

IN THE COURT OF QUEEN'S BENCH OF ALBERTA  
JUDICIAL DISTRICT OF CALGARY

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36, as amended

AND IN THE MATTER OF  
QUESTERRE BEAVER RIVER INC. AND  
QUESTERRE ENERGY CORPORATION

PLAN OF COMPROMISE OR ARRANGEMENT OF  
QUESTERRE ENERGY CORPORATION

PURSUANT TO

*THE COMPANIES' CREDITORS ARRANGEMENT ACT*  
August 4, 2004

- ◆ THIS PLAN SHOULD BE READ TOGETHER WITH THE INFORMATION CIRCULAR DATED AUGUST 4, 2004 PREPARED BY QUESTERRE ENERGY CORPORATION, AND THE MONITOR'S REPORT TO CREDITORS DATED AUGUST 4, 2004
- ◆ THE FOLLOWING SCHEDULES ATTACHED HERETO ARE INTEGRAL TO AND FORM PART OF THIS PLAN:  
SCHEDULE A - DEFINED TERMS AND INTERPRETATION  
SCHEDULE B - INSTRUMENT OF PROXY

The purpose of this Plan is to effect a compromise and arrangement of the Claims of all Unsecured Creditors in order to permit QEC to restructure its affairs for the benefit of all stakeholders, with a view to increasing the recovery of amounts to the Unsecured Creditors and reducing the uncertainties, risks, costs, delays and possible losses that will otherwise occur to stakeholders. QEC has concluded, and the Monitor agrees, that Unsecured Creditors will likely obtain a greater return on their Claims if the Plan is approved than if QEC's assets are liquidated in a formal insolvency proceeding, which is the most likely outcome in the event this Plan is not approved. As well, Unsecured Creditors may be able to maintain an ongoing business relationship with QEC. Unsecured Creditors should review this Plan, the information circular prepared by management of QEC, and the Monitor's Report before voting to accept or to reject this Plan.

The compromises of Claims of Unsecured Creditors contemplated by this Plan are to be effected under the CCAA.

# PLAN OF REORGANIZATION

## ARTICLE 1 BACKGROUND AND PLAN

### 1.1 Background

QEC is a publicly listed corporation which is engaged in the exploration for, and the development, production and acquisition of, natural gas interests in Canada. QEC's main assets are its interest in QBR, its interest in certain exploration licenses in the St. Lawrence Lowlands in Quebec, and a small interest in certain producing oil and gas properties located in the Province of Alberta.

QBR is a wholly owned subsidiary of QEC. QBR is in the business of exploring for, investing in, developing and operating oil and gas production properties in British Columbia. The sole asset of QBR is an interest in the Beaver River natural gas field (the "**Beaver River Field**") which is located approximately 100 miles northwest of Fort Nelson, British Columbia.

QBR encountered a financial crisis in April of 2004 as a result of significant problems associated with the drilling of a re-entry well in the Beaver River Field known as the A-5 well. The objective of the re-entry drilling was to access "attic gas" or gas which, based upon extensive seismic work, QBR believed to exist above the highest producing well in the Beaver River Field, and to utilize the cash flow from the attic gas well to spud a well targeting new compartments. The A-5 re-entry did not encounter any attic gas. The well is currently producing from a previously drained section of an existing compartment at approximately 750 mcf or less than 7% of the expected production rate, and is producing 700 cubic meters of formation water per day.

The unsuccessful results of the re-entry were compounded by cost overruns associated with the well. Based on an estimate prepared by a contract drilling consultant, the cost of the re-entry was estimated at \$5.3 million based on a multi-well program and \$6.5 million based on a single well program. The well in fact cost three times the original estimate, more than \$12 million over the estimated cost amount.

QBR sought and obtained protection under the CCAA on April 1, 2004 in order to give itself an opportunity to reorganize its affairs for the benefit of its stakeholders.

Management of QEC believes that QBR's interest in the Beaver River Field still has the potential to realize value for QBR's stakeholders, of which QEC is by far the largest, however, given the very negative outcome of the A-5 well, QBR's best and perhaps only opportunity to realize value from its interest in the Beaver River Field is to reprocess its seismic data and re-evaluate its field interpretation in light of the information gained from the drilling of the A-5 well, in an attempt to confirm the potential for undrilled compartments. Once this is completed, QBR will be able to explore potential transactions, including farm-out opportunities and financing options, which would allow it to drill a new exploratory well to try to establish the existence of alternative developable natural gas reserves in the Beaver River Field. Management continues to believe that if QBR's assets were disposed of in a liquidation scenario, there is a significant risk that the assets would produce almost no value in light of the risk profile of the Beaver River Field and the associated abandonment liabilities.

QBR is also investigating the possibility of pursuing litigation against one of the parties who provided services in relation to the A-5 well, and who, in the view of QBR, was likely negligent in providing those services. QBR believes that party caused or materially contributed to the problems with the A-5 well, and that there may be the possibility of a material recovery from that party. QBR's available cash resources do not allow it to pursue that litigation or to do the further work described above in relation to the Beaver River Field. In order for QBR to be able to do either it will need financial support from QEC.

QEC's other material asset is its 85% interest in 287,915 hectares of exploration acreage in the St. Lawrence Lowlands of Quebec. Exploration efforts in the St. Lawrence Lowlands have not yielded any commercial discoveries to date. QEC believes, however, that the region over which it holds licenses is prospective for a relatively new exploration play, known regionally as the Trenton-Black River. It proposes to test this play with the Sainte Sophie #1 well. The Sainte Sophie #1 well will test a structure that could hold significant natural gas reserves. In addition to natural gas potential, the structure will also be evaluated as a prospective natural gas storage reservoir. QEC does not have the financial resources to pay the costs of the Sainte Sophie #1 well, currently estimated at \$3.2 million. Accordingly, QEC has entered into two farmout agreements in relation to the drilling of the well.

Pursuant to the first farmout agreement with Hydro-Québec Pétrole et Gaz ("**Hydro**") and Gastem Inc. ("**Gastem**"), on the successful completion of the Sainte Sophie #1 well, Hydro and Gastem will together earn a 50% interest in the well and 2,000 surrounding hectares by funding 75% of the costs of the well and will have an option to drill additional wells on QEC's acreage in the St. Lawrence Lowlands on the same terms and conditions.

