind and terminate this Agreement by written notice to the other of them in circumstances where the failure to satisfy any such condition is not the result, directly or indirectly, of a material breach of this Agreement by such rescinding party hereto.

8.2 Questerre Conditions

The obligation of Questerre to complete the transactions contemplated herein is subject to the fulfillment of the following additional conditions at or before the Effective Time or such other time as is specified below;

- (a) the representations and warranties made by Magnus in this Agreement shall be true and correct in all material respects as of the Effective Date as if made on and as of such date (except to the extent that such representations and warranties speak as of an earlier date, in which event such representations and warranties shall be true and correct as of such earlier date), except where the failure of such representatives and warranties to be true and correct would not have a Material Adverse Effect on Magnus and Magnus shall have provided to Questerre an officer's certificate certifying such accuracy on the Effective Date;
- (b) Magnus shall have complied in all material respects with its covenants herein, and Magnus shall have provided to Questerre an officer's certificate certifying that Magnus has so complied with its covenants herein;
- (c) the directors of Magnus shall have adopted all necessary resolutions and all other necessary corporate action shall have been taken by Magnus to permit the consummation of the Arrangement;
- (d) immediately prior to the effective time of the Arrangement, Questerre shall be satisfied that (i) the number of issued and outstanding Magnus A Shares are consistent with the representations, warranties and covenants of Magnus contained herein (ii) there are not more than an aggregate of 1,044,000 Magnus B Shares (iii) all Magnus Options or other rights to acquire any Magnus Shares have been exercised, surrendered, exchanged, terminated or expired and Magnus shall provide to Questerre a certificate to that effect immediately prior to the Effective Date;
- (e) holders of not more than 5% of the currently outstanding Magnus A Shares or holders of not more than 25% of the Magnus B Shares or holders of 5% of the Magnus Shares shall have exercised rights of dissent in connection with the Arrangement that have not been withdrawn as at the Effective Date;
- (f) there shall not have been a Material Adverse Change in respect of Magnus;

- (g) all necessary consents and approvals from Magnus' secured lenders or creditors which are required to complete the Arrangement shall have been received in writing, including all agreements in respect of the payment of any secured debt obligations of Magnus, all to the satisfaction of Questerre;
- (h) Questerre shall have received resignations and releases from each of the directors and officers of Magnus in form and substance satisfactory to Questerre, acting reasonably, which releases shall contain exceptions for amounts or obligations owing to such directors or officers as a result of accrued but unpaid salary, bonus, benefits and other compensation and as a result of the Arrangement or pursuant to indemnity, or directors' and officers' insurance arrangements;
- (i) Magnus shall have closed the Private Placement of at least \$9,300,000;
- (j) immediately prior to the effective time of the Arrangement, Questerre shall be satisfied that the Magnus Net Debt does not exceed \$18.5 million and Magnus shall have provided to Questerre a certificate of a senior officer of Magnus certifying as to such compliance;
- (k) Questerre shall have received receipts from each of Dundee and Avonlea in form and substance satisfactory to Questerre, acting reasonably, which receipts shall acknowledge the payment in full of the fees set out in section 3.9 hereof that are payable to each of Dundee and Avonlea, as applicable, pursuant to the Dundee Engagement and the Steele Engagement, respectively; and
- (l) the resolution approving the Debt Conversion to be put before the Magnus Shareholders at the Meeting shall have been passed by the Magnus Shareholders, in form and substance satisfactory to Questerre, acting reasonably.

The foregoing conditions are for the benefit of Questerre and may be waived, in whole or in part, by Questerre in writing at any time. If any of such conditions shall not be complied with or waived by Questerre on or before October 31, 2007 or the date required for the performance thereof, if earlier, then subject to Section 8.4 hereof, Questerre may rescind and terminate this Agreement by written notice to Magnus in circumstances where the failure to satisfy any such condition is not the result, directly or indirectly, of a material breach of this Agreement by Questerre.

8.3 Magnus Conditions

The obligation of Magnus to complete the transactions contemplated herein is subject to the fulfilment of the following additional conditions at or before the Effective Time or such other time as is specified below:

- (a) the representations and warranties made by Questerre in this Agreement shall be true and correct in all material respects as of the Effective Date as if made on and as of such date (except to the extent that such representations and warranties speak as of an earlier date, in which event such representations and warranties shall be true and correct as of such earlier date), except where the failure of such representation and warranties to be true and correct would not have a Material Adverse Effect on Questerre and Questerre shall have provided to Magnus an officer's certificate thereof certifying such accuracy on the Effective Date;
- (b) Questerre shall have complied in all material respects with its covenants herein and Questerre shall have provided to Magnus an officer's certificate certifying that it has so complied with its covenants herein;

- (c) the directors of Questerre shall have adopted all necessary resolutions and all other necessary corporate action shall have been taken by Questerre to permit the consummation of the Arrangement;
- (d) there shall not have been a Material Adverse Change in respect of Questerre; and
- (e) the directors and officers of Magnus shall have received releases from Magnus substantially in the form of release provided under Section 8.2(h).

The foregoing conditions are for the benefit of Magnus and may be waived, in whole or in part, by Magnus in writing at any time. If any of such conditions shall not be complied with or waived by Magnus on or before October 31, 2007 or, if earlier, the date required for the performance thereof, then, subject to Section 9.4 hereof, Magnus may rescind and terminate this Agreement by written notice to Questerre in circumstances where the failure to satisfy any such condition is not the result, directly or indirectly, of a material breach of this Agreement by Magnus.

