

EXHIBIT "E"

**DARIAN RESOURCES LTD.
CONVERTIBLE SECURED DEBENTURE
THREE YEAR TERM**

[Execution Version]
THIS IS EXHIBIT "E"
referred to in the Affidavit of
Gary W. Goetsch
Sworn before me this 17
day of 1380 A.D. 2010
REBECCA LEWIS
ACCYV SS CNER FOR CATHS
IN AND FOR THE PROVINCE OF ALBERTA
\$6,250,000

Rebecca Lewis
Barrister & Solicitor

DARIAN RESOURCES LTD. (the "Company"), for value received, hereby acknowledges itself indebted and promises to pay to JULMAR HOLDINGS LTD. (the "Holder") of Calgary, Alberta, subject to such earlier repayments as may be required hereunder, the principal amount of **SIX MILLION TWO HUNDRED AND FIFTY THOUSAND DOLLARS (\$6,250,000)** (the "Principal Amount") in lawful money of Canada on surrender of this Convertible Debenture at the registered office of the Company in the City of Calgary, Alberta (unless this Convertible Debenture shall have been previously repaid or converted in accordance with the provisions hereof) and to pay interest on the Principal Amount outstanding from time to time from the date of this Convertible Debenture or from the last interest payment date to which interest has been paid on this Convertible Debenture, whichever is later, at the nominal rate equal to the "ATB Prime Rate" (as defined below) plus three (3%) per cent per annum, compounded annually (after as well as before each of maturity, default and judgment). Such interest shall be calculated and payable in accordance with Article 2 hereof and interest on overdue interest shall be calculated, and shall be due and payable, in like money in the same manner and at the same time and place as set out in Article 2. This Convertible Debenture creates a security interest in the property of the Company.

**ARTICLE 1
INTERPRETATION**

1.1 Definitions

In this Convertible Debenture, unless there is something in the subject-matter or context inconsistent therewith:

"**ATB Prime Rate**" means the floating annual rate of interest established from time to time by ATB Financial as the reference rate it will use to determine rates of interest charged on Canadian dollar loans made to its customers in Canada and designated as its "prime rate";

"**Board Composition Arrangement**" means that certain agreement between the Holder and the Company dated September 29, 2008 pursuant to which the Holder has the right to name two (2) of the directors to the board of directors of the Company, which board shall either be comprised of five (5) total directors, or six (6) total directors with the chairman having the swing vote;

"**Business Day**" means a day which is not a Saturday, Sunday or civic or statutory holiday in Calgary, Alberta;

"**Capital Reorganization**" has the meaning attributed thereto in section 5.3;

"**Collateral**" has the meaning attributed thereto in section 3.1;

"**Common Shares**" means common shares in the capital of the Company as such shares exist at the close of business on the date of execution and delivery of this Convertible Debenture or, upon any subdivision or consolidation of the Common Shares, the shares resulting therefrom or, upon the occurrence of a Capital Reorganization, the shares and/or other securities and/or

property substituted for the Common Shares or into which Common Shares are reclassified or changed;

"**Company's Auditors**" or "**Auditors of the Company**" means an independent firm of chartered accountants duly appointed as auditors of the Company;

"**Contractual Rights**" has the meaning attributed thereto in section 3.8;

"**Conversion Date**" has the meaning attributed thereto in subsection 5.2(b);

"**Conversion Price**" means the price of \$1.75 per Common Share at which this Convertible Debenture shall be convertible into Common Shares;

"**Conversion Privilege**" means the right to convert this Convertible Debenture into Common Shares as provided in Article 5;

"**Convertible Debenture**" means this secured convertible debenture of the Company, as the same may be amended, restated or replaced from time to time;

"**Credit Documents**" has the meaning attributed thereto in section 3.2;

"**Event of Default**" has the meaning attributed thereto in Article 7;

"**Governmental Body**" means any government, parliament, legislature, or any regulatory authority, agency, commission or board of any government, parliament or legislature, or any court of (without limitation to the foregoing) any other law, regulation or rule-making entity (including, without limitation, any central bank, fiscal or monetary authority or authority regulating banks), having or purporting to have jurisdiction in the relevant circumstances, or any Person acting or purporting to act under the authority of any of the foregoing (including, without limitation, any arbitrator);

"**Holder**" initially means Julmar Holdings Ltd. and thereafter means any other permitted holder of this Convertible Debenture;

"**Indebtedness**" means the Principal Amount together with any and all interest and other amounts or charges owing by the Company to the Holder and outstanding from time to time;

"**Interest Rate**" means the ATB Prime Rate from time to time plus three (3%) percent per annum;

"**Issue Date**" means the date of issue of this Convertible Debenture;

"**Maturity Date**" means September 29, 2011.

"**Obligations**" has the meaning attributed thereto in section 10.3;

"**Permitted Liens**" means the liens, encumbrances and security interests listed and described in Schedule "C" attached hereto;

"**Person**" or "**person**" means any individual, corporation or company, partnership, joint venture, syndicate, sole proprietorship, trust, trustee, executor, administrator or other legal representative

or an unincorporated organization, government or governmental authority or entity and pronouns have a similarly extended meaning;

"Primary Indebtedness" means the principal of and the interest on indebtedness of the Company outstanding to Alberta Treasury Branches, whether outstanding on the date of this Convertible Debenture or thereafter created and incurred by the Company, for money borrowed by the Company from Alberta Treasury Branches;

"Request to Repay" has the meaning attributed thereto in section 6.1;

"Security Interest" has the meaning attributed thereto in section 3.1;

"Shaw Family" means any lineal descendant of JR Shaw;

"Shaw Family Group of Companies" means any companies or other entities in which JR Shaw or any of his lineal descendants, or any combination thereof, holds a controlling interest; and

"Subsidiary" means any corporation which is or hereafter becomes directly or indirectly controlled by the Company and for the purposes of this definition, the Company shall be deemed to control a corporation if the Company beneficially owns, directly or indirectly, shares to which are attached more than 50% of the voting rights ordinarily exercisable at meetings of shareholders of such corporation, and the Company shall be deemed to own beneficially shares beneficially owned by a corporation controlled by it and so on indefinitely.

1.2 Headings and Gender

The division of this Convertible Debenture into Articles, sections, subsections and clauses, and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof. Words importing the singular number include the plural and vice versa and words importing gender include the neuter, feminine and masculine genders.

1.3 Applicable Law

This Convertible Debenture shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein. The parties hereto submit to the exclusive jurisdiction of the courts in the Province of Alberta. The parties agree that any litigation between the parties which arises pursuant to or in connection with this Convertible Debenture, or any of its provisions, shall be referred to the courts in the Province of Alberta and shall not be referred to the courts in any other jurisdiction.

1.4 Business Day

In the event that any day on or before which any action is required to be taken hereunder is not a Business Day, then such action shall be required to be taken on or before the requisite time on the next succeeding day that is a Business Day.

1.5 Monetary Reference

Any reference in this Convertible Debenture to "Dollars", "dollars" or "\$" shall be deemed to be a reference to lawful money of Canada.

1.6 Invalidity of Provisions

Each of the provisions contained in this Convertible Debenture is distinct and severable and a declaration of invalidity or unenforceability of any such provision by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision hereof or thereof.

ARTICLE 2 PRINCIPAL AND INTEREST

2.1 Principal

The Company shall pay to the Holder the Principal Amount, or such portion of the Principal Amount as may be outstanding at the time, on the Maturity Date as set forth herein (unless this Convertible Debenture shall have been previously repaid or converted in full in accordance with the provisions hereof).

2.2 Interest

Interest shall accrue from the Issue Date hereof or from the last interest payment date to which interest on this Convertible Debenture shall have been paid in full to such date, on the outstanding Principal Amount of this Convertible Debenture at the Interest Rate (after as well as before each of maturity, default and judgment) payable monthly in arrears on the last day of each month commencing on October 31, 2008.

