

**IN THE MATTER OF THE PROPOSAL OF
DESMARAIS ENERGY CORPORATION**

PROPOSAL

DESMARAIS ENERGY CORPORATION ("Desmarais") submits the following Proposal to the unsecured creditors of Desmarais under the *Bankruptcy and Insolvency Act* R.S.C. 1985 c. B-3, as amended (the "BIA").

Part 1 - Purpose and Background of Proposal

1. The purpose of the Proposal is to restructure the financial affairs of Desmarais in order to provide Creditors with the best available opportunity to recover their Claims by providing Affected Creditors the opportunity to participate in part of the potential equity value of Desmarais, thus providing a potentially greater return for Creditors than would be realized in a liquidation of Desmarais in a receivership or bankruptcy.
2. Desmarais has suffered a cash flow shortage and has been attempting to resolve this issue through new investment and informal arrangements with its Creditors. However, due to the issuance of a requirement to pay from the Province of Alberta, arising from a recalculation of Desmarais' Alberta Royalty Tax Credit, Desmarais was forced to file a Notice of Intention to make a Proposal with the Superintendent of Bankruptcy on September 26, 2011.
3. This Proposal will provide Desmarais with the opportunity to refinance and thereby continue in business for the benefit of all stakeholders.
4. This Proposal will affect Affected Creditors only. The benefits to Affected Creditors will be further described in the report of the Trustee with respect to this Proposal.
5. Assuming the Proposal is successful, Desmarais will be discharged from the Proposal process and Desmarais expects to conclude a recapitalization transaction designed to see additional capital injected, new assets acquired and new management and directors appointed.

Part 2 - Interpretation

Definitions

6. Defined terms not otherwise defined in the body of this Proposal shall have the meaning set out in Schedule "A" hereto.

Headings

7. The divisions of this Proposal into parts, paragraphs and sub-paragraphs and the insertion of headings herein, is for the convenience of reference only and is not to affect the construction or interpretation of this Proposal.

Numbers, etc.

8. In this proposal, 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.

Date for Action

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

Time

10. All times expressed herein are in local time in Calgary, Alberta, Canada unless otherwise stipulated. Where the time for anything to be done pursuant to the Proposal on a particular date as unspecified herein, the time shall be deemed to be 5:00 pm local time in Calgary, Alberta, Canada.

Currency

11. Unless otherwise stated all references to currency in this Proposal are par to lawful money of Canada.

Successors and Assigns

12. This Proposal will be binding upon and will inure to the benefit of the heirs, administrators, executors, personal representatives, successors and assigns if all persons named or referred to herein including, without limitation, all Creditors.

Accounting Principles

13. Accounting terms not otherwise defined have the meanings assigned to them in accordance with generally accepted Canadian accounting principles.

Statutory References

14. Except as otherwise provided herein, any reference in the Proposal to a statute includes all regulations and amendments made under that statute or regulation(s) in force from time to time and any statute or regulation that supplements or supersedes such statute or regulation(s).

Application

15. This Proposal applies to all Creditors except for Unaffected Creditors, whether or not such Creditor proves a Claim against Desmarais under the Proposal.

Part 3 - Treatment of Creditors

Unaffected Creditors

16. The following Creditors (the "Unaffected Creditors") shall not be affected by the Proposal:
- (a) 323 Holdings Ltd., the secured lender of Desmarais (the "Secured Lender") to the extent of the value of its security and subject to paragraph 27 herein;

- (b) DEC DIP Financial Group, the debtor in possession financier pursuant to an Order granted by the Court on October 26, 2011;
 - (c) Creditors with claims subject to the Administration Charge;
 - (d) any Claims arising in respect of Post-Filing Goods and Services; and
 - (e) any Claims falling in priority to the Secured Lender.
17. Because Desmarais is not making a proposal to its Unaffected Creditors, the claims of the Unaffected Creditors shall be paid in accordance with the present arrangements existing between Desmarais and each of those parties, or as may be arranged between Desmarais and each of those parties.