8.4 Notice and Cure Provisions

Each party hereto shall give prompt notice to the other hereto of the occurrence, or failure to occur, at any time from the date hereof until the Effective Date, of any event or state of facts which occurrence or failure would, or would be likely to:

- (a) cause any of the representations or warranties of any other party hereto contained herein to be untrue or inaccurate in any material respect on the date hereof or on the Effective Date;
- (b) result in the failure to comply with or satisfy any covenant or agreement to be complied with or satisfied by any other party hereto prior to the Effective Date; or
- (c) result in the failure to satisfy any of the conditions precedent in its favour contained in Sections 8.1, 8.2 or 8.3 hereof, as the case may be.

Subject as herein provided, a party hereto may elect not to complete the transactions contemplated hereby pursuant to the provisions contained in Sections 8.1, 8.2 or 8.3 hereof or exercise any termination right arising therefrom; provided, however, that (i) promptly and in any event prior to the sending of the Articles of Arrangement to the Registrar, the party hereto intending to rely thereon has delivered a written notice to the other party hereto specifying in reasonable detail the breaches of covenants or representations and warranties or other matters which the party hereto delivering such notice is asserting as the basis for the non-fulfilment of the applicable condition or termination right, as the case may be, and (ii) if any such notice is delivered, and a party hereto is proceeding diligently, at its own expense, to cure such matter, if such matter is susceptible to being cured, the party hereto which has delivered such notice may not terminate this Agreement until the later of October 31, 2007 and the expiration of a period of 5 Business Days from date of delivery of such notice. If such notice has been delivered prior to the date of the Magnus Meeting, such meeting shall be postponed until the expiry of such period.

8.5 Merger of Conditions

The conditions set out in Sections 8.1, 8.2 or 8.3 hereof shall be conclusively deemed to have been satisfied, waived or released upon the issue of a certificate in respect of the Articles of Arrangement under the ABCA. Questerre and Magnus acknowledge and agree that they shall have no right to file the Articles of Arrangement unless such conditions have been satisfied, fulfilled or waived.

ARTICLE 9
AMENDMENT AND TERMINATION

9.1 Amendment

This Agreement may, at any time and from time to time before or after the holding of the Magnus Meeting, be amended by mutual written agreement of the parties hereto without, subject to applicable Law, further notice to or authorization on the part of the Magnus Shareholders, and any such amendment may, without limitation:

- (a) change the time for the performance of any of the obligations or acts of any of the parties hereto;
- (b) waive any inaccuracies in or modify any representation or warranty contained herein or in any document delivered pursuant hereto;
- (c) waive compliance with or modify any of the covenants herein contained and waive or modify performance of any of the obligations of any of the parties hereto; and
- (d) waive compliance with or modify any condition herein contained;

provided that no such amendment shall reduce the consideration to be received by the Magnus Shareholders without the approval of the Magnus Shareholders, given in the same manner as required for the approval of the Arrangement or as may be ordered by the Court.

9.2 Alternative Transaction

The parties hereto acknowledge and agree that, based upon tax, corporate, securities or other legal and other considerations, it may be more advantageous or appropriate to carry out the transaction contemplated herein by way of another form of plan of arrangement, amalgamation or takeover bid or other form of transaction ("**Other Transaction**"). In the event of such determination the parties agree to negotiate all such agreements, documents and arrangements that may be necessary or desirable to carry out the Other Transaction, provided that provisions hereof shall apply mutatis mutandis, to such Other Transaction.

9.3 Termination

This Agreement may be terminated at any time prior to the Effective Date:

- (a) by mutual written consent of the parties hereto;
- (b) as provided in Sections 8.1, 8.2 or 8.3 hereof, subject to Section 8.4 hereof;
- (c) by Questerre if the directors of Magnus shall have withdrawn or modified in a manner adverse to Questerre their approval or recommendation of the Arrangement or shall have approved or recommended any Alternative Transaction;
- (d) by either party if the Magnus Break Fee pursuant to Section 6.16 shall have become payable; and
- (e) by either party in the event that the Arrangement does not become effective on or before October 31, 2007, subject to Section 8.4 hereof;

provided that any termination by a party hereto in accordance with this Section 9.3 shall be made by such party delivering written notice to the other party or parties hereto prior to the Effective Date specifying in reasonable detail the matter or matters giving rise to such termination right.

9.4 Effect of Termination

In the event of the termination of this Agreement as provided in Section 9.3, this Agreement shall forthwith have no further force or effect, other than Section 6.16 (as provided therein) and 10.2 which shall survive termination, and there shall be no obligation on the part of Magnus or Questerre hereunder except those obligations that have accrued to such date. Nothing herein shall relieve any party from liability for any breach of this Agreement accruing prior to termination.

ARTICLE 10 **GENERAL**

10.1 Notices

Any notice, consent, waiver, direction or other communication required or permitted to be given under this Agreement by a party hereto shall be in writing and shall be delivered by hand to the party hereto to which the notice is to be given at the following addresses or sent by facsimile to the following numbers or to such other address or facsimile number as shall be specified by a party hereto by like notice. Any notice, consent, waiver, direction or other communication aforesaid shall, if delivered, be deemed to have been given and received on the date on which it was delivered to the address provided herein (if a Business Day or, if not, then the next succeeding Business Day) and if sent by facsimile be deemed to have been given and received at the time of receipt (if a Business Day or, if not, then the next succeeding Business Day) unless actually received after 4:00 p.m. (Calgary time) at the point of delivery in which case it shall be deemed to have been given and received on the next Business Day. The address for service of each of the parties hereto shall be as follows:

(a) if to Questerre:

1580 Guinness House, 727 Seventh Avenue S.W.
Calgary, AB T2P 0Z5

Attention: Michael R. Binnion, President and Chief Executive Officer
Facsimile No.: (403) 777-1578

with a copy to:

Borden Ladner Gervais LLP
1000 Canterra Tower, 400 - 3rd Avenue S.W.
Calgary, AB T2P 4H2