2.3 Payment of Interest and Principal

As interest or principal become due on this Convertible Debenture, the Company shall send by prepaid ordinary mail a cheque for such interest and principal payable to the then registered Holder of this Convertible Debenture and addressed to such Holder at its last address appearing on the register. The forwarding of such cheque shall satisfy and discharge the liability for interest and principal on this Convertible Debenture to the extent of the sum represented thereby unless such cheque be not paid at par on presentation.

2.4 Cancellation of Convertible Debenture

Upon full payment, repayment and/or conversion of the outstanding Principal Amount of, and any accrued but unpaid interest on, this Convertible Debenture, together with any and all other amounts as may be outstanding hereunder, this Convertible Debenture shall be cancelled and destroyed by the Company and no Convertible Debenture shall be issued in substitution therefor.

ARTICLE 3 SECURITY

3.1 Security

As general and continuing collateral security for the due payment of the Principal Amount, interest and all other monies payable hereunder or from time to time secured hereby and as security for the performance and observance of the covenants and agreements on the part of the Company herein contained, but subject to Permitted Liens, the Company hereby mortgages and charges in favour of the Holder, as and by way of a second floating charge, all of the Company's present and after-acquired real property wherever situate, and grants in favour of the Holder a second priority security interest in and to

all of the Company's present and after-acquired personal property (both tangible and intangible) of every nature and kind and wherever situate. In this Convertible Debenture, the mortgages, charges and security interests hereby constituted are called the "**Security Interest**" and the subject matter of the Security Interest is called the "**Collateral**". The payment of the Obligations is hereby expressly subordinated and postponed in right of payment to the prior payment in full of the Primary Indebtedness, and any and all Security Interests now or hereinafter held by the Holder in connection with the Obligations or any part thereof are hereby and shall hereafter be subordinated to any and all security interests now or hereafter held in respect of and securing the Primary Indebtedness or any part thereof.

3.2 Business in the Ordinary Course

Until the Security Interest becomes enforceable, the Company, subject to the terms of this Debenture and any other agreements, instruments, notes, debentures and other documents entered into from time to time between the Company and the Holder (collectively, the "**Credit Documents**"), may dispose of or deal with the Collateral in the ordinary course of its business and for the purpose of carrying on the same, so that purchasers thereof or parties dealing with the Company take title thereto free and clear of the Security Interest. In the event of any such disposition in the ordinary course of business, the Holder will, at the written request of the Company which will include a certificate of the Company stating that such Collateral is being dealt with or disposed of in accordance with this Section 3.2, release its Security Interest over the Collateral which has been disposed.

3.3 Leases

The Security Interest will not extend or apply to the last day of the term of any lease of real property or agreement therefor, but upon the enforcement of the Security Interest, the Company will stand possessed of such last day in trust to assign the same at the direction of the Holder to any Person.

3.4 Crystallizing the Security

Without limiting its rights hereunder to crystallize the Security Interest in any other manner, the Holder may, at its option, crystallize the Security Interest in respect of all or a portion of the Collateral by (a) giving notice to the Company of, and (b) registering this Debenture, or a caveat, security notice, financing statement or other instrument in respect of this Debenture, at any public registry or other office maintained for the purposes of registering fixed and specific mortgages and charges, security interests and other like interests, and after such crystallization, the Security Interest in respect of such Collateral that is the subject of the registration shall constitute a fixed and specific mortgage and charge and security interest to and in favour of the Holder, its successors and assigns, in respect of such Collateral, and the Company shall not thereafter dispose of or otherwise deal with such Collateral without the consent of the Holder. The Company shall execute such further documents and do all acts reasonably requested by the Holder to give effect to the foregoing.

3.5 After Acquired Property

The Security Interest created by this Debenture is intended to attach:

- (a) to the existing Collateral when the Company signs this Debenture; and
- (b) to Collateral subsequently acquired by the Company, immediately upon the Company acquiring any rights in such Collateral.

The Holder and the Company do not intend to postpone the attachment of any security created by this Debenture.

3.6 Continued Performance

Notwithstanding the provisions of this Debenture, (i) the Company shall remain liable to perform all of its duties and obligations in regard to the Collateral (including, without limitation, all of its duties and obligations arising under any leases, licenses, permits, reservations, contracts, agreements, instruments, contractual rights and governmental orders, authorizations, licenses and permits now or hereafter pertaining thereto) to the same extent as if this Debenture had not been executed, (ii) the exercise by the Holder of any of its rights and remedies under or in regard to this Debenture shall not release the Company from such duties and obligations, and (iii) the Holder shall have no liability for such duties and obligations by reason only of the execution and delivery of this Debenture.

3.7 Discharge

The Holder is the party entitled to receive all amounts payable hereunder and to give a discharge hereof.

3.8 Contractual Rights

The Security Interest does not and will not extend to, and the Collateral will not include, any agreement, right, franchise, licence or permit (the "**Contractual Rights**") to which the Company is a party or of which the Company has the benefit, to the extent that the creation of the Security Interest would constitute a breach of the terms of or permit any Person to terminate the Contractual Rights, but the Company will hold its interest therein in trust for the Holder and will assign such Contractual Rights to the Holder forthwith upon obtaining the consent of the other party or parties thereto.

ARTICLE 4 SUBORDINATION

4.1 Agreement to Subordinate

The Company covenants and agrees, and the Holder by its acceptance hereof likewise covenants and agrees, that the payment of the Indebtedness is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all Primary Indebtedness.

4.2 Subrogation of Convertible Debenture

Subject to the payment in full of all Primary Indebtedness, the rights of the Holder shall be subrogated to the rights of the holders of the Primary Indebtedness to receive payments on account of the Primary Indebtedness or to receive distributions of assets of the Company for application to the Primary Indebtedness, to the extent of the application to the Primary Indebtedness of monies or other assets which would have been received by the Holder but for the provisions of this Article 4, until the Holder shall be paid in full. No such subrogation shall be deemed to be a payment by the Company to or on account of the Holder, it being understood that the provisions of this Article 4 are solely for the purpose of defining the relative rights of the Holder on the one hand, and the holder of the Primary Indebtedness, on the other hand. Nothing contained in this Convertible Debenture is intended to or shall impair, as between the Company and its creditors (other than the holder of Primary Indebtedness and the Holder), the obligation of the Company, which is unconditional and absolute, to pay to the Holder the Indebtedness and other amounts payable under this Convertible Debenture as and when the same shall become due and payable

in accordance with their terms, or to affect the relative rights of the Holder and creditors of the Company (other than the holder of the Primary Indebtedness), nor shall anything in this Convertible Debenture prevent any Holder from exercising all remedies otherwise permitted in this Convertible Debenture and by applicable law upon default under this Convertible Debenture, subject to the rights, if any, of the holder of the Primary Indebtedness, if any, in respect of cash, property or securities of the Company received upon the exercise of any such remedy.

4.3 No Payment to Holder if Primary Indebtedness Due or in Default

- (a) Upon the maturity of any Primary Indebtedness by lapse of time, acceleration or otherwise, then, except as otherwise provided in section 4.5, all principal of and premium, if any, and interest on such Primary Indebtedness shall first be paid in full, or shall first have been duly provided for, before any payment under this Convertible Debenture is made.
- (b) Upon the happening of an event of default with respect to any Primary Indebtedness, as defined therein or in the instrument under which the same is outstanding, permitting the holders thereof to accelerate the maturity thereof, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, no payment (by purchase of this Convertible Debenture or otherwise) shall be made by the Company with respect to this Convertible Debenture.
- (c) The fact that a payment hereunder is prohibited by this section 4.3 shall not prevent the failure to make such a payment from being an Event of Default under this Convertible Debenture.