Pursuant to a separate farmout agreement on similar terms with Jed Wood, a director of QEC, Mr. Wood will earn a 10% interest in the Sainte Sophie #1 well and 2,000 surrounding hectares by funding 15% of the costs of the well, and will have an option on the same terms as that granted to Hydro and Gastem to participate in additional wells on QEC's acreage in the St. Lawrence Lowlands. As a result of these farmout agreements, QEC will hold a 32.5% working interest in the Sainte Sophie #1 well and is responsible to fund 6.25% of the drilling costs. Drilling of the Sainte Sophie #1 well is expected to commence by September 30, 2004. Without restructuring its affairs and raising additional capital, however, QEC will likely be unable to fund the costs of maintaining the licenses relating to the St. Lawrence Lowlands and drilling future wells in the area, or provide financial support to QBR to realize the value of the Beaver River Field.

From its inception QBR has relied and continues to rely upon the employees and staff of QEC to perform all administrative and most technical functions and services pursuant to an oral management services agreement. A portion of the salaries of such employees and staff is paid by QBR. QBR has its own operations staff. In July of 2003, QEC, acting on behalf of QBR, engaged an experienced drilling contractor to plan, manage and implement the drilling of the A-5 well. It has in recent months become apparent that in at least some cases the contractor may not have made clear, in its dealings with parties it engaged to work on the A-5 well, that it was engaging them on behalf of QBR rather than QEC. As a result there is confusion on the part of a number of parties who worked on the A-5 well as to whether they were engaged by QEC or QBR.

Parties who provided goods and/or services in respect of the A-5 well, and whose claims amount to almost 50% by value of the total claims filed by QBR's third party creditors (i.e. other

than QEC), have indicated that they wish to advance a claim against QEC, either jointly with a claim against QBR or in the alternative, in respect of those goods and/or services. As of June 22, 2004, seven statements of claim seeking a total of \$2.44 million had been filed against QEC by parties who provided goods and/or services in relation to the A-5 well, and creditors advancing a further \$1.9 million in claims had indicated they intended to pursue claims against QEC in relation to goods and/or services provided in relation to the A-5 well.

Although QEC disputed liability for most of the claims advanced by parties who worked on the A-5 well, and in some cases both QBR and QEC disputed the amounts claimed, QEC believed that the cost of defending the actions which had been and might thereafter be advanced against it by parties who provided goods and/or services in relation to the A-5 well could exceed its available cash. As well, the potential existence of more than \$4.3 million in claims against QEC and the possibility of further potential unadvanced claims against QEC by parties who provided goods and/or services to the A-5 well had the effect, for practical purposes, of eliminating QEC's ability to raise money in the public markets, effectively dooming both QEC and QBR unless QEC's debts could also be compromised. Accordingly, on June 22, 2004, QEC sought and was granted protection under the CCAA, and added as a petitioner in QBR's CCAA proceedings.

QEC wishes to offer a combination of a cash dividend and QEC Shares, subject to the conditions set out below, to settle the claims of Unsecured Creditors on the terms set out in this Plan. QEC is of the view that offering QEC Shares to QEC's Unsecured Creditors to compromise their Claims allows its Unsecured Creditors to participate, in a material way, in both whatever value may remain in the Beaver River Field, and may exist in QEC's St. Lawrence Lowlands interests. The QEC Shares will be subject to escrow conditions which will allow holders to dispose of one-half of the QEC Shares received after four (4) months following the Plan Implementation Date and the remaining one-half of the QEC Shares received after eight (8) months following the Plan Implementation Date. The purpose of this escrow provision is to prevent disruption to the market for QEC's common shares that could jeopardize potential equity financings.

If the Plan is approved, each Unsecured Creditor of QEC will receive, in full satisfaction, discharge and release of its Claims:

- (a) the lesser of \$2000 and the amount of its Claims, or
- (b) subject to an Unsecured Creditor's election to participate in the Liquidity Option (described in Section 1.6 below), a cash dividend of \$0.05 plus one QEC Share for each dollar of its Claims. Should an Unsecured Creditor exercise the Liquidity Option, in addition to the \$0.05 cash dividend, it will receive \$0.07 for forgoing each QEC Share (as more particularly described in Section 1.6 below) resulting in a total cash settlement of \$0.12 for each dollar of its Claim.

QBR Unsecured Creditors will be offered the same consideration for settlement of their claims pursuant to the QBR Plan.

In the event that the affairs of QEC and QBR can be successfully restructured, and QEC's Sainte Sophie #1 well confirms the existence of significant natural gas reserves and/or QBR is able to establish the existence of alternative developable natural gas reserves in the Beaver River

Field, the QEC Shares to be distributed under the Plan could gain sufficient value to allow Unsecured Creditors to eventually recover an amount in excess of their Claims.

## **1.2 Purpose of the Plan**

The purpose of this Plan is to effect a compromise and reorganization of the Claims of the Unsecured Creditors pursuant to the provisions of the CCAA in a manner that provides consistent and equitable treatment among the Unsecured Creditors of QEC in order to enable the business of QEC to continue in the expectation that all Unsecured Creditors will likely derive a greater benefit from the acceptance of the consideration offered under the Plan and QEC's continued operations than would result from the immediate forced liquidation of its assets. The Monitor will report to Unsecured Creditors and the Court regarding the Plan prior to the date Unsecured Creditors of QEC are to vote on the Plan. Copies of Orders filed in the CCAA Proceedings, and copies of the Monitor's previous reports have been posted on QEC's website at <http://www.questerre.com>. All Unsecured Creditors should review this Plan and the Monitor's Report before voting to accept or to reject this Plan.

## **1.3 Effect of Plan**

All Claims against QEC are being compromised under this Plan, except for Claims of Secured Creditors, Post-Petition Creditors and Unaffected Creditors which will be unaffected by this Plan. Claims of Priority Creditors and Creditors having the benefit of the Administrative Charge will be paid in full on the Plan Implementation Date.