Administrative Fees and other Priority Claims

18. Notwithstanding anything to the contrary in this Proposal, payment of all Administrative Fees and Expenses shall be made in priority to all claims of all other Creditors.
19. Claims arising in respect of Post Filing Goods and Services shall be paid in full by Desmarais in the ordinary course of business in priority to the claims of Unsecured Creditors.
20. All newly arising obligations of Desmarais to Canada Revenue Agency ("CRA") since the Filing Date for source deductions, Goods and Services Tax and other amounts required to be withheld by Desmarais on behalf of CRA shall be paid in full as they fall due.
21. Unless the Crown consents, all claims of Her Majesty in right of Canada or of a province coming within section 60(1.1) of the BIA shall be paid in full within six months after Court Ratification.

Affected Creditors

22. Under this Proposal, Affected Creditors whose Proven Claims are \$100.00 or less shall be paid in full in cash.
23. In full satisfaction of their Proven Claims, Affected Creditors whose Proven Claims are greater than \$100.00 will be entitled to choose between the following two options:
- (a) Affected Creditors owed more than \$100 may choose to receive Common Shares in satisfaction of their claims (rounded up to the nearest Common Share in the case of partial shares), with such Common Shares valued for this purpose at \$0.08 per Common Share (being the 30-day volume weighted average trading price of the Common Shares on the TSX Venture Exchange ("TSXV") immediately prior to Desmarais' announcement of its Notice of Intention to File a Proposal under the BIA on September 26, 2011) such that an Affected Creditor will receive 12,500 Common Shares for every \$1,000 value of their claim, subject to applicable statutory withholdings; or
 - (b) Affected Creditors owed greater than \$100.00 may choose to assign all (but not less than all) of their Proven Claims to a third party to be identified at the First Meeting of Creditors (the "Assignee") in exchange for participation in a cash pool in the total amount of \$40,000.00 (the "Cash Pool"). In this option, Affected Creditors owed greater than

\$100.00 will receive the lesser of: (i) 10% of the value of their Proven Claim; or (ii) their pro rata share of the total amount of the Cash Pool calculated as:

$(X/Y) Z$, where:

X = the amount of the Proven Claim of the Affected Creditor in question,

Y = the total amount of all Proven Claims of all Affected Creditors who have elected this option (a), and

Z = the total amount of the Cash Pool (being \$40,000.00).

24. In consideration of the payment to Creditors under option (a) the Assignee shall, upon the Proposal Implementation Date, be issued Common Shares in the same manner and proportion as Common Shares issued to Affected Creditors who choose option (b). Prior to the First Meeting of Creditors, the Assignee shall execute an agreement under which the Assignee covenants to fund the Cash Pool and accept Common Shares, conditional upon approval of the Proposal.
25. Affected Creditors who choose option (a) pursuant to paragraph 23 above, shall be required to vote in favour of the Proposal at the First Meeting of Creditors described in part 5 herein.
26. Affected Creditors owed more than \$100.00 who do not vote at the First Meeting of Creditors or who vote to reject the Proposal, shall, in the event the Proposal is approved by the Creditors and the Court, be deemed to have elected option (b) under paragraph 23 above.
27. No interest shall be charged by or paid to Affected Creditors after the Filing Date.
28. To the extent that a Creditor has a Charge, but because of the priority of that Charge in relation to the Secured Lender or the value of the assets of Desmarais, that Creditor would effectively be unsecured for all or a portion of its Claim if Desmarais were liquidated on the Filing Date, the unsecured portion of such Creditor's Claim shall be treated as unsecured and the Creditor shall be entitled to prove the unsecured portion of its Claim as an Affected Creditor.
29. The Common Shares to which Affected Creditors are entitled under this Proposal shall be provided by Desmarais, subject to TSX Venture Exchange and any other required regulatory approval, to the Trustee for distribution in accordance with this Proposal and the BIA.
30. All distributions under this Proposal are subject to the 5% levy in favour of the Superintendent of Bankruptcy, imposed under s. 147 of the BIA.

Directors and Officers

31. Any Claims of Creditors against the officers or directors of Desmarais that arose prior to the Filing Date and that related to the obligations of Desmarais where the directors or officers are by law liable in their capacity as officers or directors respectively for the payment of such obligations, shall be compromised and satisfied in full upon Court Ratification of this Proposal and the performance by Desmarais of its obligations hereunder.