4.4 Distribution on Dissolution, Winding-Up, Liquidation or Reorganization

Upon any distribution of assets of the Company on any dissolution, winding-up, total liquidation, bankruptcy, insolvency or receivership of the Company:

- (a) the holder of all Primary Indebtedness shall be entitled to receive payment in full of the principal of such Primary Indebtedness and the interest and premium (if any) due thereon before the Holder is entitled to receive any payment upon the Indebtedness evidenced by this Convertible Debenture;
- (b) any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holder would be entitled except for the provisions of this Article 4, shall be paid by the liquidating trustee or agent or other person making such payment or distribution (whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise), directly to the holder of the Primary Indebtedness or its representatives or trustees, as its interests may appear, to the extent necessary to pay in full all Primary Indebtedness remaining unpaid after giving effect to any concurrent payment or distribution to the holder of such Primary Indebtedness; and
- (c) in the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, shall be received by the Holder under the above-noted dissolution, winding up, total liquidation, bankruptcy insolvency or receivership of the Company on account of this Convertible Debenture before all Primary Indebtedness is paid in full, such payment or distribution shall be held in trust for the benefit of and shall be paid over to the holder of such

Primary Indebtedness or its representatives or trustees, as its interest may appear, for application to the payment of all Primary Indebtedness remaining unpaid until all Primary Indebtedness shall have been paid in full after giving effect to any concurrent payment or distribution to the holders of such Primary Indebtedness.

Upon any distribution of assets of the Company referred to in this section 4.4, the Holder shall be entitled to rely upon a certificate of the liquidating trustee or agent or other person making the distribution for the purpose of ascertaining the persons entitled to participate in such distribution, including the holder of the Primary Indebtedness of the Company, the amount thereof or payable thereon, the amount paid or distributed thereon and all other facts pertinent thereto or to this section 4.4.

4.5 Payment of Convertible Debentures Permitted

Notwithstanding sections 4.2 and 4.4 or any other provision of this Convertible Debenture:

- (a) the Company may make payments in respect of this Convertible Debenture pursuant to Article 6 even though at the time such payments are made circumstances described in section 4.3 which, but for this subsection, would prohibit such payments shall have occurred or be continuing or an event of default shall have occurred and be continuing, if notice of repayment shall have been given prior to such circumstances or such event of default occurring; and
- (b) unless and until written notice shall be given to the Holder by or on behalf of the holder of Primary Indebtedness, notifying the Holder of the happening of an event of default with respect to such Primary Indebtedness or of the existence of any other facts which would result in the making of any payment with respect to this Convertible Debenture to be in contravention of the provisions of this Article 4, the Holder and the Company shall be entitled to assume that no such event of default has occurred or that no such facts exist; and, with respect to any monies which may at any time be received by the Holder pursuant to any provision of this Convertible Debenture prior to the receipt by the Holder of such written notice, nothing in this Convertible Debenture shall prevent the Holder from applying such monies to the purposes for which the same were so received, notwithstanding the occurrence or continuance of an event of default or other facts with respect to such Primary Indebtedness.

4.6 Subordination not to be Impaired

No right of the holder of Primary Indebtedness or its representative or trustee to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or such holder, or by any non-compliance by the Company with the terms, provisions and covenants of this Convertible Debenture regardless of any knowledge thereof which such holder may have or be otherwise charged with.

ARTICLE 5 CONVERSION

5.1 Conversion Privilege and Conversion Price

Subject to and upon compliance with the provisions of this Article 5, the Holder shall have the right, at such Holder's option, at any time or times on or before the Maturity Date to convert the Principal Amount or any portion thereof then outstanding under this Convertible Debenture into fully paid and non-

assessable Common Shares at the Conversion Price. The number of Common Shares to be received by the Holder on conversion shall be determined by dividing the portion of the Principal Amount being converted by the Conversion Price.

5.2 Manner of Exercise of Right to Convert

- (a) In order to exercise the Conversion Privilege, the Holder shall, within the time specified in section 5.1, surrender such Convertible Debenture to the Company at its registered office in the City of Calgary, Alberta accompanied by a written notice (which shall be irrevocable) in the form of the "Notice of Election to Convert" attached to this Convertible Debenture as Schedule "A", duly signed by the Holder or the Holder's executors, administrators or other legal representatives or the Holder's attorney duly appointed by an instrument in writing in form and execution satisfactory to the Company stating:
- (i) that the Holder elects to convert the then outstanding Principal Amount under this Convertible Debenture or a specified portion thereof;
 - (ii) the names (with addresses) in which the Common Shares issuable upon such conversion are to be registered, provided that the Holder shall only be entitled to direct the registration of its entitlement to the Common Shares in a manner permitted by applicable securities legislation;
 - (iii) the address or addresses to which the certificate or certificates representing the Common Shares issuable upon conversion is or are to be delivered; and
 - (iv) upon surrender of the "Notice of Election to Convert" in accordance with section 5.2(a) above, the Holder or its permitted nominees shall be entitled to be entered in the books of the Company as at the Conversion Date, as defined below (or such later date as is specified in subsection 5.2(b)) as the holder or holders of the number of Common Shares into which this Convertible Debenture was converted, in accordance with the provisions of this Article 5, and as soon as practicable thereafter, the Company shall deliver to the Holder electing to convert or, subject as aforesaid, its nominees or assignees, a certificate or certificates representing the number of Common Shares comprising the number of Common Shares into which all or any portion of the Principal Amount hereof has been converted to the address or addresses indicated in the "Notice of Election to Convert".
- (b) For the purposes of this Article 5, this Convertible Debenture shall be deemed to be surrendered for conversion on the date (the "**Conversion Date**") on which it is so surrendered in accordance with the provisions of this Article 5 and, if surrendered by mail or other means of delivery, on the date on which it is received by the Company, provided that if this Convertible Debenture is surrendered for conversion on a day on which the register of Common Shares is closed, the Person entitled to receive Common Shares shall become the holder of record of such Common Shares as at the date on which such register is next reopened.
- (c) In the event of any partial conversion of this Convertible Debenture, the Holder shall, upon the exercise of the Conversion Privilege, surrender this Convertible Debenture to the Company, and the Company shall cancel the same and shall, without charge,

forthwith certify and deliver to the Holder a new Convertible Debenture in an aggregate Principal Amount equal to the unconverted part of the Principal Amount of this Convertible Debenture outstanding and so surrendered upon the same terms and conditions as this Convertible Debenture.

- (d) If this Convertible Debenture is surrendered for conversion in accordance with this section 5.2, the Holder shall be entitled to receive accrued and unpaid interest in respect of the Principal Amount converted only for the period up to the Conversion Date, such interest to be paid within 30 days of the Conversion Date in accordance with section 2.2.
- (e) Notwithstanding anything herein contained, Common Shares will only be issued and registered upon conversion of this Convertible Debenture in compliance with the securities laws of any applicable jurisdiction and, without limiting the generality of the foregoing, in the event that this Convertible Debenture is converted prior to the expiry of any applicable hold period under applicable securities legislation, the certificates representing the Common Shares thereby issued will bear such legend as may, in the opinion of counsel to the Company, be necessary in order to avoid a violation of any securities laws of any province of Canada or of the United States or to comply with the requirements of any stock exchange on which the Common Shares are listed, provided that if, at any time, in the opinion of counsel to the Company, such legends are no longer necessary in order to avoid a violation of any such laws, or the Holder of any such legended certificate, at the Holder's expense, provides the Company with evidence satisfactory in form and substance to the Company (which may include an opinion of counsel satisfactory to the Company) to the effect that such Holder is entitled to sell or otherwise transfer such Common Shares in a transaction in which such legends are not required, such legended certificate may thereafter be surrendered to the Company in exchange for a certificate which does not bear such legend.