## **1.4 Structure of the Plan**

On the Plan Implementation Date:

- (a) QEC will:
  - (i) provide the Monitor with sufficient QEC Shares to make the distributions contemplated by Section 1.5(a)(ii) below;
  - (ii) fund a payment to the Monitor of an amount, in cash, sufficient to pay all amounts required to pay Claims of Priority Creditors, Creditors having the benefit of the Administrative Charge, and the amounts to be paid to Unsecured Creditors pursuant to Section 1.5(a) below; and
  - (iii) issue common shares of QEC to Terrenex as provided in Section 1.6 hereof; and
- (b) Terrenex will provide the Monitor with sufficient funds to fund the Additional Payment to Unsecured Creditors that elect to participate in the Liquidity Option.

## **1.5 Treatment of Claims of Creditors**

- (a) Under this Plan, Unsecured Creditors will accept, in full satisfaction, discharge and release of their Claims, the following:
  - (i) the lesser of \$2000 and the full amount of its Claims; or

- (ii) subject to Section 1.6 below, one QEC Share plus a cash dividend of \$0.05 for each dollar of its Claims.
- (b) The Final Order will provide that one-half of the QEC Shares issued to each Unsecured Creditor will be subject to a hold period of four (4) months from the Plan Implementation Date, and the remaining one-half of the QEC Shares issued to each Unsecured Creditor will be subject to a hold period of eight (8) months from the Plan Implementation Date. The share certificates representing the QEC Shares will be stamped with the following legend:

"By Order of the Court of Queen's Bench of Alberta dated • in Action No. 0401-05399, the common shares represented by this certificate may not be traded, sold or assigned before [four month date/eight month date from Plan Implementation Date to be inserted, as applicable]."

## 1.6 Liquidity Option

QEC has been made aware that some Unsecured Creditors that are entitled to receive QEC Shares pursuant to this Plan and that some of QBR's Unsecured Creditors that are entitled to receive QEC Shares pursuant to the QBR Plan wish to immediately dispose of those QEC Shares for cash. As QEC's shares are currently thinly traded and the escrow provisions set out in Section 1.5(b) would limit the ability of Unsecured Creditors to sell their QEC Shares, QEC has arranged for the Liquidity Option. Under the Liquidity Option, an Unsecured Creditor will still receive \$0.05 for each dollar of its Claims as provided in Section 1.5(a)(ii) above, but will forego the receipt of QEC Shares as provided in Section 1.5(a)(ii) in exchange for an additional \$0.07 for each dollar of its Claims (the "**Additional Payment**"). The QEC Shares that, but for the Liquidity Option, would otherwise have been issued to such Unsecured Creditor, will be issued to Terrenex pursuant to the terms of the Liquidity Option Agreement.

Under the Liquidity Option Agreement, Terrenex will agree to forward to the Monitor on the Plan Implementation Date sufficient funds to fund the Additional Payment to Unsecured Creditors that elect to participate in the Liquidity Option and to fund similar payments under the QBR Liquidity Option. As consideration for the foregoing, Terrenex will be issued:

- (a) 300,000 common shares of QEC;
- (b) all QEC Shares that, but for the election of Unsecured Creditors to participate in the Liquidity Option, would otherwise have been issued to those Unsecured Creditors; and
- (c) all QEC Shares that, but for the election of QBR Unsecured Creditors to participate in the QBR Liquidity Option, would otherwise have been issued to those QBR Unsecured Creditors.

All shares of QEC that are issued to Terrenex shall be subject to the same hold obligations as provided in Section 1.5(b) above.

Unsecured Creditors electing to participate in the Liquidity Option will receive \$0.12 in respect of each dollar of their Claims, as compared to a significantly less recovery (or possibly a

nil recovery) on each dollar of Claim having regard to the contingencies as to recovery referred to herein or in the Monitor's Report in the event of a liquidation of QEC.

The QBR Liquidity Option under the QBR Plan is identical to the terms of the Liquidity Option.

## **1.7 Related Party Disclosure**

Terrenex is a "related party" of QEC (as defined in Ontario Securities Commission Rule 61-501) as it holds, directly or indirectly, approximately 21% of the issued and outstanding shares of QEC. In addition, the following directors of QEC have an interest in Terrenex and QEC as follows:

### Michael Binnion ("Binnion")

- Binnion is a director of both QEC and Terrenex
- Binnion is an executive officer of both QEC and Terrenex
- Binnion and certain related parties own approximately 9.7% of the issued and outstanding shares of QEC and own approximately 8.3% of the issued and outstanding shares of Terrenex

### Peder Paus ("Paus")

- Paus is a director of both QEC and Terrenex
- Paus owns approximately 4.9% of the issued and outstanding shares of QEC
- Paus owns approximately 12.4% of the shares of Terrenex

### Russ Hammond ("Hammond")

- Hammond is a director of QEC and Terrenex
- Hammond is the Chairman of Terrenex
- Hammond exercises control over approximately 5.7% of the issued and outstanding shares of QEC and over approximately 19.2% of the issued and outstanding shares of Terrenex, although he does not beneficially own any shares of QEC or Terrenex

## **1.8 Distributions made by Monitor**

The Monitor will make all distributions to Unsecured Creditors pursuant to Section 1.5 and Section 1.6, including the distribution of QEC Shares.

## **ARTICLE 2 VALUATION OF CLAIMS AND APPROVAL OF PLAN**

### **2.1 Classification of Creditors**

For the purposes of considering and voting upon this Plan, Unsecured Creditors will be grouped in a single class, and only Unsecured Creditors will be entitled to vote. Each Unsecured Creditor will be entitled to one vote for each dollar of Claim Value. For purposes of voting only, the A-5 Claimants will be entitled to (a) one vote for each dollar of Claim submitted in the Proof

of Claim Process in respect of voting for or against the Plan; and (b) one vote for each dollar of Claim submitted in the QBR Proof of Claim Process in respect of voting for or against the QBR Plan, in the absence of resolution of their Claims or further Order of the Court. The A-5 Claimants shall not be entitled to share in the dividends from both this Plan and the QBR Plan solely by virtue of their right to vote in respect of both Plans.