Attention: Steven G. Pearson
Facsimile No.: (403) 266-1395

(b) if to Magnus:

Suite 1650, 801 - 6th Avenue S.W.
Calgary, AB T2P 3W2

Attention: Murray M. Stewart, President and Chief Executive Officer
Facsimile No.: (403) 262-9920

with a copy to:

Burstall Winger LLP
Suite 1600, Dome Tower
333 - 7th Avenue S.W.
Calgary, AB T2P 2Z1

Attention: Ross Drysdale and Stacey Holliday
Facsimile No.: (403) 266-6106

10.2 Expenses

Except as expressly contemplated herein, each party hereto agrees to bear its own costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby, the Magnus Meeting and the preparation and mailing of the Information Circular, including legal fees, accounting fees, printing costs, financial advisor fees and all disbursements by advisors.

10.3 Time of the Essence

Time is of the essence in this Agreement.

10.4 Entire Agreement

This Agreement and the Magnus Confidentiality Agreement, together with the agreements and other documents herein or therein referred to, constitute the entire agreement between the parties hereto pertaining to the subject matter hereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, between the parties hereto with respect to the subject matter hereof including the Agreement in Principal. There are no representations, warranties, covenants or conditions with respect to the subject matter hereof except as contained herein or therein. To the extent there is any inconsistency between this Agreement and the Magnus Confidentiality Agreement, this Agreement shall supersede the Magnus Confidentiality Agreement.

10.5 Further Assurances

Each party hereto shall, from time to time, and at all times hereafter, at the request of the other of them, but without further consideration, do, or cause to be done, all such other acts and execute and deliver, or cause to be executed and delivered, all such further agreements, transfers, assurances, instruments or documents as shall be reasonably required in order to fully perform and carry out the terms and intent hereof including, without limitation, the Plan of Arrangement.

10.6 Governing Law

This Agreement shall be governed by, and be construed in accordance with, the Laws of the Province of Alberta and the laws of Canada applicable therein but the reference to such Laws shall not, by conflict of laws rules or otherwise, require the application of the Law of any jurisdiction other than the Province of Alberta. Each party hereto hereby irrevocably attorns to the jurisdiction of the courts of the Province of Alberta in respect of all matters arising under or in relation to this Agreement.

10.7 Execution in Counterparts

This Agreement may be executed in one or more counterparts and by facsimile each of which shall conclusively be deemed to be an original and all such counterparts collectively shall be conclusively deemed to be one and the same.

10.8 Waiver

No waiver or release by any party hereto shall be effective unless in writing and executed by the party granting such waiver or release and any waiver or release shall affect only the matter, and the occurrence thereof, specifically identified and shall not extend to any other matter or occurrence. Waivers may only be granted upon compliance with the provisions governing amendments set forth in Section 10.1 hereof.

10.9 Enurement and Assignment

This Agreement shall enure to the benefit of the parties hereto and their respective successors and permitted assigns and shall be binding upon the parties hereto and their respective successors. This Agreement may not be assigned by any party hereto without the prior written consent of each of the other parties hereto.

IN WITNESS WHEREOF the parties hereto have executed this Agreement.

QUESTERRE ENERGY CORPORATION

Per: (signed) "Michael R. Binnion"
Name: Michael R. Binnion
Title: President and CEO

MAGNUS ENERGY INC.

Per: (signed) "Murray M. Stewart"
Name: Murray M. Stewart
Title: President and CEO

SCHEDULE A
PLAN OF ARRANGEMENT

Schedule A to that Arrangement Agreement
made as of the 20th day of August, 2007 as amended and restated effective the 3rd day of October, 2007
between Questerre Energy Corporation and Magnus Energy Inc.

PLAN OF ARRANGEMENT

made pursuant to

Section 193 of the *Business Corporations Act* (Alberta)

ARTICLE 1 DEFINITIONS

- 1.1 In this Plan, unless the context otherwise requires:
- (a) “**ABCA**” means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as from time to time amended or re-enacted;
 - (b) “**Arrangement**” means the arrangement contemplated by this Plan pursuant to Section 193 of the ABCA;
 - (c) “**Articles of Arrangement**” means the articles of arrangement in respect of the Arrangement required under subsection 193(10) of the ABCA to be filed with the Registrar after the Final Order has been made to give effect to the Arrangement;
 - (d) “**Business day**” means a day, other than a Saturday, Sunday or other day, when banks in the City of Calgary, Alberta are not generally open for business;
 - (e) “**Certificate**” means the certificate or certificates or other confirmation or filing to be issued by the Registrar pursuant to subsection 193(11) of the ABCA;
 - (f) “**Court**” means the Court of Queen’s Bench of Alberta;
 - (g) “**Depository**” means the duly appointed depository in respect of the Arrangement as may be designated for the purpose of receiving deposits of certificates formerly representing Magnus Shares;
 - (h) “**Effective Date**” means the date on which Articles of Arrangement are filed with the Registrar;
 - (i) “**Effective Time**” means the time at which the Articles of Arrangement are filed with the Registrar;
 - (j) “**Final Order**” means the order of the Court, as such order may be amended at any time prior to the Effective Date, pursuant to subsection 193(9) of the ABCA approving the Arrangement or, if appealed, then unless such appeal is withdrawn or denied, as affirmed;
 - (k) “**Holder**” means a registered holder of Magnus Shares immediately prior to the Effective Date or any person who surrenders to the Depository certificates representing Magnus

Shares duly endorsed for transfer to such person in accordance with the Letter of Transmittal;