5.3 Adjustment of Conversion Price

If and whenever at any time after the date hereof, and prior to the Conversion Date, there is a reclassification of the Common Shares at any time outstanding or other change of the Common Shares into other shares or into other securities, whether of the Company or of another body corporate, or other capital reorganization, or a consolidation, amalgamation or merger of the Company with or into any other corporate or other entity (other than a consolidation, amalgamation or merger which does not result in any reclassification of the outstanding Common Shares or a change of the Common Shares into other shares), or a transfer of the undertaking or assets of the Company as an entirety or substantially as an entirety to another corporation or other entity in which the holders of Common Shares are entitled to receive shares, other securities or other property or a share split or other subdivision of the issued and outstanding common shares into a greater number of common shares or a payment of a dividend on the common shares other than in the ordinary course (any of such events being called a "**Capital Reorganization**"), the Holder who exercises the Conversion Privilege pursuant to this Convertible Debenture after the effective date of such Capital Reorganization will be entitled to receive, and will accept for the same aggregate consideration in lieu of the number of Common Shares to which the Holder was previously entitled upon such conversion, the aggregate number of shares, other securities or other property which the Holder would have been entitled to receive as a result of such Capital Reorganization if, on the effective date thereof, the Holder had been the registered Holder of the number of Common Shares into which this Convertible Debenture was convertible immediately prior to such Capital Reorganization. The Company will take all steps necessary to ensure that, on a Capital Reorganization, the Holder will, if it exercises its Conversion Privilege hereto, receive the aggregate number of shares, other securities or other property to which it is entitled as a result of the Capital Reorganization. Appropriate adjustments will be

made as a result of any such Capital Reorganization in the application of the provisions set forth in this Article 5 with respect to the rights and interests thereafter of the Holder under this Convertible Debenture to the end that the provisions set forth in this Article 5 will thereafter correspondingly be made applicable as nearly as may reasonably be in relation to any shares, other securities or other property thereafter deliverable upon the conversion of this Convertible Debenture.

5.4 Rules Regarding Calculation of Adjustment of Conversion Price

If within five days of receipt of an Adjustment Notice, as defined below, a Holder notifies the Company in writing that it disputes the content of the Adjustment Notice, or if at any time a shareholder or other creditor of the Company disputes adjustments provided for in section 5.3, such dispute will be conclusively determined by the Company's Auditors, or if they are unable or unwilling to act, by such other firm of independent chartered accountants as may be selected by the directors of the Company, and any such determination will be binding upon the Company, the Holder and shareholders of the Company; such auditors or accountants will be given access to all necessary records of the Company. If any such determination is made, the Company will deliver a certificate of the Company to the Holder describing such determination.

5.5 Notice as to Adjustment

The Company shall from time to time, immediately after the occurrence of any event which requires an adjustment or readjustment as provided in section 5.3, deliver a notice in writing (an "**Adjustment Notice**") to the Holder specifying the nature of the event requiring the same and the amount of the adjustment or readjustment necessitated thereby and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Such notice and the amount of the adjustment specified therein shall, subject to the provisions of section 5.4, be conclusive and binding on all parties.

5.6 No Requirement to Issue Fractional Common Shares

The Company shall not be required to issue fractional Common Shares upon the conversion of all or any part of this Convertible Debenture pursuant to this Article 5. The number of whole Common Shares issuable upon conversion of this Convertible Debenture shall be computed on the basis of the aggregate Principal Amount of this Convertible Debenture so converted.

5.7 Cancellation of Converted Convertible Debenture

This Convertible Debenture when converted in full shall be forthwith delivered to and cancelled by the Company and no Convertible Debenture shall be issued in substitution therefor.

ARTICLE 6 REPAYMENT

6.1 Optional Repayment Restricted

The Company shall not have the right to repay all or any portion of the Principal Amount hereunder at its option prior to the Maturity Date. If approved by the board of directors of the Company, the Company may provide written notice to the Holder of its request to make a repayment of all or any portion of the Principal Amount hereunder at any time prior to the Maturity Date (a "**Request to Repay**"), which request the Holder may either accept or reject at its sole discretion. Any such Request to Repay

shall specify the aggregate Principal Amount of this Convertible Debenture proposed to be repaid, the date proposed for repayment, the proposed amount to be repaid and the proposed place of payment.

6.2 Payment

Upon a Request to Repay being accepted by the Holder, in its sole discretion, the Principal Amount of this Convertible Debenture to be repaid shall be and become due and payable on the date specified in the Request to Repay, anything therein or hereinafter to the contrary notwithstanding and, from and after such date, interest upon the Principal Amount so becoming due and payable shall cease unless payment of the amount to be repaid shall not be made on surrender of this Convertible Debenture.

6.3 Cancellation of Repaid Convertible Debenture

Upon this Convertible Debenture being fully repaid by the Company pursuant to this Article 6, this Convertible Debenture will be cancelled by the Company and not re-issued.

ARTICLE 7 DEFAULT AND REMEDIES

7.1 Events of Default

Each of the following events is herein sometimes called an "**Event of Default**":

- (a) failure by the Company to pay principal outstanding when due, or failure to pay interest or fees outstanding within three (3) Business Days of when due;
- (b) if there is a breach, non-performance or non-observance of any term or condition of this Convertible Debenture that does not relate to payment and, if such default is capable of being remedied and such default is not remedied within ten (10) Business Days after notice of its occurrence has been delivered by the Holder;
- (c) if any representation or warranty made hereunder or in connection herewith is materially false or materially misleading at any time;
- (d) if the Company makes a general assignment for the benefit of creditors, files or presents a petition, makes a proposal or commits any act of bankruptcy, or if any action is taken for the winding up, liquidation or the appointment of any liquidator, trustee in bankruptcy, custodian, receiver, receiver and manager or any other officer with similar powers or if a judgment or order shall be entered by any court approving a petition for reorganization, arrangement or composition of or in respect of the Company, or if the Company becomes insolvent or declared a bankrupt;
- (e) if the Company ceases or threatens to cease to carry on business as currently being carried on by it;
- (f) if the Security Interest hereunder is not enforceable or if the Company shall dispute or deny any liability or any of its obligations hereunder;
- (g) if any final judgment for the payment of monies in excess of \$100,000 is made against the Company and is not discharged within 30 days after the imposition of such judgment,

unless the Company has procured a stay of execution in respect thereof or has appealed such judgment and caused the execution thereof to be stayed during such appeal;

- (h) if there exists an event the effect of which with lapse of time or the giving of notice will constitute a default or an event of default under any other agreement for borrowed money entered into by the Company, including without limitation under and pursuant to the terms of the Primary Indebtedness;
- (i) if the Company is in breach of any applicable law, except to the extent that any failure to so comply would not reasonably be expected to have a materially adverse effect on the Company or its business;
- (j) if, without the prior written consent of the Holder acting reasonably there should occur any material change of ownership or control of the Company from that held on the date hereof; or
- (k) if there is any breach of the terms of the Board Composition Arrangement.

7.2 Waiver of Default

The Holder may waive, in writing, any breach by the Company of any of the provisions contained in this Convertible Debenture or any default by the Company in the observance or performance of any covenant, agreement or condition required to be kept, observed or performed by the Company under the terms of this Convertible Debenture; provided always that no act or omission of the Holder in the enforcement of any of the provisions contained in this Convertible Debenture shall extend to or be taken in any manner whatsoever to affect any subsequent breach or default of the rights of the Holder resulting therefrom.