## 2.2 Unsecured Creditors' Meeting

The Unsecured Creditors' Meeting will take place at the offices of the Monitor, #1000, 440 - 2<sup>nd</sup> Avenue S.W., Calgary, Alberta, Banff Room at 2:00 p.m. on August 31, 2004 (or on such other date as may be set by Order of the Court) at which the Unsecured Creditors eligible to vote shall consider and vote upon this Plan. The Unsecured Creditors' Meeting shall be held in accordance with this Plan, and any applicable Order in respect of the procedure governing the meeting.

The Monitor's designee (the "**Chairman**") shall preside as the chair of the meeting and shall decide all matters relating to the conduct of such meeting. Persons entitled to attend the Unsecured Creditors' Meeting are the Chairman, the Monitor, representatives of QBR, representatives of QEC, Unsecured Creditors or their representatives (including the holders of proxies) and the legal counsel of any Person entitled to attend.

Any other Person may be admitted only on the invitation of the Chairman. The Chairman may, with the permission of a simple majority of the Unsecured Creditors entitled to vote at such meeting, adjourn such Unsecured Creditors' Meeting on such terms and conditions (as to notice of the adjourned meeting and otherwise) as the Chairman may prescribe, subject to any further Order.

## 2.3 Proxies

An Unsecured Creditor who wishes to cast its vote at the Unsecured Creditors' Meeting, but is unable or does not wish to attend the Unsecured Creditors' Meeting, may appoint the Monitor, a member of QEC management, or any other Person as its proxyholder to attend and act on the Unsecured Creditor's behalf at the Unsecured Creditors' Meeting by inserting such Person's name in the space provided on an instrument of proxy in the form attached hereto as Schedule "B" (the "**Instrument of Proxy**") and sending or delivering the completed Instrument of Proxy to the offices of the Monitor at Ernst & Young Inc., 1000, 440 2nd Avenue S.W., Calgary, Alberta, T2P 5E9, Attention: Neil Narfason. An Instrument of Proxy must be (i) received at the offices of the Monitor at least one Business Day prior to the time set for the Unsecured Creditors' Meeting, or any adjournment thereof; or (ii) delivered to the Monitor at the Unsecured Creditors' Meeting prior to the commencement of the Unsecured Creditors' Meeting or any adjournment thereof. Failure to so deposit the Instrument of Proxy shall result in the invalidation of same. An Unsecured Creditor who has given an Instrument of Proxy may revoke it (as to any matter on which a vote has not already been cast pursuant to its authority) by an instrument in writing executed by such Unsecured Creditor or by his representative, duly authorized in writing or, if an Unsecured Creditor is not an individual, by an officer or attorney thereof duly authorized, and deposited either at the offices of the Monitor above mentioned on or before the last Business Day preceding the date of the meeting or any adjournment thereof, or with the Chairman of the Unsecured Creditors' Meeting prior to commencement of the Unsecured Creditors' Meeting, or any adjournment thereof.

The Instrument of Proxy must be executed by the Unsecured Creditor or his duly authorized attorney in writing, or if the Unsecured Creditor is not an individual, the Instrument of Proxy must be signed in its name by an authorized officer whose title should be indicated. The Instrument of Proxy signed by a Person acting in a representative capacity should indicate such Person's capacity (following his signature) and it should be accompanied by the instrument evidencing qualification and authority to act (unless such instrument has previously been filed with the Monitor).

The Persons named in the accompanying Instrument of Proxy shall vote the Claims of the Unsecured Creditors in accordance with the direction of the Unsecured Creditor appointing them on any ballot that may be called for and where the Unsecured Creditor giving the Instrument of Proxy specifies a choice with respect to any matter to be voted upon, the Claim shall be voted and if applicable, the election in respect of the Liquidity Option shall be made, in accordance with the instructions of the Unsecured Creditor. In the absence of any such direction, such Claim shall be voted as a vote in favour of the Plan. In the absence of any direction with respect to the Unsecured Creditor's election of the options set out under Section 1.5(a), an Unsecured Creditor shall be deemed to have elected to receive one QEC Share plus a cash dividend of \$0.05 for each dollar of its Claims. In the absence of any direction with respect to the Liquidity Option, an Unsecured Creditor shall be deemed to have elected not to participate in the Liquidity Option.

The accompanying Instrument of Proxy confers a discretionary authority upon the Persons named therein with respect to amendments or variations to the matters identified in the notice of meeting and in this Plan and with respect to other matters that may properly come before the Unsecured Creditors' Meeting.

## **2.4 Approval by Unsecured Creditors**

This Plan shall not become effective unless it shall have received the approval of a majority in number of Unsecured Creditors who actually vote upon the Plan (in person or by proxy) at the Unsecured Creditors' Meeting, representing at least two-thirds in value of the Claims of the Unsecured Creditors who actually vote upon the Plan (whether in person or by proxy).

## **2.5 Extinguishment of Claims**

The Claim of any Unsecured Creditor which has not been assigned a value in accordance with the Proof of Claim Process, or whose Claim is not being disputed in accordance with the Proof of Claim Process, will be extinguished upon approval of the Plan by the Unsecured Creditors and the Court, and the implementation of the Plan. Claims of Secured Creditors, Post-Petition Creditors and Unaffected Creditors will be unaffected. Claims of Priority Creditors and Creditors having the benefit of the Administrative Charge will be paid in full on the Plan Implementation Date.

## **2.6 Election as to Options**

In addition to voting on the Plan at the Unsecured Creditors' Meeting, each Unsecured Creditor will be requested to elect in writing (the "**Election**"):

- (a) whether it wishes to accept the consideration set out in Section 1.5(a)(i) or Section 1.5(a)(ii); and

- (b) whether it wishes to participate in the Liquidity Option.