- (l) **“Information Circular”** means the management information circular to be prepared by Magnus for the Meeting;
- (m) **“Interim Order”** means an interim order of the Court concerning the Arrangement under subsection 193(4) of the ABCA, containing declarations and directions with respect to the Arrangement and the holding of the Meeting, as such order may be affirmed, amended or modified by any court of competent jurisdiction;
- (n) **“Letter of Transmittal”** means the letter of transmittal provided for use by Magnus Shareholders in connection with the Arrangement;
- (o) **“Magnus”** means Magnus Energy Inc., a corporation incorporated under the ABCA;
- (p) **“Magnus A Shares”** means the class A shares of Magnus, as constituted on the date hereof;
- (q) **“Magnus B Shares”** means the class B shares of Magnus, as constituted on the date hereof;
- (r) **“Magnus Dissenting Shareholders”** means holders of Magnus Shares that are ultimately entitled to be paid by Magnus the fair value for the Magnus Shares in respect of which they dissent in accordance with the provisions of the Interim Order and Article 5 hereof; whether by order of the Court or by acceptance of an offer made pursuant to such Interim Order;
- (s) **“Magnus Options”** means all outstanding options or other rights (if any) to purchase Magnus A Shares pursuant to Magnus’ existing stock option plan or otherwise;
- (t) **“Magnus Shareholders”** means the holders of Magnus Shares;
- (u) **“Magnus Shares”** means the Magnus A Shares and the Magnus B Shares;
- (v) **“Meeting”** means the annual and special meeting, including any adjournments or postponements thereof, of Magnus Shareholders, to be held, among other things, to consider, and if thought fit, authorize, approve and adopt the Arrangement in accordance with the Interim Order;
- (w) **“Plan”** means this plan of arrangement, as amended or supplemented from time to time, and “hereby”, “hereof”, “herein”, “hereunder”, “herewith” and similar terms refer to this Plan and not to any particular provision of this Plan;
- (x) **“Private Placement”** means the private placement of Magnus A Shares to be completed immediately prior to the Arrangement;
- (y) **“Questerre”** means Questerre Energy Corporation, a corporation incorporated under the ABCA;
- (z) **“Questerre Shares”** means the common shares in the capital of Questerre as constituted on the date hereof;

- (aa) **“Registrar”** means the Registrar of Corporations duly appointed under the ABCA; and
- (bb) **“Tax Act”** means the *Income Tax Act* (Canada), R.S.C. C.I (5th Supp.), as amended, including the regulations promulgated thereunder.

1.2 The headings contained in this Plan are for reference purposes only and shall not affect in any way the meaning or interpretation of this Plan.

1.3 Unless the contrary intention appears, references in this Plan to an article, section, paragraph, subparagraph or schedule by number or letter or both refer to the article, section, paragraph, subparagraph or schedule bearing that designation in this Plan.

1.4 In this Plan, unless the contrary intention appears, words importing the singular include the plural and vice versa; words importing gender shall include all genders; and “person” includes any individual, partnership, firm, trust, body corporate, government, governmental body, agency or instrumentality, unincorporated body of persons or association.

1.5 In the event that the 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 References in this Plan to any statute or sections thereof shall include such statute as amended or substituted and any regulations promulgated thereunder from time to time in effect.

1.7 Unless otherwise stated, all references in this Plan to sums of money are expressed in lawful money of Canada.

ARTICLE 2 PURPOSE AND EFFECT OF THE PLAN

2.1 The following is only intended to be a general statement of the purpose of the Plan and is qualified in its entirety by the specific provisions of the Plan.

The purpose of the Plan is to effect an exchange of all of the outstanding Magnus Shares for Questerre Shares on the basis provided herein, with the result that Magnus becomes a wholly-owned subsidiary of Questerre. The Magnus Options will be cancelled.

2.2 At the Effective Time, the Plan shall be binding upon Magnus, the Magnus Shareholders and Questerre upon filing of the Articles of Arrangement with the Registrar.

2.3 Articles of Arrangement shall be filed with the Registrar with the purpose and intent that none of the provisions of the Plan shall become effective unless all of the provisions of the Plan shall have become effective. The Certificate shall be conclusive evidence that the Arrangement has become effective and that each of the provisions of Article 3 has become effective in the sequence set out therein.

ARTICLE 3 ARRANGEMENT

3.1 At the Effective Time, each of the events set out below shall occur and be deemed to occur in the sequence set out without further act or formality:

- (a) each issued and outstanding Magnus Option and all rights pertaining to the ownership thereof that has not been duly exercised prior to the Effective Time shall be cancelled;
- (b) each issued and outstanding Magnus B Share and all rights pertaining to the ownership thereof shall be, and shall be deemed to be, sold, assigned and transferred to Magnus (free of any claims) and each Holder thereof shall receive in exchange therefor, consideration comprised of 10 Magnus A Shares for each Magnus B Share;
- (c) subject to Sections 4.4 and 5.1, each issued and outstanding Magnus A Share (including those Magnus A Shares issued pursuant to paragraph 3.1(b)) and all rights pertaining to the ownership thereof shall be, and shall be deemed to be, sold, assigned and transferred to Questerre (free of any claims) and each Holder thereof shall receive in exchange therefor, consideration comprised of 0.015316 of a Questerre Share for each Magnus A Share;
- (d) with respect to each Magnus Option to which paragraph 3.1 (a) applies:
 - (i) the holder thereof shall cease to be the holder of such Magnus Option and such holder's name shall be removed from the register of holders of Magnus Options as of the Effective Date; and
 - (ii) such Magnus Options shall be cancelled as of the Effective Date.
- (e) with respect to each Magnus B Share to which paragraph 3.1(b) applies:
 - (i) the Holder thereof shall cease to be the holder of such Magnus B Share and such Holder's name shall be removed from the register of Magnus B Shares as of the Effective Date;
 - (ii) Magnus shall be, and be deemed to be, the transferee of such Magnus B Shares (free of any claims) and which shall be registered in the register of such shares as the holder thereof as of the Effective Date and immediately thereafter be cancelled; and
 - (iii) each Holder of Magnus B Shares to which paragraph 3.1(b) applies shall be, and be deemed to be, the recipient of that number of newly issued Magnus A Shares as provided by paragraph 3.1(b), which shall immediately thereafter be registered in the register of such shares as the holder thereof as of the Effective Date and subject to the provisions of paragraph 3.1(c).
- (f) with respect to each Magnus A Share to which paragraph 3.1(c) applies:
 - (i) the Holder thereof shall cease to be the holder of such Magnus A Share and such Holder's name shall be removed from the register of Magnus A Shares as of the Effective Date; and
 - (ii) Questerre shall be, and be deemed to be, the transferee of such Magnus A Shares (free of any claims) and shall be registered in the register of such shares as the holder thereof as of the Effective Date.