7.3 Remedies

Subject to section 7.4 hereof and the terms of any Credit Document, upon the occurrence and during the continuance of any event of default under any Credit Document, the Holder will be entitled to exercise any of the remedies specified below:

- (a) **Receiver.** The Holder may appoint by instrument in writing one or more receivers, managers or receiver/manager for the Collateral or the business and undertaking of the Company pertaining to the Collateral (the "**Receiver**"). Any such Receiver will have, in addition to any other rights, remedies and powers which a Receiver may have at law, in equity or by statute, the rights and powers set out in clauses (b) through (d) in this section 7.3. In exercising such rights and powers, any Receiver will act as and for all purposes will be deemed to be the agent of the Company and the Holder will not be responsible for any act or default of any Receiver. The Holder may remove any Receiver and appoint another from time to time. No Receiver appointed by the Holder need be appointed by, nor need its appointment be ratified by, or its actions in any way be supervised by, a court.
- (b) **Power of Sale.** Any Receiver may sell, consign, lease or otherwise dispose of any Collateral by public auction, private tender, private contract, lease or deferred payment with or without notice, advertising or any other formality, all of which are hereby waived by the Company. Any Receiver may, at its discretion establish the terms of such disposition, including terms and conditions as to credit, upset, reserve bid or price. All

payments made pursuant to such dispositions will be credited against the Principal Amount only as they are actually received. Any Receiver may buy in, rescind or vary any contract for the disposition of any Collateral and may dispose of any Collateral without being answerable for any loss occasioned thereby. Any such disposition may take place whether or not the Receiver has taken possession of the Collateral.

- (c) **Pay Liens and Borrow Money.** Any Receiver may pay any liability secured by any actual or threatened lien, pledge, charge, security interest, mortgage or other encumbrance of any kind against any Collateral. Any Receiver may borrow money for the maintenance, preservation or protection of any Collateral or for carrying on any of the business or undertaking of the Company pertaining to the Collateral and may grant liens, pledges, charges, security interests, mortgages or other encumbrances of any kind in any Collateral (in priority to the Security Interest) as security for the money so borrowed. The Company will forthwith upon demand reimburse the Receiver for all such payments and borrowings and such payments and borrowings will be secured hereby and will be added to the money hereby secured and bear interest at the rate set forth in Section 2.2 hereof.
- (d) **Dealing with Collateral.** Any Receiver may seize, collect, realize, dispose of, enforce, release to third parties or otherwise deal with any Collateral in such manner, upon such terms and conditions and at such time as it deems advisable, including without limitation:
 - (i) to ask, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in connection with the Collateral;
 - (ii) to receive, endorse, and collect any drafts or other instruments, documents and chattel paper in connection with subsection 7.3(d)(i) hereof;
 - (iii) to file any claims or take any action or institute any proceedings which the Holder may deem to be necessary or desirable for the collection of the Collateral or to enforce compliance with the terms and conditions of any contract or any account; and
 - (iv) to perform the affirmative obligations of the Company hereunder (including, without limitation, all obligations of the Company pursuant to this Debenture and the Credit Documents).
- (e) **Carry on Business.** The Holder or any Receiver may carry on, or concur in the carrying on of, any or all of the business or undertaking of the Company and enter on, occupy and use (without charge by the Company) any of the premises, buildings, plant and undertaking of, or occupied or used by, the Company.
- (f) **Right to Have Court Appoint a Receiver.** The Holder may, at any time, apply to a court of competent jurisdiction for the appointment of a Receiver, or other official, who may have powers the same as, greater or lesser than, or otherwise different from, those capable of being granted to a Receiver appointed by the Holder pursuant to this Debenture.
- (g) **Holder May Exercise Rights of a Receiver.** In lieu of, or in addition to, exercising its rights, remedies and powers under clauses (a), (f) and (h) of this section 7.3, the Holder

has, and may exercise, any of the rights and powers which are capable of being granted to a Receiver appointed by the Holder pursuant to this Debenture.

- (h) **Retention of Collateral.** The Holder may elect to retain any Collateral in satisfaction of the Principal Amount. The Holder may designate any part of the Principal Amount to be satisfied by the retention of particular Collateral which the Holder considers to have a net realizable value approximating the amount of the designated part of the Principal Amount, in which case only the designated part of the Principal Amount will be deemed to be satisfied by the retention of the particular Collateral.
- (i) **Limitation of Liability.** The Holder will not be liable or accountable for any failure to take possession of, seize, collect, realize, dispose of, enforce or otherwise deal with any Collateral and it will not be bound to institute proceedings for any such purposes or for the purpose of reserving any rights, remedies and powers of the Holder, the Company or any other Person in respect of any Collateral. If any Receiver or the Holder takes possession of any Collateral, neither the Holder nor any Receiver will have any liability as a mortgagee in possession or be accountable for anything except actual receipts.
- (j) **Extensions of Time.** The Holder may grant renewals, extensions of time and other indulgences, accept compositions, grant releases and discharges, and otherwise deal or fail to deal with the Company, debts of the Company, guarantors, sureties and others and with any Collateral as the Holder may see fit, all without prejudice to the liability of the Company to the Holder or the Holder's rights, remedies and powers under this Debenture or under any other Credit Documents.
- (k) **Validity of Sale.** No Person dealing with the Holder or any Receiver, or with any officer, employee, agent or solicitor of the Holder or any Receiver will be concerned to inquire whether the Security Interest has become enforceable, whether the right, remedy or power of the Holder or the Receiver has become exercisable, whether the Principal Amount remaining outstanding or otherwise as to the proprietary or regularity of any dealing by the Holder or the Receiver with any Collateral or to see to the application of any money paid to the Holder or the Receiver, and in the absence of fraud on the part of such Person such dealings will be deemed, as regards such Person, to be within the rights, remedies and powers hereby conferred and to be valid and effective accordingly.
- (l) **Effect of Appointment of Receiver.** As soon as the Holder takes possession of any Collateral or appoints a Receiver, all powers, functions, rights and privileges of the Company including, without limitation, any such powers, functions, rights and privileges which have been delegated to directors, officers of the Company or committees with respect to such Collateral will cease, unless specifically continued by the written consent of the Holder or the Receiver.
- (m) **No Implied Waiver.** The rights of the Holder (whether arising under this Debenture, any other Credit Document, any other agreement, at law or in equity) will not be capable of being waived or varied otherwise than by an express waiver or variation in writing, and in particular any failure to exercise or any delay in exercising any of such rights will not operate as a waiver or variation of that or any other such right; any defective or partial exercise of any of such rights will not preclude any other or further exercise of that or any other such right, and no act or course of conduct or negotiation on the part of the Holder or on its behalf will in any way preclude the Holder from exercising any such right or constitute a suspension or any variation of any such right.

- (n) **Rights Cumulative.** The rights, remedies and powers conferred by this Section 7.3 are in addition to, and not in substitution for, any other rights, remedies or powers that the Holder may have under this Debenture, any other Credit Document, at law, in equity, by or under the *Personal Property Security Act* (Alberta) or by any other statute or agreement. The Holder may proceed by way of any action, suit or other proceeding at law or in equity and no right, remedy or power of the Holder will be exclusive of or dependent on any other. The Holder may exercise any of its rights, remedies or powers separately or in combination and at any time.

7.4 Application of Amounts Received

The proceeds of realization or enforcement hereunder or any other amount from time to time received by the Holder or the Receiver will be applied as follows: first, to the payment in full of all reasonable remuneration, fees and disbursements of the Holder and the Receiver and all reasonable out-of-pocket costs, fees and expenses (including, without limitation, reasonable legal fees on a solicitor and his own client full indemnity basis) incurred by the Holder and any Receiver or other enforcement agent appointed by the Holder or a court of competent jurisdiction, as the case may be, in connection with the collection or enforcement of the Principal Amount owed to the Holder, the enforcement of the Security Interest or the preservation of the Collateral, including without limitation, keeping in good standing all mortgages, liens, pledges, charges, security interests or other encumbrances of any kind on the Collateral having priority over the Security Interest; second, in payment to the Holder of the Principal Amount and other amounts payable hereunder; and third, the balance, if any, will be paid, subject to applicable law, to the Company.