Unsecured Creditors that have not previously made an election in the Instrument of Proxy will be required to return a completed Election to the Monitor at the Unsecured Creditors' Meeting. To the extent that an Unsecured Creditor does not deliver its Election to the Monitor at the Unsecured Creditors' Meeting or the Election is left blank, in whole or in part, that Unsecured Creditor shall be deemed to have elected to receive one QEC Share plus a cash dividend of \$0.05 for each dollar of its Claims and not to participate in the Liquidity Option, as applicable.

### **ARTICLE 3 PLAN IMPLEMENTATION**

#### **3.1 Confirmation of the Plan**

In the event that the Plan is approved by the required majority of Unsecured Creditors, QEC will, unless otherwise ordered by the Court, then seek the Final Order for the sanction and approval of the Plan. Subject only to the satisfaction of those conditions of the Plan described in Section 4.5 hereof, the Plan will then be implemented and will be binding upon all Unsecured Creditors as of the Plan Implementation Date. Notwithstanding any provisions of this Article 3, all obligations of Persons other than QEC under the terms of agreements and other arrangements to keep confidential or to not disclose information with respect to QEC and/or its businesses or assets shall continue in full force and effect.

#### **3.2 Waiver of Defaults**

From and after the Plan Implementation Date, each Creditor will be deemed to have waived any and all defaults by QEC in every covenant, warranty, representation, term, provision, condition or obligation, expressed or implied, in every contract, agreement, mortgage, security agreement, indenture, trust indenture, loan agreement, commitment letter, agreement for sale, lease or other agreement, written or oral, and any and all amendments or supplements thereto, existing between such Creditor and QEC, which have occurred prior to or are continuing as at the Plan Implementation Date, and any and all notices of default and demands for payment under any instrument including, without limitation, any guarantee, will be deemed to have been rescinded.

#### **3.3 Compromise Effective for all Purposes**

The payment, compromise or other satisfaction of any Claim under the Plan, if sanctioned and approved by the Court, will be binding upon each Unsecured Creditor, its heirs, executors, administrators, successors and assigns, for all purposes and, to such extent will also be effective to relieve any third party directly or indirectly liable for such Claim, whether as guarantor, indemnitor, tenant, director, joint covenantor, principal or otherwise.

#### **3.4 Effect of Proceedings on Agreements**

On the Plan Implementation Date, all real property lease agreements, equipment lease agreements, oil and gas lease or licenses, farmout agreements, joint venture agreements and all other executory contracts to which QEC is a party, other than contracts or leases which are terminated or repudiated by QEC prior to the Plan Implementation Date, and all governmental

authorizations, licences or permits shall be deemed to be in full force and effect as at the Plan Implementation Date notwithstanding:

- (a) that QEC has obtained relief under the CCAA;
- (b) the effect upon QEC of the completion of any of the transactions contemplated under the Plan;
- (c) any compromises effected pursuant to the Plan;
- (d) any default with respect to such contract on the part of QEC on or after the Filing Date and prior to the Plan Implementation Date;
- (e) any provision to the contrary in such agreements; or
- (f) any automatic termination of such contracts or purported termination of such contracts by any Person other than QEC.

No party to any such real property lease agreement, equipment lease agreement, oil and gas lease or licenses, farmout agreement, joint venture agreement or other executory contract will be entitled to accelerate the obligations of QEC or to terminate, rescind or repudiate such party's obligations under such agreement or contract from and after the Plan Implementation Date by reason solely:

- (a) of any default which occurred prior to the Plan Implementation Date and is not continuing which would have entitled any other party to accelerate the obligations of QEC or to terminate, rescind or repudiate its obligations under such agreement or contract;
- (b) that QEC has obtained relief under the CCAA;
- (c) the effect upon QEC of the completion of any of the transactions contemplated under the Plan; or
- (d) any compromise effected pursuant to the Plan.

### **3.5 Consents, Waivers and Agreements**

As at 12:01 a.m. on the Plan Implementation Date, each Unsecured Creditor will be deemed to have consented and to have agreed to all of the provisions of this Plan as an entirety. In particular, each Unsecured Creditor will be deemed:

- (a) to have executed and delivered to QEC all consents, releases, assignment and waivers, statutory or otherwise, required to implement and carry out this Plan as an entirety;
- (b) to have waived any default by QEC in any provision, express or implied, in any agreement or other arrangement, written or oral, existing between such Creditor and QEC that has occurred on or prior to the Plan Implementation Date;

- (c) to have agreed that if there is any conflict between the provisions, express or implied, of any agreement or other arrangement, written or oral, existing between such Creditor and QEC as at the Plan Implementation Date (other than those entered into by QEC on, or with effect from, the Plan Implementation Date) and the provisions of this Plan, then the provisions of this Plan take precedence and priority and the provisions of such agreement or other arrangement are amended accordingly; and
- (d) to have released any and all Claims.

### **3.6 Release of Claims**

Effective on the Plan Implementation Date, QEC and any current or former directors, officers, employees and advisors of QEC (collectively in this Section 3.6 the "**QEC Group**") will be released from all Claims of Unsecured Creditors, other than Claims against QEC in respect of QEC's obligations pursuant to this Plan or as limited by Section 5.1(2) of the CCAA. Further, at the Plan Implementation Date:

- (a) all agreements and other arrangements, whether written or oral, between QEC and each Unsecured Creditor pertaining to any of the Liabilities of the Unsecured Creditors; and
- (b) all Liabilities of QEC to such Unsecured Creditors, including, without limitation all interest or penalties and all other Liabilities accrued or accruing in respect of such Liabilities, and all other obligations that QEC may have to such Unsecured Creditors,

shall be, and shall be deemed to be, forever cancelled, terminated, extinguished, discharged, and released by such Unsecured Creditors and the only rights of such Unsecured Creditors thereunder shall be their rights pursuant to the Plan. Notwithstanding any provisions of this Section 3.6, all obligations of Persons other than QEC under the terms of such agreements and other arrangements to keep confidential or to not disclose information with respect to QEC and/or their respective subsidiaries or affiliates or their respective businesses or assets shall continue in full force and effect.