3.2 The number of Questerre Shares issuable hereunder for each Magnus A Share shall be proportionately and appropriately adjusted to reflect fully the effect of any split, reverse split, Questerre

Share distribution (including any distribution of securities convertible into Questerre Shares) to all or substantially all holders of Questerre Shares, reorganization, recapitalization or other like change with respect to Questerre Shares occurring after October 31, 2007 and prior to the Effective Time.

3.3 Notwithstanding that the transactions or events set out herein shall occur and shall be deemed to occur in the order set out in this Plan without further act or formality, each of the parties to the Arrangement Agreement shall make, do and execute or cause and procure to be made, done and executed all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by any of them in order to further document or evidence any of the transactions or events set out herein, including, without limitation, any resolution of directors authorizing the issue, transfer or purchase for cancellation of shares, any share transfer powers evidencing the transfer of shares and any receipt therefore, and any necessary additions to or deletions from share registers.

ARTICLE 4

OUTSTANDING CERTIFICATES AND PAYMENTS

4.1 Subject to Section 5.1, from after the Effective Time, certificates formerly representing Magnus Shares shall represent only the right to receive the certificates representing the Questerre Shares, which the former Holder is, subject to Sections 4.4 and 5.1, entitled to receive pursuant to Article 3 of this Plan, subject to compliance with the requirements set forth in this Article 4.

4.2 At or promptly after the Effective Time, Questerre shall deposit with the Depositary, for the benefit of the Holders of Magnus Shares who will receive Questerre Shares in connection with the Arrangement, certificates representing the number of Questerre Shares sufficient to satisfy all of the payment obligations to Magnus Shareholders in connection with the acquisition of Magnus Shares pursuant to the Arrangement. Upon surrender to the Depositary for transfer to Questerre of a certificate which immediately prior to or upon the Effective Time represented Magnus Shares in respect of which the Holder is entitled to receive Questerre Shares under the Arrangement, together with (i) a duly completed Letter of Transmittal, (ii) such other documents and instruments as would have been required to effect the transfer of the Magnus Shares formerly represented by such certificate under the ABCA and the by-laws of Magnus, and (iii) such additional documents and instruments as the Depositary may reasonably require, the holder of such surrendered certificate shall be entitled to receive in exchange therefor, and after the Effective Time either Questerre or Magnus shall cause the Depositary to either:

- (a) forward or cause to be forwarded by first class mail (postage prepaid) to such Holder of Magnus Shares at the address specified in the Letter of Transmittal; or
- (b) if requested by such Holder in the Letter of Transmittal, make available or cause to be made available at the Depositary for pick-up by such Holder,

certificates representing the number of Questerre Shares issuable to such Holder, all as determined in accordance with Article 3, and, in particular, paragraph 3.1(c). In the event of a transfer of ownership of Magnus Shares that was not registered in the securities register of Magnus, a certificate representing the proper number of Questerre Shares may be issued to the transferee if the certificate representing such Magnus Shares is presented to the Depositary as provided above, accompanied by all documents required to evidence and effect such transfer and to evidence that any applicable stock transfer taxes have been paid.

4.3 After the Effective Date, the Magnus Shareholders (other than Questerre) shall not be entitled to any interest, dividend, premium or other payment on or with respect to the Magnus Shares other than the Questerre Shares which they are entitled to receive pursuant to this Plan. No dividends or other distributions paid, declared or made with respect to Questerre Shares, in each case with a record

date after the Effective Time, shall be paid to the holder of any unsurrendered certificate which immediately prior to the Effective Time represented outstanding Magnus Shares that were exchanged for Questerre Shares pursuant to Section 3.1 unless and until the holder of such certificate shall comply with the provisions of Section 4.2. Subject to applicable law, at the time such holder shall have complied with the provisions of Section 4.2. (or, in the case of clause (ii) below, at the appropriate payment date), there shall be paid to the holder of the certificates formerly representing Magnus Shares, without interest, (i) the amount of dividends or other distributions with a record date after the Effective Time paid with respect to the Questerre Shares, as the case may be, to which such holder is entitled pursuant hereto, and (ii) on the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to the date of compliance by such holder with the provisions of Section 4.2.

4.4 No fractional Questerre Shares shall be issued pursuant to the Plan. In the event that the exchange ratios referred to herein would result in a Holder being entitled to a fractional Questerre Share, such fractional Questerre Share will be rounded to the nearest whole number of Questerre Shares (provided that if the exchange ratio results in a Holder being entitled to 0.5 of a Questerre Share, such fraction shall be rounded up). If more than one certificate formerly representing Questerre Shares is surrendered for the account of the same Holder, the number of Questerre Shares for which such certificates have been surrendered shall be computed on the basis of the aggregate number of Questerre Shares represented by the certificates so surrendered.