Part 4 – Procedure for Validation of Claims

Determination of Claims by the Trustee

32. Concurrent with the publication and mailing of the Notice of the First Meeting of Creditors and this Proposal, Desmarais shall, with the assistance of the Trustee; (a) mail a Proof of Claim Form to all of its known Creditors in accordance with the contact information in the books and records of Desmarais; (b) place an advertisement in the Calgary Herald and any other publication deemed appropriate by Desmarais requesting that all Creditors of Desmarais who have not received a Proof of Claim Form request a Proof of Claim Form from the Trustee; and (c) provide a Proof of Claim Form on its website.
33. Creditors who wish to participate in the Proposal must complete the Proof of Claim Form in accordance with the instructions attached thereto and submit the Proof of Claim Form prior to the First Meeting of Creditors.
34. The Proof of Claim Form shall, subject to the disallowance of a Claim as set forth below, constitute each Creditor's Proven Claim. Creditors who do not submit a Proof of Claim shall be deemed to have abandoned any Claim against Desmarais and shall not participate at the First Meeting of the Creditors or any distribution of cash or shares pursuant to this Proposal.
35. The Trustee has the right to disallow Claims, and to value security. Desmarais or the Trustee both reserve the right to seek the assistance of the Court in valuing the claim of any Creditor.
36. Pursuant to this Proposal, Creditors will recover in respect of their Proven Claims. Creditors will continue to have the right to apply to the Court within 15 days of the disallowance if their Claim is disallowed in whole or in part, and obtain a Court determination of the Creditor's Proven Claims. The Proven Claim of a Creditor will be the amount accepted by the Trustee or determined by the Court, as the case may be, in accordance with the provisions of the BIA. Contingent Creditor Claims will be litigated and upon settlement or upon a final judgment being rendered, will be settled by adding such Claim to the Claims.

Part 5 – Meeting of Creditors

37. On December 8, 2011, or such other date as adjourned by the Creditors or ordered by the Court, Desmarais shall hold the First Meeting of Creditors to consider and vote upon the Proposal. The First Meeting of Creditors shall be held at the offices of Burnet, Duckworth & Palmer LLP located at 2400, 525-8th Avenue SW, Calgary, Alberta.
38. At the First Meeting of Creditors to be held to consider this Proposal the Affected Creditors may appoint one or more, but not exceeding five, inspectors (the "Inspectors") to advise the Trustee in respect of such matters as may be appropriate, including:
 - (a) To advise the Trustee concerning any dispute which may arise as to the validity of Claims of Creditors in this Proposal;
 - (b) To advise the Trustee in respect of such other matters as may be referred to the Inspectors by the Trustee; and
 - (c) To extend the time for any payment or distribution required to be made pursuant to this Proposal.

39. This Proposal may be amended by Desmarais at any time prior to or at the First Meeting of Creditors provided that any such amendments shall be considered by Desmarais to be in the best interests of the Creditors. This Proposal may be amended or further amended by Desmarais after the First Meeting of Creditors:
- (a) If the amendment is considered by the Trustee and the Inspectors to be non-substantive in nature or in the interest of all of the Creditors of Desmarais, with the approval of the Inspectors only;
 - (b) If the amendment is considered by the Inspectors to be in the interests of all of the Creditors of Desmarais, with the approval of the Inspectors only; or
 - (c) Upon a vote conducted by the Trustee at a further meeting of creditors and upon approval of the Court.

Voting by Creditors

40. Each Affected Creditor shall be entitled to vote (in person or by proxy) at the First Meeting of Creditors to the extent of the amount which is equal to that Affected Creditor's Proven Claim.
41. As set out in paragraph 25 above, Affected Creditors who wish to choose option (a) shall be required to vote in favour of the Proposal.
42. Creditors who have appealed a disallowance of their Claim pursuant to paragraph 36 hereof, and whose Claim has not been determined by the Court at the time of the First Meeting of Creditors shall be entitled to attend the First Meeting of Creditors and submit a vote. The vote of such Creditors shall be tabulated for the purposes of considering whether the Proposal has been approved by Affected Creditors. Desmarais reserves the right to apply to the Court for directions concerning the effect of a disputed Claim on voting with respect to the Proposal.