## **ARTICLE 4 MISCELLANEOUS**

### **4.1 Paramountcy**

From and after the Plan Implementation Date, any conflict between the Plan and the covenants, warranties, representations, terms, conditions, provisions or obligations, expressed or implied, of any contract, mortgage, security agreement, indenture, trust indenture, loan agreement, commitment letter, agreement for sale, by-laws of QEC, lease or other agreement, written or oral, and any and all amendments or supplements existing between one or more of the Unsecured Creditors and QEC as at the Plan Implementation Date will be deemed to be governed by the terms, conditions and provisions of the Plan, which will take precedence and priority.

## 4.2 Participation in Different Capacities

Creditors whose Claims are affected by this Plan may be affected in more than one capacity. Any action taken by a Creditor in any one capacity will not affect the Creditor in any other capacity unless the Creditor agrees in writing.

## 4.3 Modification of Plan

QEC reserves the right to make any modification of, supplement to, or amendment to the Plan up to the time of the vote at the Unsecured Creditors' Meeting. After such Unsecured Creditors' Meeting, QEC may at any time and from time to time vary, amend, modify or supplement the Plan if the Court or the Monitor, and QEC determine that such variation, amendment, modification or supplement is of a technical nature that would not be materially prejudicial to the interests of the Unsecured Creditors under the Plan or the Final Order and is necessary to give effect to the substance of the Plan or the Final Order.

## 4.4 Deeming Provisions

In this Plan, the deeming provisions are not rebuttable and are conclusive and irrevocable.

## 4.5 Conditions of Plan Implementation

The implementation of the Plan will be conditional upon the fulfilment, satisfaction, or waiver by QEC of all of the following conditions precedent on or before September 30, 2004:

- (a) the QBR Plan shall have been approved by QBR's Unsecured Creditors by the necessary majorities pursuant to the CCAA;
- (b) QBR shall have obtained positive confirmation from the Government of the Province of British Columbia (the "**BC Government**") that it qualifies for certain royalty credits or QBR shall have entered into an agreement with the BC Government regarding payment of royalties in relation to the Beaver River Field, on terms satisfactory to QBR;
- (c) all necessary approvals and exemptions for (i) the issuance and distribution of the QEC Shares to Unsecured Creditors pursuant to this Plan and to QBR Unsecured Creditors pursuant to the QBR Plan, and (ii) the issuance and distribution of common shares of QEC to Terrenex as contemplated herein shall have been obtained;
- (d) the approval of a majority in number of Unsecured Creditors who actually vote upon the Plan (in person or by proxy) at the Unsecured Creditors' Meeting of QEC, representing at least two-thirds in value of the Claims of the Unsecured Creditors who actually vote upon the Plan (whether in person or by proxy) is obtained; and
- (e) a Final Order shall have been granted approving the Plan, the QBR Plan and the Liquidity Option Agreement and the performance by QEC and QBR, as the case may be, of their obligations hereunder and thereunder and of all transactions, agreements and instruments contemplated hereby and thereby.

#### **4.6 Accounting Terms**

All accounting terms not otherwise defined herein will have the meanings ascribed to them in accordance with Canadian generally accepted accounting principles including those prescribed by the Canadian Institute of Chartered Accountants. Accounting policies and standards of financial disclosure will be in accordance with Canadian generally accepted accounting principles.

#### **4.7 Article of Reference**

The terms "hereof", "hereunder", "herein" and similar expressions refer to this Plan and not to any particular article, section, subsection, clause or paragraph of this Plan and include any agreements supplemental hereto. In this Plan, a reference to an article, section, subsection, clause or paragraph will, unless otherwise stated, refer to an article, section, subsection, clause or paragraph of the Plan.

#### **4.8 Interpretation Not Affected by Headings**

The division of this Plan into articles, sections, subsections, clauses and paragraphs and the insertion of a table of contents and headings are for convenience of reference only and will not affect the construction or interpretation of this Plan.

#### **4.9 Date for Any Action**

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

#### **4.10 Time**

All times expressed herein are local time in Calgary, Alberta, Canada unless otherwise stipulated.

#### **4.11 Number, Etc.**

In this Plan, where the context requires, a word importing the singular number will include the plural and vice versa; and a word or words importing gender will include all genders.

#### **4.12 Currency**

Unless otherwise stated herein, all references to currency in this Plan are to lawful money of Canada.

#### **4.13 Statutory References**

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

**4.14 Successors and Assigns**

This Plan will be binding upon and will enure to the benefit of the heirs, administrators, executors, legal personal representatives, successors and assigns of any Person named or referred to in this Plan.

## SCHEDULE "A"

### DEFINED TERMS

In this Plan (including the Schedules hereto), unless otherwise stated or unless the context otherwise requires:

- (a) "**A-5 Claimants**" means those Persons who provided goods and/or services in respect of the A-5 well that have filed a Claim against QEC in the Proof of Claim Process, either jointly with a claim against QBR in the QBR Proof of Claim Process or in the alternative, in respect of those goods and/or services;
- (b) "**A-5 well**" means a natural gas well with the UWI 200-A075-K/094-N-16 located in the Peace River District, British Columbia;
- (c) "**Administrative Charge**" means the charge created in the Initial Order in favour of the Monitor, counsel to the Monitor, if any, and all counsel and financial advisors of QEC, if any, as security for their reasonable professional fees and disbursements;
- (d) "**Business Day**" means any day other than a Saturday, Sunday or a statutory holiday in Calgary, Alberta;
- (e) "**CCAA**" means the *Companies' Creditors Arrangement Act*, R.S.C. 1985. c. C-36;
- (f) "**CCAA Proceedings**" means the proceedings pursuant to the CCAA initiated by QBR in the Court under action no. 0401-05399, and to which QEC was added as a petitioner on June 22, 2004;
- (g) "**Claim**" means a claim made by a Creditor against QEC respecting a Liability;
- (h) "**Claim Value**", with respect to any Creditor, means the amount of such Creditor's Liability determined by the Proof of Claim Process authorized in the CCAA Proceedings;
- (i) "**Court**" means the Court of Queen's Bench of Alberta;
- (j) "**Creditor**" means any Person having a Claim, whether or not such Claim is reduced to judgment, liquidated, unliquidated, fixed, contingent, mature, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known, unknown, by guarantee, by surety or otherwise, without limitation, against or in respect of QEC and includes, without limitation, those Persons to whom QEC became indebted by reason of the supply of goods or services or the extension of credit in the ordinary course of business of QEC;
- (k) "**Crown**" means, in its capacity as such, any government or government agency, body or commission, whether federal, provincial or municipal;
- (l) "**Filing Date**" means June 22, 2004;