4.5 In the event that any certificate which immediately prior to the Effective Time represented one or more outstanding Magnus Shares that were exchanged pursuant to Article 3 shall have been lost, stolen or destroyed, upon making of an affidavit of that fact by the Holder of Magnus Shares claiming such certificate to be lost, stolen or destroyed, the Depositary will issue in exchange for such lost, stolen or destroyed certificate, one or more certificates representing one or more Questerre Shares pursuant to Section 4.2 (and any dividends or distributions with respect thereto) in each case deliverable in accordance with Section 4.2. When authorizing such payment in exchange for any lost, stolen or destroyed certificate, the holder to whom certificates representing Magnus Shares are to be issued shall, as a condition precedent to the issuance thereof, give a bond satisfactory to Magnus and Questerre and their respective transfer agents in such sum as any of them may direct or otherwise indemnify Magnus and Questerre in a manner satisfactory to Magnus and Questerre against any claim that may be made against any of them with respect to the certificate alleged to have been lost, stolen or destroyed.

4.6 Any certificate formerly representing Magnus Shares that is not deposited with all other documents as provided in Section 4.2 on or before the sixth anniversary of the Effective Date shall cease to represent a right or claim of any kind or nature and the right of the Holder of such Magnus Securities to receive certificates representing Questerre Shares shall be deemed to be surrendered to Questerre together with all dividends or distributions thereon held for such Holder. On such date, the Questerre Shares (and any dividends or distributions with respect thereto) to which the former holder of the certificate referred to in the preceding sentence was ultimately entitled shall be deemed to have been surrendered for no consideration to Questerre, together with all entitlements to dividends, distributions, cash and interest in respect thereof held for such former holder. None of Questerre, Magnus or the Depositary shall be liable to any person in respect of any cash payment or Questerre Shares (or dividends, distributions) delivered to a public official pursuant to and in compliance with any applicable abandoned property, escheat or similar law.

4.7 All dividends paid or distributions made in respect of Questerre Shares issued to a former Holder for which a certificate representing Questerre Shares has not been delivered to such Holder in accordance with Section 4.1 shall be paid or delivered to the Depositary to be held in trust for such Holder for delivery to the Holder, net of all withholding and other taxes, upon delivery of the certificate in accordance with Section 4.1 or surrendered to Questerre pursuant to Section 4.6 hereof, as the case may be.

4.8 Magnus, Questerre and the Depositary shall be entitled to deduct and withhold from any consideration otherwise payable to any holder of Magnus Shares such amounts as Magnus, Questerre or the Depositary is required to deduct and withhold with respect to such payment under the Tax Act, or any provision of federal, provincial, state, local or foreign tax law, in each case, as amended. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the holder of the Magnus Shares in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority.

4.9 Any Questerre Shares, together with any funds held by the Depositary, that remain undistributed to former Holders of Magnus Shares nine months after the Effective Date shall be delivered to Questerre upon demand therefor, and holders of certificates previously representing Magnus Shares who have not theretofore complied with Section 4.2, shall thereafter, subject to Section 4.6, look only to Questerre for payment of any claim to Questerre Shares or dividends or distributions, if any, in respect thereof.

ARTICLE 5 DISSENT RIGHTS

5.1 Provided that the granting of rights of dissent is specifically ordered by the Court and not otherwise, Holders of Magnus Shares who have given a demand for payment which remains outstanding on the Effective Date in accordance with the rights of dissent in respect of the Plan granted by the Interim Order and who:

- (a) with respect to the Magnus Shares:
 - (i) are ultimately entitled to be paid fair value for any Magnus Shares in respect of which they dissent in accordance with the provisions of such Interim Order, whether by Order of a Court (as defined in the ABCA) or by acceptance of an offer made pursuant to such Interim Order, shall be deemed to have transferred such Magnus Shares to Magnus for cancellation on the Effective Time immediately prior to any of the steps described in Section 3.1 and such securities shall be deemed to no longer be issued and outstanding as of the Effective Time; or
 - (ii) are ultimately not so entitled to be paid fair value, for any reason, for the Magnus Shares in respect of which they dissent, shall not be, or be reinstated as, Holders of Magnus Shares, but for purposes of receipt of consideration shall be treated as if they had participated in this Plan on the same basis as a non-dissenting Magnus Shareholder, and accordingly shall be entitled to receive such consideration as non-dissenting Magnus Shareholders are entitled to receive on the basis set forth in Article 3 of this Plan and shall be deemed to have transferred such Magnus Shares to Questerre as of the Effective Time,

and, in no case shall Magnus, Questerre, the Depositary or any other person be required to recognize such Holders of Magnus Shares as shareholders of Magnus after the Effective Time.

ARTICLE 6 AMENDMENTS

6.1 Magnus reserves the right to amend, modify and/or supplement this Plan from time to time at any time prior to the Effective Time provided that any such amendment, modification or supplement must be contained in a written document that is (a) agreed to by Questerre, (b) filed with the Court and, if made following the Meeting, approved by the Court and (c) communicated to Magnus Shareholders in the manner required by the Court (if so required).

6.2 Any amendment, modification or supplement to this Plan may be proposed by Magnus at any time prior to or at the Meeting (provided that Questerre shall have consented thereto) with or without any other prior notice or communication, and if so proposed and accepted by the persons voting at the Meeting (other than as may be required under the Interim Order), shall become part of this Plan for all purposes.

6.3 Any amendment, modification or supplement to this Plan which is approved by the Court following the Meeting shall be effective only (a) if it is consented to by Magnus, (b) if it is consented to by Questerre and (c) if required by the Court or applicable law, it is consented to by the Magnus Shareholders.