7.5 Deliver Possession

If the Holder or any Receiver exercises its rights herein to take possession of the Collateral, the Company will upon request from the Holder or any such Receiver, assemble and deliver possession of the Collateral at such place or places as directed by the Holder or any such Receiver.

7.6 Release

If the Company pays to the Holder the balance of the Principal Amount (including, without limitation, all amounts forming part thereof) with interest thereon as set forth in this Debenture and any and all other amounts that are payable to the Holder on or in relation to the repayment thereof, then the Holder will, at the written request and sole expense of the Company, reassign and reconvey the Collateral to the Company and release the Security Interest.

ARTICLE 8 SATISFACTION AND DISCHARGE

8.1 Release from Covenants

Upon the payment or satisfaction of the Principal Amount of this Convertible Debenture and any interest thereon or as may otherwise be required under section 2.4, together with any and all other amounts as may be outstanding hereunder, the Company will be released from its covenants herein contained and this Convertible Debenture shall be cancelled and have no further force and effect and the Holder shall deliver to the Company all such instruments as may be requested by the Company to release the Company from its covenants herein contained.

**ARTICLE 9
REPRESENTATIONS AND WARRANTIES OF THE COMPANY**

9.1 Representations and Warranties

The Company represents and warrants to the Holder as follows:

- (a) the Company is a corporation duly incorporated, validly existing and duly registered or qualified to carry on business in the Province of Alberta and in each other jurisdiction where it carries on any material business where a failure to so qualify would have a materially adverse effect on the business or operations of the Company;
- (b) the Company is duly authorized and empowered to execute, deliver and perform its obligations under this Convertible Debenture, all corporate action on the part of the Company for the due execution, delivery and performance by the Company of this Convertible Debenture has been duly and effectively taken and this Convertible Debenture constitutes a valid and binding obligation of the Company enforceable in accordance with its terms;
- (c) the Company has conducted and is conducting its business in compliance in all material respects with any contract, agreement (written or oral), instrument, lease or other document to which the Company is a party or by which it is bound and all applicable laws, rules and regulations in each jurisdiction which any material portion of its business is carried on; and
- (d) the execution and delivery of this Convertible Debenture and performance of its obligations hereunder will not result in any breach of, or constitute a material default under, or create a state of facts which, after notice or lapse of time or both, would constitute a material default under, any term or provision of the articles of incorporation, by-laws or any contract, agreement (written or oral), instrument, lease or other document to which the Company is a party or by which it is bound, including but not restricted to the Primary Indebtedness, which might reasonably be expected to materially adversely affect the business, operations or condition (financial or otherwise) of the Company or its assets.

**ARTICLE 10
NEGATIVE COVENANTS**

10.1 Negative Covenants

The Company covenants with the Holder that it will not, without the prior written consent of the Holder:

- (a) create or permit to exist any mortgage, charge, lien, encumbrance or other security interest on any of its present or future assets, other than Permitted Liens;
- (b) create, incur, assume or allow to exist any indebtedness other than (i) trade payables incurred in the ordinary course of business, (ii) any indebtedness to an affiliate that has also provided security to the Holder, (iii) any indebtedness secured by a Permitted Lien, (iv) the Primary Indebtedness, (v) the Indebtedness hereunder, and (vi) indebtedness to each of SJ Capital Corp., S.P.L.H. Investments Ltd., Shawana Estates Ltd. and Grant

Bartlett (or his nominee) under convertible debentures on substantially the same terms and conditions as this Convertible Debenture;

- (c) sell, lease or otherwise dispose of any assets except (i) inventory sold, lease or disposed of in the ordinary course of business, (ii) assets sold, leased or disposed of to an affiliate of the Company that has also provided security to the Holder, and (iii) assets sold, leased or disposed of during any fiscal year having an aggregate fair market value not exceeding \$100,000 for such fiscal year;
- (d) provide any financial assistance (by means of a loan, guarantee or otherwise) to any person (other than Alberta Treasury Branches) other than in respect of loans permitted under clause (b) above;
- (e) pay to or for the benefit of shareholders or persons associated with shareholders (within the meaning of the *Business Corporations Act* (Alberta)) by way of salaries, bonuses, dividends, management fees, repayment of loans or otherwise, any amount which would cause a breach of a provision of this Convertible Debenture;
- (f) reduce its capital or redeem, purchase or otherwise acquire, retire or pay off any of its present or future share capital other than to an affiliate that has also provided security to the Holder;
- (g) amalgamate, consolidate or merge with any person other than an affiliate that has also provided security to the Holder, and then only if no default or Event of Default is then in existence or would thereafter be in existence, and will not enter into any partnership with any other person unless the partnership provides security in favour of the Holder;
- (h) consent to or facilitate a change of ownership of its shares or allow a material change in its management;
- (i) move or allow any of its assets to be moved to a jurisdiction where the Holder has not registered or perfected its Security;
- (j) change the present nature of its business;
- (k) incur capital expenditures in respect of oil and gas properties outside of the Western Canadian Sedimentary Basin;
- (l) enter into any crude oil, natural gas or natural gas liquids price hedging arrangements if as a result thereof more than 50% of its forecasted production from proved producing reserves would be hedged at the time of determination for the hedged period, or if the term thereof would exceed two years;
- (m) enter into any currency or interest rate hedging arrangement on a speculative basis;
- (n) operate accounts with or otherwise conduct any banking business with any financial institution other than the holder of the Primary Indebtedness, other than to the extent expressly permitted in the definition of Permitted Liens hereunder;
- (o) allow any pollutant (including any pollutant now on, under or about such land) to be placed, handled, stored, disposed of or released on, under or about any of its lands unless

done in the normal course of its business and then only as long as it complies with all applicable laws in placing, handling, storing, transporting, disposing of or otherwise dealing with such pollutants, except to the extent any failure to do so could not reasonably be expected to materially adversely effect the Company or its business;

- (p) finance a hostile takeover; or
- (q) while "Facility #2" (as defined in the agreements constituting Primary Indebtedness) remains available, dispose of more than 5% of its shares in Scollard Energy Inc.

ARTICLE 11 MISCELLANEOUS

11.1 Attorney in Fact

The Company hereby irrevocably constitutes and appoints the Holder and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Company and in the name of the Company or in its own name, from time to time in the Holder's discretion, for the purpose of carrying out the terms of this Convertible Debenture, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Convertible Debenture and which the Company being required to take or execute has failed to take or execute; provided that this power of attorney will not be effective until the occurrence and during the continuance of any event of default under any Credit Document. The Company hereby ratifies all that said attorneys will lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and will be irrevocable until the Principal Amount has been unconditionally and irrevocably paid and performed in full. The Company also authorizes the Holder, at any time and from time to time, to execute any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral in connection with the sale provided for in Section 7.3(b) hereof.

10.2 Realization

The Holder will not, nor will it be entitled to, demand payment pursuant to this Convertible Debenture or enforce the Security Interest unless and until the Holder will be entitled or obligated to do so pursuant to the provisions of the Credit Documents, but thereafter the Holder may at any time exercise and enforce all of the rights and remedies of a holder of this Convertible Debenture in accordance with and subject to the Credit Documents as if the Holder was the absolute owner hereof, provided that the Holder will not be bound to exercise any such right or remedy.