- (m) "**Final Order**" means the Order of the Court of Queen's Bench approving the Plan, the Liquidity Option Agreement and the transactions contemplated hereunder and thereunder, to be granted pursuant to the provisions of the CCAA, as such Order may be amended or modified by a court of competent jurisdiction provided that such Order will not be a Final Order until after (i) the expiry of applicable appeal periods, and (ii) in the event of an appeal or application for leave to appeal, final determination by the applicable appellate tribunal;
- (n) "**Initial Order**" means the June 22, 2004 Order of the Court in the CCAA Proceedings pursuant to which QEC was provided protection under the CCAA;
- (o) "**Liability**" means any liability (whether reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known, unknown, by guarantee, by surety or otherwise and includes, without limitation, all liabilities determined in accordance with generally accepted accounting principles in Canada) of, against or with respect to QEC, as applicable, in existence on both June 22, 2004, and the Plan Implementation Date;
- (p) "**Liquidity Option**" means the transactions as more particularly described in Section 1.6 hereof, including the following:
  - (i) the election by certain Unsecured Creditors to receive \$0.07 in lieu of QEC Shares; and
  - (ii) the issuance to Terrenex of all QEC Shares that, but for the election of certain Unsecured Creditors to participate in the Liquidity Option, would otherwise have been issued to those Creditors;
- (q) "**Liquidity Option Agreement**" means the liquidity option agreement to be entered into between Terrenex, QBR and QEC;
- (r) "**Monitor**" means Ernst & Young Inc. and any successor thereto;
- (s) "**Monitor's Report**" means the Monitor's report to Creditors dated August 4, 2004;
- (t) "**Order**" means any order of the Court in the CCAA Proceedings;
- (u) "**Person**" means any person and includes without restriction an individual, corporation, partnership, trust, or any federal, provincial, municipal or other governmental body, agency, authority, department, commission, board or tribunal thereof;
- (v) "**Plan**" means this plan of compromise and reorganization of QEC under the CCAA as supplemented or amended from time to time;
- (w) "**Plan Implementation Date**" means the first Business Day after which all of the conditions set out in Section 4.5 have been met or expressly waived;

- (x) "**Post Petition Creditor**" means any Creditor of QEC whose Claim arose on or after June 22, 2004, but does not include Creditors whose Claims arose in respect of some obligation, agreement, liability or arrangement in existence on or before June 22, 2004, but which became crystallized or quantified thereafter;
- (y) "**Priority Creditor**" means the Crown or any other party having a Claim against QEC which, by virtue of any statute or regulation has priority over the Claims of Secured Creditors;
- (z) "**Proof of Claim Process**" means the process conducted by QEC pursuant to an Order of the Court dated June 22, 2004, to allow QEC to ascertain the identity of the creditors of QEC and the amount of their claims;
- (aa) "**QBR**" means Questerre Beaver River Inc.;
- (bb) "**QBR Liquidity Option**" means the liquidity option made available to QBR Unsecured Creditors pursuant to the terms and conditions of the QBR Plan;
- (cc) "**QBR Plan**" means a plan of arrangement being proposed contemporaneously by QBR;
- (dd) "**QBR Proof of Claim Process**" means the proof of claim process established under the QBR Plan;
- (ee) "**QBR Unsecured Creditors**" shall have the meaning ascribed to such term in the QBR Plan;
- (ff) "**QEC**" means Questerre Energy Corporation;
- (gg) "**QEC Shares**" means the common shares in the capital of QEC to be issued to Unsecured Creditors pursuant to section 1.5 hereof and/or to QBR Unsecured Creditors pursuant to the provisions of the QBR Plan;
- (hh) "**Secured Creditors**" means creditors of QEC whose Claims have been recognized by QEC as secured, excluding holders of builders' liens on or in respect of the A-5 well;
- (ii) "**Terrenex**" means Terrenex Acquisition Corporation, a corporation incorporated under the laws of the Province of Alberta;
- (jj) "**Unaffected Creditors**" means Rupert's Crossing, an Investment Corporation, the Business Development Bank of Canada and CBSC Capital Inc.
- (kk) "**Unsecured Creditors**" means all Creditors whose Claims arose before June 22, 2004, or whose Claims arose in respect of some obligation, agreement, liability or arrangement in existence on or before June 22, 2004 but which became crystallized or quantified thereafter, and:
  - (i) whose Claims have been allowed as unsecured in the Proof of Claim Process, to the extent such Claims have been allowed as unsecured; or

- (ii) whose Claims have been allowed as secured in the Proof of Claim Process, to the extent such Claims are secured by way of builders' liens on or in respect of the A-5 well; and
- (ll) "**Unsecured Creditors' Meeting**" means the meeting of the Unsecured Creditors to approve this Plan as contemplated in Section 2.2 hereof.

The defined terms used in the Initial Order or any other order in the CCAA proceedings are incorporated in this Plan unless otherwise defined herein.

**SCHEDULE "B"**

**IN THE COURT OF QUEEN'S BENCH OF ALBERTA  
JUDICIAL DISTRICT OF CALGARY**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36, as amended**

**AND IN THE MATTER OF  
QUESTERRE BEAVER RIVER INC. AND  
QUESTERRE ENERGY CORPORATION**

**PLAN OF COMPROMISE OR ARRANGEMENT OF  
QUESTERRE ENERGY CORPORATION**

**PURSUANT TO**

***THE COMPANIES' CREDITORS ARRANGEMENT ACT*  
August 4, 2004**

**Form of Instrument of Proxy for Questerre Energy Corporation**

Form of Instrument of Proxy solicited by **Questerre Energy Corporation** ("QEC") for use at the Unsecured Creditors' Meeting of QEC to be held on August 31, 2004 at 2:00 p.m. (or on such other date as may be set by Order) at the offices of Ernst & Young Inc., #1000, 440 - 2<sup>nd</sup> Avenue S.W., Calgary, Alberta, Banff Room.