6.4 Subject to applicable law, any amendment, modification or supplement to this Plan may be made following the Effective Time unilaterally by Questerre; provided that it concerns a matter which, in the reasonable opinion of Questerre, is of an administrative nature required to better give effect to the implementation of this Plan and is not adverse to the financial or economic interests of any former Magnus Shareholders.

SCHEDULE B

FORM OF LOCK-UP AGREEMENT

LOCK-UP AGREEMENT

August _____, 2007

Dear Securityholder:

Re: Arrangement Agreement dated August _____, 2007 between Questerre Energy Corporation and Magnus Energy Inc.

For good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the undersigned securityholder (the “**Securityholder**”) and in consideration of the entering into by Questerre Energy Corporation (“**Questerre**”) and Magnus Energy Inc. (“**Magnus**”) of an arrangement agreement (the “**Arrangement Agreement**”) relating to the acquisition of all of the securities of Magnus by Questerre by way of a plan of arrangement (the “**Proposed Transaction**”), the Securityholder agrees as follows:

Unless otherwise defined herein capitalized terms and phrases shall have the meanings ascribed thereto in the Arrangement Agreement.

1. Ownership of Shares and Options

Questerre understands that the Securityholder is the beneficial owner, directly or indirectly, of at least the number of: (a) class A shares (the “**Class A Shares**”) of Magnus; (b) class B shares (the “**Class B Shares**”) of Magnus; and (c) options to acquire Class A Shares (the “**Options**”) set forth in the Securityholders’ acceptance at the end of this letter agreement (“**Agreement**”) (collectively, the “**Subject Securities**”).

In addition to the foregoing, the term “**Shares**” will be deemed to also include any stock dividend, stock split, recapitalization, reclassification, combination or exchange of shares of capital stock of Magnus on, of, or affecting the Securityholder’s Shares or after the date of this Agreement and Shares issued upon exercise of Options.

2. Revocation of Previous Proxies

The Securityholder hereby revokes any and all previous proxies with respect to the Subject Securities.

3. Covenants of the Securityholder

The Securityholder covenants and agrees that, until the Release Date (as defined below) the Securityholder shall:

- (a) attend (either in person or by proxy) any meeting of the securityholders of Magnus convened for the purposes of considering the Proposed Transaction (including any adjournments and postponements thereof), and at such meeting, vote all of the Subject Securities in favour of the Proposed Transaction and all matters related thereto;
- (b) vote (in person or by proxy) against or not tender to: (i) any extraordinary corporate transaction, such as a merger, rights offering, reorganization, recapitalization, or liquidation involving Magnus other than the Proposed Transaction and any transaction related thereto; (ii) a sale or transfer of a material amount of assets of Magnus (other than as contemplated by the Arrangement Agreement) or the issuance of any securities of Magnus (other than pursuant to the exercise of the Options); or (iii) any action that is reasonably likely to impede, interfere with, delay, postpone, or adversely affect in any material respect the Proposed Transaction including, without limitation, any Acquisition Proposal;
- (c) not, without the prior written consent of Questerre, sell, transfer, assign, pledge, or otherwise dispose of, or enter into any agreement or understanding relating to the sale, transfer, assignment

or other disposition of the Subject Securities (other than as contemplated herein or by the Arrangement Agreement) or permit any affiliate of the Securityholder to do any of the foregoing;

- (d) not exercise any rights of dissent or appraisal in respect of any resolution approving the Proposed Transaction or any aspect thereof or matter related thereto, and not to exercise any other securityholder rights or remedies available at common law or pursuant to the *Business Corporations Act* (Alberta) or other legislation or in any manner delay, hinder, prevent, interfere with or challenge the Proposed Transaction;
- (e) not, subject to Section 6 hereof, except as may be specifically permitted pursuant to the Arrangement Agreement, directly or indirectly:
 - (i) continue in any discussions or negotiations, if any, in respect of an Acquisition Proposal;
 - (ii) solicit, facilitate, initiate or encourage any Acquisition Proposal;
 - (iii) enter into or participate in any negotiations or initiate discussions regarding a Acquisition Proposal, or furnish to any other person any information with respect to the business of Magnus or its properties, operations, prospects or conditions (financial or otherwise) in connection with a Acquisition Proposal 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; or
 - (iv) waive, or otherwise forbear in the enforcement of, or enter into or participate in any discussions, negotiations or agreements to waive or otherwise forbear in respect of, any rights or other benefits under confidential information agreements, including, without limitation, any “standstill provisions” thereunder; and
- (f) promptly notify Questerre upon any of undersigned’s representations or warranties contained in this Agreement becoming untrue or incorrect in any material respect prior to the Release Date, and for the purposes of this provision, each representation and warranty shall be deemed to be given at and as of all times during such period (irrespective of any language which suggests that it is only being given as at the date hereof).

For the purposes of this Agreement “**Release Date**” means the earlier of: (i) the Effective Time on the Effective Date (each as defined in the Arrangement Agreement) of the Proposed Transaction; (ii) the date the Arrangement Agreement is terminated; or (iii) the date the fee described in Section 6.16 of the Arrangement Agreement is paid in accordance with the Arrangement Agreement.

4. Representations and Warranties of the Securityholder

The Securityholder hereby represents and warrants to Questerre, as of the date of this Agreement and on the Effective Date, that:

- (a) the Securityholder is the legal and beneficial owner of or exercises control or direction over the Subject Securities with valid and marketable title thereto, free and clear of all claims, liens, charges, encumbrances and security interests other than those arising by operation of statute or pursuant to escrow agreements disclosed to Questerre, except for any Subject Securities that such Securityholder sells pursuant Section 3(c) hereof, in which case the representation is only as of the date of this Agreement; and
- (b) the Securityholder is duly authorized to execute and deliver this Agreement and this letter is a valid and binding agreement, enforceable against the Securityholder in accordance with its terms, and the consummation by the Securityholder of the transaction contemplated hereby will not constitute a violation or breach of or default under, or conflict with, any contract, commitment,

agreement, understanding or arrangement of any kind to which the Securityholder will be a party and by which the Securityholder will be bound at the time of such consummation.