Approval by Creditors

43. The Proposal will be binding on all of the Affected Creditors of Desmarais in accordance with the BIA, if a majority number of the Affected Creditors who actually vote upon the Proposal (in person or by proxy) at the first meeting of Creditors or by a voting letter, and representing two thirds in value of the Proven Claims of the Affected Creditors who actually vote on the Proposal (in person or by proxy) at the Affected Creditors meeting or by a voting letter.

Multilateral Instrument 61-101

44. As Desmarais is a public company with its shares trading on the facilities of the TSX Venture Exchange, Desmarais is subject to Multilateral Instrument 61-101 ("**MI 61-101**") governing, among other things, transactions between listed issuers and related parties of such issuers. In accordance with MI 61-101, the issuance of common shares by Desmarais would constitute a "related party transaction" for the purposes of MI 61-101 due to the fact that, pursuant to the Proposal (and assuming the insiders of Desmarais elect to receive Common Shares thereunder), Desmarais may issue common shares to certain of its insiders who are also Affected Creditors being, specifically, its President and Chief Executive Officer and certain entities controlled by an individual who is a director of the Corporation. In accordance with MI 61-101, absent an exemption, MI 61-101 would require Desmarais to receive a formal valuation of the subject matter and "majority of the minority" shareholder approval to proceed with the issuance of such

common shares to such insiders. Desmarais wishes to rely on the exemptions set forth in Section 5.5(f) of MI 61-101 (as it relates to formal valuations) and the exemption set out in 5.7(d) of MI 61-101 (as it relates to shareholder approval), which exemptions provide that any issuance of common shares to any "related party" will be exempt from the formal valuation and minority shareholder approval requirements of MI 61-101 provided that the court is advised of the valuation and minority shareholder approval requirements set forth in MI 61-101 and does not otherwise mandate the necessity for a valuation or minority shareholder approval in accordance with MI 61-101.

Part 6 – Release

45. On the Proposal Implementation Date the Released Parties shall be released and discharged from any and all Claims, demands, actions, causes of action, counterclaims, suits, debts, sums of money, accounts, covenants, damages, judgments, expenses, executions, lien and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature at any Creditor may be entitled to assert (including any and all Claims in respect of potential statutory liabilities of Desmarais) whether known or unknown, matured or unmatured, foreseen or unforeseen, existing or hereafter existing, based in whole or in part of any act or omission, transaction, dealing or other occurrence existing or taking place on or prior to the implementation date relating to, or arising out of or in connection with the Claims, the businesses and affairs of Desmarais, this Proposal, or these proceedings, providing that nothing herein will release any Claims that relate to the contractual rights of one or more Creditors arising from contracts with one or more directors of Desmarais, or based on allegations of misrepresentation made by directors to Creditors or of wrongful or oppressive conduct by directors.

Part 7 – Miscellaneous

Consents, Waivers and Agreements

46. On the Proposal Implementation Date, all Creditors will be deemed to have consented and agreed to all provisions of this Proposal in its entirety. For greater certainty, each such Creditor will be deemed to have waived any default by Desmarais in any provision, express or implied, in any agreement existing between the Creditor and Desmarais that has occurred on or prior to the filing date, and to have agreed that, to the extent that there is any conflict between the provisions of any such agreement and the provisions of the Proposal, the provisions of this Proposal take precedence and priority and the provisions of any such agreement are amended accordingly.

Further actions

47. Desmarais and the Creditors will execute and deliver all such documents and instruments and do all such acts and things as may be necessary or desirable to carry out the full intent and meaning of this Proposal and to give effect of the transactions contemplated hereby.

Performance

48. All obligations of Desmarais under this Proposal will commence as of the Court Ratification Date. All obligations of Desmarais under this Proposal will be fully performed for the purposes only of section 65.3 of the BIA upon Desmarais having issued and delivered the Common Shares pursuant to paragraph 23 and 24 hereof.

Binding Effect

49. The provisions of this Proposal will be binding on the Creditors and Desmarais and the respective heirs, executors, administrators, successors and assigns, upon issue of the final order after all appeal periods have expired.

Modification

50. Desmarais may propose amendments to the Proposal at any time prior to the conclusion of the First Meeting of Creditors provided that any such amendment does not reduce the rights and benefits given to the Creditors pursuant to the Proposal before such amendment and that any and all amendments shall be deemed to be part of and incorporated in to the Proposal.