If you are unable to attend the Unsecured Creditors Meeting of QEC to consider the resolution described below, and any amendments thereto, in person, please complete and execute this Instrument of Proxy and deliver it in accordance with the instructions set forth below. If an Unsecured Creditor wishes to be represented at the Unsecured Creditors Meeting of QEC, or any adjournment thereof, by proxy (a "**Proxy**"), this Instrument of Proxy (or other appropriate instrument of proxy) must be completed and executed by the Unsecured Creditor or by the Unsecured Creditor's attorney, authorized in writing.

An Unsecured Creditor may appoint a proxyholder (a "**Proxyholder**"), other than a person(s) designated in this Instrument of Proxy, who need not be an Unsecured Creditor, to attend and act on the Unsecured Creditor's behalf at the Unsecured Creditors Meeting of QEC. This right may be exercised (i) by striking out the name of the person(s) designated in this instrument of proxy and by inserting, in the space provided, the name of the person the Unsecured Creditor wishes to appoint as a representative or (ii) by completing and executing another appropriate instrument of proxy.

All terms defined in the Plan of Compromise or Arrangement by QEC dated August 4, 2004 (the "**Plan**") accompanying this Proxy, unless otherwise defined in this Proxy, have the same meaning when used in this Proxy.

The undersigned Unsecured Creditor hereby appoints Michael Binnion of QEC, or failing him, **Neil Narfason** of **Ernst & Young Inc.**, or instead of either of the foregoing, \_\_\_\_\_ as Proxyholder of the undersigned, with full power of substitution, to attend and act at the Unsecured Creditors Meeting of QEC, and at any adjournment thereof, in the manner and to the extent authorized by this Proxy and with the authority conferred by this

Proxy, and, without limiting the generality of the foregoing, the Proxyholder is directed to vote as specified below.

- A. In respect of the proposed resolution to approve the plan of arrangement proposed by QEC under the *Companies' Creditor Arrangement Act* (Canada), dated \_\_\_\_\_, 2004, the Proxyholder is directed to vote as follows:

For \_\_\_\_\_ Against \_\_\_\_\_

An Unsecured Creditor that does not specify its direction shall be deemed to have voted for the Plan.

- B. If the Plan is approved, the Unsecured Creditor hereby elects to receive the following in full satisfaction, discharge and release of its Claims:

\_\_\_\_\_ the lesser of \$2000 and the amount of its Claim, **OR**

\_\_\_\_\_ subject to an Unsecured Creditor's election to participate in the Liquidity Option, a cash dividend of \$0.05 plus one QEC Share for each dollar of its Claims.

An Unsecured Creditor that fails to indicate its election shall be deemed to have elected to receive a cash dividend of \$0.05 plus one QEC Share for each dollar of its Claims.

- C. If the Plan is approved, the Unsecured Creditor hereby makes the following election as to its participation in the Liquidity Option:

\_\_\_\_\_ Elects to participate as to \_\_\_\_ QEC Shares that the Unsecured Creditor would otherwise be entitled to receive [INSERT "ALL" OR SPECIFIC NUMBER OF SHARES]

\_\_\_\_\_ Declines to participate

An Unsecured Creditor that fails to indicate its election shall be deemed to have elected **not** to participate in the Liquidity Option.

The Plan is proposed to the Unsecured Creditors to the extent of their Claims. Only the Unsecured Creditors will be entitled to vote at the Unsecured Creditors Meeting of QEC, or any adjournment thereof.

The Proxyholder may vote in her/his discretion on amendments to matters identified in the notice respecting the Unsecured Creditors Meeting of QEC and on all other matters which may properly come before the Unsecured Creditors Meeting of QEC, or any adjournment thereof.

DATED at City of \_\_\_\_\_, in the Province of \_\_\_\_\_ this \_\_\_\_ day of \_\_\_\_\_, 2004.

<p><b>To the extent that an Unsecured Creditor has elected <u>not</u> to participate in the Liquidity Option, QEC and the Monitor are hereby irrevocably authorized and directed to register all share certificates issued to the Unsecured Creditor in the name of _____ and deliver such share certificates to the following address:</b></p> <p>_____</p> <p>_____</p> <p>_____</p>	<p>_____</p> <p>Name of Unsecured Creditor (please print)</p> <p>_____</p> <p>Signature of Unsecured Creditor</p> <p>_____</p> <p>Address of Unsecured Creditor</p> <p>_____</p> <p>Amount of Claim of the Unsecured Creditor</p>
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Notes

- (1) Properly completed proxies to be used at the Unsecured Creditors Meeting of QEC must be deposited with **Ernst & Young Inc.**, 1000, 440 2nd Avenue S.W., Calgary, Alberta T2P 5E9, Attention: Neil Narfason, Fax (403) 206-5075 and must be (i) received at the offices of Ernst & Young Inc. at least one Business Day prior to the time set for the Unsecured Creditors Meeting of QEC, or any adjournment thereof; or (ii) delivered to Ernst & Young Inc. at the Unsecured Creditors Meeting of QEC prior to the commencement of that meeting or any adjournment thereof.
- (2) This Proxy must be dated and executed by the Unsecured Creditor or by the voting Unsecured Creditor's attorney authorized in writing, or, if the Unsecured Creditor is a corporation, by a duly authorized officer. If this Proxy is not dated in the space provided above, it shall be deemed to bear the date on which it was mailed to the Unsecured Creditor.
- (3) This Proxy may be revoked (as to any matter on which a vote has not already been cast pursuant to its authority) by an instrument in writing executed by such Unsecured Creditor or by his representative, duly authorized in writing or, if an Unsecured Creditor is not an individual, by an officer or attorney thereof duly authorized, and deposited either at the offices of Ernst & Young Inc. above mentioned on or before the last Business Day preceding the date of the meeting or any adjournment thereof, or with the Chairman of the Unsecured Creditors Meeting of QEC prior to commencement of that meeting, or any adjournment thereof.