5. Cancellation of Options

The Securityholder hereby covenants and agrees to terminate and cancel all Options held by the Securityholder as of the Effective Date such that the Securityholder shall hold no Options as of the Effective Time.

6. No Limit on Fiduciary Duty

Section 3(e) of this Agreement does not: (a) restrict, limit or prohibit the Securityholder from exercising his fiduciary duties to Magnus under applicable law; or (b) require the Securityholder, in his capacity as an officer of or counsel to Magnus, to take any action in contravention of, or omit to take any action pursuant to, or otherwise take or refrain from taking any actions which are inconsistent with, instructions or directions of Magnus's board of directors undertaken in the exercise of their fiduciary duties, provided that such Securityholder shall immediately notify Questerre if such Securityholder does not comply with Section 3(e) of the Agreement in reliance on this section.

7. Termination

7.1 In the event that:

- (a) Magnus receives an Acquisition Proposal which constitutes a Superior Proposal as defined in the Arrangement Agreement; or
- (b) the Arrangement Agreement is terminated, other than as a result of any act or omission on the part of the Securityholder;

the undersigned may terminate this Agreement upon delivery of notice thereof by the undersigned by facsimile transmission or hand delivery to Questerre at the address or facsimile number set out herein.

7.2 The obligations hereunder of Questerre shall terminate at the option of Questerre upon written notice given by Questerre to the Securityholder:

- (a) if the Securityholder has breached or failed to perform and satisfy any of its covenants or agreements contained herein in a material respect or any of the representations and warranties of the Securityholder contained herein are not true and correct in a material respect; or
- (b) if the Arrangement Agreement is terminated in accordance with its terms.

7.3 In the event of the termination of this agreement as provided in sections 7.1 and 7.2 above, 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 arising prior to such termination.

8. Amendment

Except as expressly set forth herein, this Agreement constitutes the entire agreement between the parties and may not be modified, amended, altered or supplemented except upon the execution and delivery of a written agreement executed by each of the parties hereto.

9. Assignment

No party to this Agreement may assign any of its rights or obligations under this Agreement without the prior written consent of the other parties.

10. Public Disclosure

Prior to the first public disclosure of the existence and terms and conditions of this Agreement, neither of the parties hereto shall disclose the existence of this Agreement or any details hereof, or the possibility of the Proposed Transaction or any terms or conditions or other information concerning the Proposed Transaction to any person other than the Securityholder's advisors or to the directors and officers of Questerre, without the prior written consent of the other party hereto, except to the extent required by law or stock exchange policy. The existence and terms and conditions of this Agreement may be disclosed by Questerre and Magnus in the press release issued in connection with the execution of the Arrangement Agreement, and other public disclosure documents in accordance with applicable securities legislation.

11. Further Assurances

The Securityholder shall from time to time and at all times hereafter at the request of Questerre 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.

12. Successors

This Agreement will be binding upon, enure to the benefit of and be enforceable by Questerre and the Securityholder and their respective executors, administrators, successors and permitted assigns.

13. Time of the Essence

Time is of the essence of this Agreement.

14. Unenforceable Terms

If any provision of this Agreement or the application thereof to any party or circumstance shall be invalid or unenforceable to any extent the remainder of this Agreement or application of such provision to a party or circumstance other than those to which it is held invalid or unenforceable shall not be affected thereby and each remaining provision of this Agreement shall be valid and shall be enforceable to the fullest extent permitted by law.

15. Applicable Law

This Agreement shall be governed and construed in accordance with the laws of the Province of Alberta and the federal laws of Canada applicable therein without regard to any conflicts of law provisions and each of the parties hereto irrevocably attorns to the jurisdiction of the courts of the Province of Alberta.

16. Notice

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

- (a) in the case of the Securityholder, to the address appearing on the acceptance page of this Agreement; and
- (b) in the case of Questerre, to 1580 Guinness House, 727 Seventh Avenue S.W., Calgary, Alberta, T2P 0Z5, fax no.: (403) 777-1578, Attention: Michael R. Binnion.

or to 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. Any notice or other communication given or made shall be deemed to have been duly given or made as at the date delivered or sent if delivered personally or sent by facsimile transmission at the address for service provided herein.

17. Enforcement

The parties hereto 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 such party is entitled at law or in equity.

18. Expenses

The parties hereto agree to pay their own respective expenses incurred in connection with this Agreement. Each of the parties hereto agrees to indemnify the other against any claim for a finder's fee or other compensation validly made by any broker which has an agreement with such indemnifying party for the payment of such fee or compensation. This section shall survive the termination of this Agreement pursuant to Section 6.

19. Counterpart Execution

This letter may be signed by fax and in counterparts, which, together, shall be deemed to constitute one valid and binding agreement and delivery of such counterparts may be effected by means of telecopier.

QUESTERRE ENERGY CORPORATION

Per: _____

Michael R. Binnion
President and Chief Executive Officer

Acceptance by the Securityholder

The foregoing is hereby accepted as of and with effect from the ____ day of August, 2007 and the undersigned hereby confirms that the undersigned beneficially owns, directly or indirectly, or exercises control or direction over the Subject Securities indicated below:

_____ Class A Shares

_____ Class B Shares

_____ Options

Witness

Name of Witness (Please Print)

Signature of Securityholder or, if a corporation,
authorized signing officer

Name of Securityholder (Please Print)

Address

Address