10.3 Deemed Satisfaction

Payment to the Holder of the principal of the indebtedness, liabilities and obligations of the Company under the Credit Documents (the "**Obligations**") will be deemed to be payment in satisfaction of the Principal Amount. Notwithstanding the stated interest rate per annum in this Convertible Debenture, payment by the Company of the relevant fees and interest for any period in respect of the Obligations at the rate at which the Obligations bear interest for such period will be deemed to be payment in satisfaction of the interest payment for the same period under this Convertible Debenture. Notwithstanding the Principal Amount, interest and other monies expressed to be payable or secured hereunder, the obligations payable or secured hereunder shall not exceed the Obligations.

10.4 No Liability

The Holder shall not be liable for any error of judgment or act done by it in good faith, or be otherwise responsible or accountable under any circumstances whatsoever, except for their gross negligence or wilful misconduct. The Holder shall have the right to rely on any instrument, document or signature authorizing or supporting any action taken or proposed to be taken by the Holder hereunder, believed by the Holder in good faith to be genuine. The Holder shall be under no liability for interest on any moneys received by it hereunder. The Company hereby ratifies and confirms any and all acts which the Holder or its successors or substitutes shall do lawfully by virtue hereof.

10.5 Covenants

The Company covenants and agrees with the Holder that:

- (a) **Further Documentation; Pledge of Instruments.** At any time and from time to time, upon the written request of the Holder, and at the sole expense of the Company, the Company will promptly and duly execute and deliver such further instruments and documents and take such further action as the Holder may reasonably request for the purpose of obtaining or preserving the full benefits of this Convertible Debenture and of the rights and powers herein granted, including the filing or execution of any financing or financing change statements under any applicable law with respect to the Security Interest. The Company also hereby authorizes the Holder to file any such financing or financing change statement without the signature of the Company to the extent permitted by applicable law. Without limiting the generality of the foregoing, the Company acknowledges that this Convertible Debenture has been prepared based on applicable law and the Company agrees that the Holder will have the right to require that this Convertible Debenture be amended or supplemented: (i) to reflect any changes in applicable law, whether arising as a result of statutory amendments, court decisions or otherwise; (ii) to facilitate the creation and registration of appropriate security in all appropriate jurisdictions; or (iii) if the Company amalgamates with any other Person or enters into any reorganization, in each case in order to confer upon the Holder the mortgages, liens, pledges, charges and security interests or other encumbrances of any kind intended to be created hereby.
- (b) **Payment of Expenses; Indemnification.** The Company agrees to pay, and to indemnify and save the Holder harmless from, any and all reasonable liabilities, costs and expenses (including reasonable legal fees and expenses on a solicitor and his own client full indemnity basis): (i) incurred by the Holder in the preparation, registration, administration or enforcement of this Convertible Debenture; (ii) with respect to, or resulting from, any delay by the Company in paying any and all excise, sales, goods and services or other taxes which may be payable or determined to be payable with respect to any of the Collateral; (iii) with respect to, or resulting from, any delay by the Company in complying with any requirement of applicable law; or (iv) incurred by the Holder in connection with any of the transactions contemplated by this Convertible Debenture; except, in any case, to the extent such liabilities, costs and expenses result from the gross negligence or wilful misconduct of the Holder. The amount of all such liabilities, costs and expenses will be deemed to form part of the Principal Amount secured hereby.
- (c) **Further Identification of Collateral.** The Company will furnish to the Holder from time to time such statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Holder may

reasonably request, all to the extent necessary to permit the Collateral to be sufficiently described.

- (d) **Notices.** The Company will advise the Holder promptly, in reasonable detail, of: (i) any change in the location of any place of business or the chief executive office of the Company; or (ii) any change in the name of the Company.

10.6 Representations re Address and Jurisdictions

The Company represents and warrants to the Holder that (i) the address of the Company's chief executive office is Suite 1700, 205 - 5th Avenue S.W., Calgary, Alberta, T2P 2V7, and (ii) the Company carries on business and owns assets only in the Provinces of Alberta and Saskatchewan.

10.7 Presentment

The Company hereby expressly waives presentment, protest and notice of dishonour of this Convertible Debenture. Any failure or omission by the Holder to present this Convertible Debenture for payment, protest or provide notice of dishonour will not invalidate or adversely affect in any way any enforcement proceeding taken under this Convertible Debenture.

10.8 Enurement and Assignment by Company

The provisions of this Convertible Debenture will be binding upon the Company and its successors and will enure to the benefit of the Holder and its successors and assigns. Subject to the terms of the Credit Documents, the Company will not assign this Convertible Debenture without the Holder's prior written consent. In the event the ownership of the Collateral or any part thereof becomes vested in a Person other than the Company, then, without notice to the Holder, such successor or successors in interest may be dealt with, with reference to this Convertible Debenture and to the indebtedness secured hereby, in the same manner as with the Company, without in any way vitiating or discharging the Company's liability hereunder or for the payment of the indebtedness or performance of the obligations secured hereby. No transfer of the Collateral, no forbearance, and no extension of the time for the payment of the indebtedness secured hereby, shall operate to release, discharge, modify, change or affect, in whole or in part, the liability of the Company hereunder or for the payment of the indebtedness or performance of the obligations secured hereby, or the liability of any other Person hereunder or for the payment of the indebtedness secured hereby.

10.9 Notice

Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be given by facsimile or other means of electronic communication or by delivery as hereafter provided. Any such notice other communication, if sent by facsimile or other means of electronic communication, shall be deemed to have been received on the Business Day following the sending, or, if delivered by hand, shall be deemed to have been received at the time it is delivered to the applicable address noted below either to the individual designated below or to an individual at such address having apparent authority to accept deliveries on behalf of the addressee. Notice of change of address shall also be governed by this section. Notices and other communications shall be addressed as follows:

- (a) if to the Company:

Darian Resources Ltd.
1700, 205-5th Ave. S.W.
Calgary, Alberta T2P 2V7
Attention: President
Fax: (403) 216-8575

- (b) if to the Holder:

Julmar Holdings Ltd.
c/o Suite 900, 630 - 3rd Avenue S.W.
Calgary, Alberta T2P 4L4
Attention: President
Fax: (403) 750-7466

10.10 Replacement of Convertible Debenture Certificates

- (a) In case this Convertible Debenture shall become mutilated or be lost, destroyed or stolen, the Company shall issue, and thereupon deliver, a new Convertible Debenture of like tenor as the one mutilated, lost, destroyed or stolen in exchange for and upon surrender and cancellation of such mutilated Convertible Debenture or in lieu of and in substitution for such lost, destroyed or stolen Convertible Debenture.
- (b) The applicant for the issue of a new Convertible Debenture pursuant to this section shall bear the cost of the issue thereof and in case of loss, destruction or theft shall, as a condition precedent to the issue thereof, furnish to the Company such evidence of ownership and of the loss, destruction or theft of this Convertible Debenture so lost, destroyed or stolen as shall be satisfactory to the Company in its discretion and such applicant shall also furnish an indemnity in amount and form satisfactory to the Company in its discretion, and shall pay the reasonable charges of the Company in connection therewith.

10.11 Assignment by Holder

The Holder may assign all or part of this Convertible Debenture to any related entity within the Shaw Family Group of Companies without notice or the Company's consent.

10.12 Amendment, Waiver

No amendment or waiver of this Convertible Debenture will be binding unless executed in writing by the Company if it is to be bound thereby, or by the Holder if the Holder is to be bound thereby. No waiver of any provision of this Convertible Debenture will constitute a waiver of any other provision nor will any waiver of any provision of this Convertible Debenture constitute a continuing waiver unless otherwise expressly provided.

10.13 Transfer of Convertible Debenture

- (c) Every transfer of this Convertible Debenture, other than an assignment contemplated in section 10.11 hereof, must be approved in writing by and at the sole discretion of the board of directors of each of the Holder and the Company. Notwithstanding the

foregoing, this Convertible Debenture may only be transferred to another holder in accordance with applicable securities laws, if any.