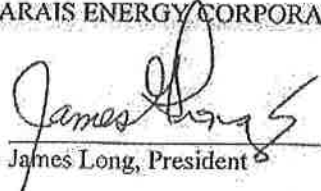
Trustees and Inspectors

51. The Trustee and Inspectors shall be exempt from any personal liability in fulfilling their duties or exercising any powers conferred on them hereunder, or generally in carrying out the terms of this Proposal, and each of them shall be liable only for any wilful and wrongful act, default or neglect.
52. The Trustee, Desmarais or the Inspectors may apply to the Court for directions from time to time with respect to the Proposal or any matters related thereto.

DATED at Calgary, Alberta, this 17 day of November, 2011.

DESMARAIS ENERGY CORPORATION

By:


James Long, President

SCHEDULE "A"

Definitions

"Administration Charge" means the charge created in an Order of the Court granted October 26, 2011 in respect of Administrative Fees and Expenses;

"Administrative Fees and Expenses" means:

- (a) All proper fees and expenses of the Trustee;
- (b) The legal fees and disbursements of the Trustee and Desmarais on and incidental to the preparation of the Proposal and any proceedings related to the Proposal, including advice in connection therewith, incurred both before or after the filing of the Notice of Intention to make a Proposal under the BIA.

"Affected Creditors" means those persons with Claims that are proved in respect of debts and liabilities present or future to which Desmarais was subject at the Filing Date or to which Desmarais may become subject by reason of any obligations incurred before the Filing Date, but does not include Unaffected Creditors, as defined in paragraph 16 of the Proposal.

"Business Day" means a day, other than a Saturday or a Sunday or a day observed as a holiday pursuant to the laws of the Province of Alberta or the Federal laws of Canada, on which banks are generally open for business;

"Charge" means a security interest, charge, mortgage, or other like interest in or to assets of Desmarais;

"Claim" means any indebtedness, liability, action, cause of action, suit, debt due, account, bond, covenant, contract, counterclaim, demand, claim, right and obligation of any nature whatsoever of Desmarais, to any person whether liquidated, unliquidated, fixed, contingent, matured, legal, equitable, secured, unsecured, present, future, known or unknown, and whether by guarantee, surety or otherwise, in any way whether in whole or in part, incurred or arising or relating to the period prior to or existing on the Filing Date or based in whole or in part on facts, contracts or arrangements which occurred or existed prior to the Filing Date, together with any other claims whatsoever provable in bankruptcy had Desmarais become bankrupt on the Filing Date, including without limitation, claims arising from the disclaimer, repudiation, or termination of any contract, arrangement or contract of employment a notice for which was delivered prior to the Filing Date. All Claims are determined as of the Filing Date and shall be converted to Canadian dollars at the Bank of Canada daily foreign exchange rate at the Filing Date;

"Court" means the Court of Queen's Bench of Alberta;

"Court Ratification" means (a) the approval of the Proposal by Order of the Court having received the report of the Trustee and other relevant information from Desmarais or any interested Creditor, and (b) the expiry of all appeal periods in relation to such Order of the Court;

"Creditor" means any person holding a Claim;

"Filing Date" means September 26, 2011, the date the Notice of Intention to make a Proposal was filed in respect of Desmarais with the Office of the Superintendent of Bankruptcy;

"First Meeting of Creditors" means the meeting of creditors at which the Proposal, including any amendments thereto, will be tabled and voted upon.

"Post Filing Goods and Services" means any goods supplied or services rendered to Desmarais with the approval of Desmarais after the Filing Date;

"Proof of Claim Form" means the form by which Creditors may establish their Proven Claim as issued by Desmarais and the Trustee;

"Proposal" means this Proposal, including any amendments thereto;

"Proposal Implementation Date" means the date upon which common shares of Desmarais are issued to Affected Creditors pursuant to the Proposal;

"Proven Claim(s)" means the Proven Claim of an Affected Creditor as set forth in the Proof of Claim Form submitted by the Creditors, subject to the dispute mechanisms in this Proposal;

"Released Parties" means Desmarais and all officers and directors of Desmarais, and their respective successors, assigns, representatives, agents, employees, heirs and executors;

"Trustee" means Hardie & Kelly Inc. or its duly appointed successor or successors appointed under or in connection with the carrying out of this Proposal;

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