- (d) Any such transfer in the form of the "Transfer Form" attached as Schedule "B" to this Convertible Debenture, accompanied by this Convertible Debenture, must be delivered at the registered office of the Company in Calgary, Alberta, together with such evidence of identity or title as the Company may reasonably require and together with the amount of any transfer or other tax payable on such transfer, whereupon, upon the approval of the board of directors of the Company, the transfer will be registered and duly noted by endorsement hereon signed by an officer of the Company.

10.14 Governing Law

This Convertible Debenture will be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein, without giving effect to the conflict of laws principles thereof. Without prejudice to the ability of the Holder to enforce this Convertible Debenture in any other proper jurisdiction, the Company hereby irrevocably submits and attorns to the jurisdiction of the courts of the Province of Alberta, or any appellate courts thereof, for the purposes of this Convertible Debenture.

10.15 Severability

If any portion of this Convertible Debenture or the application thereof to any circumstance will be held invalid or unenforceable by a court of competent jurisdiction from which no further appeal has or is taken, to an extent that does not affect in a fundamental way the operation of this Convertible Debenture, the remainder of the provision in question, or its application to any circumstance other than that to which it has been held invalid or unenforceable, and the remainder of this Convertible Debenture will not be affected thereby and will be valid and enforceable to the fullest extent permitted by applicable law.

10.16 Consent and Waiver

No consent or waiver by the Holder will be effective unless made in writing and signed by an authorized officer of the Holder.

10.17 Inconsistency

To the extent that there is any inconsistency or ambiguity between the provisions of this Convertible Debenture and any of the Credit Documents, the provisions of the Credit Documents will govern to the extent necessary to eliminate such inconsistency or ambiguity.

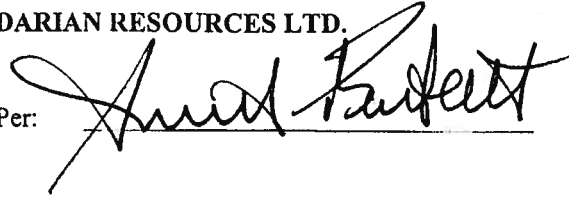
10.18 Receipt of Copy

The Company acknowledges receipt of an executed copy of this Convertible Debenture. The Company waives the right to receive any amount that it may now or hereafter be entitled to receive (whether by way of damages, fine, penalty or otherwise) by reason of the failure of the Holder to deliver to the Company a copy of any financing statement or any statement issued by any registry that confirms registration of a financing statement relating to this Convertible Debenture.

IN WITNESS WHEREOF the Company has caused this Convertible Debenture to be signed by its authorized signatory as of September 29, 2008.

DARIAN RESOURCES LTD.

Per:

A handwritten signature in black ink, appearing to read "David Kuffert", is written over a horizontal line. The signature is cursive and stylized.

3487592_2 [Convertible Debenture - Julmar Holdings Ltd.]

SCHEDULE "A"

NOTICE OF ELECTION TO CONVERT

TO: DARIAN RESOURCES LTD.
Suite 1700, 205 - 5th Ave. S.W.
Calgary, Alberta T2P 2V7

The undersigned registered Holder of the within Convertible Debenture dated as of September 29, 2008 hereby irrevocably elects to convert the Principal Amount of such Convertible Debenture set out below into Common Shares of Darian Resources Ltd. in accordance with the provisions thereof and hereby delivers this Convertible Debenture to the Company for such purpose and directs that the certificate for such Common Shares be registered and delivered as follows:

Principal Amount to be converted \$ _____

Number of shares to be issued at \$1.75 per share _____

(Print Name)

(Street Address)

(City, Province and Postal Code)

If any Common Shares are to be issued to a person or persons other than the Holder, the Holder must pay to the Company all applicable transfer taxes or other government charges.

The Holder certifies that each of the representation and warranties made by the undersigned to the Company in connection with the undersigned's acquisition of this Convertible Debenture remains true and correct on the date hereof.

(Signature of Registered Holder)

Dated: _____

SCHEDULE "B"

TRANSFER FORM

TO: DARIAN RESOURCES LTD.
Suite 1700, 205 - 5th Ave. S.W.
Calgary, Alberta T2P 2V7

FOR VALUE RECEIVED the undersigned sells, assigns and transfers the within Convertible Debenture of Darian Resources Ltd. to:

(Print Name of Transferee)

(Street Address of Transferee)

(City, Province and Postal Code of Transferee)

(Signature of Registered Holder)

Dated: _____

SCHEDULE "C"

PERMITTED LIENS

"Permitted Liens" means, as at any particular time, any of the following encumbrances on the property of the Company:

- (a) security interests in favour of Alberta Treasury Branches in respect of the Primary Indebtedness and related security documents;
- (b) security interests in favour of the Holder pursuant to this Convertible Debenture;
- (c) security interests in favour of other members of the Shaw Group of Companies on substantially the same terms and conditions as this Convertible Debenture;
- (d) security interests in favour of KYAL Energy Inc., as the nominee of Grant Bartlett, on substantially the same terms and conditions as this Convertible Debenture;
- (e) reservations, limitations, provisos and conditions expressed in any original grant from the Crown and the interests set out in Section 61(1) of the *Land Titles Act* (Alberta);
- (f) liens for taxes, assessments, governmental charges and other statutory liens or security interests which (i) are not at such date due or delinquent, or (ii) relate to claims the validity of which is being contested at the time by the Company in good faith by appropriate proceedings;
- (g) the lien of any judgment rendered, or claim filed, which is being contested at the time by the Company in good faith by appropriate proceedings or where the fair market value of the assets affected thereby is less than \$250,000;
- (h) undetermined or inchoate liens or security interests incidental to operations arising in the ordinary course of business which relate to obligations (i) not due or delinquent and which have not at such time been filed pursuant to law and no other statutory proceedings have been taken to enforce the same, or (ii) being contested at the time by the Company in good faith by appropriate proceedings;
- (i) easements, rights-of-way, servitudes or other similar rights or restrictions in property (including, without limitation, rights-of-way and servitudes for railways, sewers, drains, pipelines, gas and water mains, electric light, power, telephone, telegraph or cable television conduits, poles, wires and cables) granted to or reserved or taken by other persons and other minor defects, encumbrances and restrictions which either alone or in the aggregate do not materially detract from the value of such property or materially impair its use by the Company;
- (j) security interests or other interests given when required by the Company to any public utility, municipality, governmental or other public authority in the ordinary course of the business of the Company, which either alone or in the aggregate do not materially detract from the value of the property affected thereby or materially impair its use by the Company;

- (k) purchase money security interests and capital lease obligations of the Company;
- (l) security interests arising under operating leases; and
- (m) all other encumbrances as are specifically disclosed in writing to the Holder and for which the Holder agrees to accept such encumbrances as Permitted Liens for the purposes of this Convertible Debenture.

EXHIBIT "F"

**DARIAN RESOURCES LTD.
CONVERTIBLE SECURED DEBENTURE
THREE YEAR TERM**

[Execution Version]
THIS IS EXHIBIT " F " referred to in the Affidavit of Gary W. Goetsch Sworn before me this 17th day of Feb. A.D. 2010
Rebecca Lewis
Barrister & Solicitor
\$6,250,000

DARIAN RESOURCES LTD. (the "**Company**"), for value received, hereby acknowledges itself indebted and promises to pay to SHAWANA ESTATES LTD. (the "**Holder**") of Calgary, Alberta, subject to such earlier repayments as may be required hereunder, the principal amount of **SIX MILLION TWO HUNDRED AND FIFTY THOUSAND DOLLARS** (\$6,250,000) (the "**Principal Amount**") in lawful money of Canada on surrender of this Convertible Debenture at the registered office of the Company in the City of Calgary, Alberta (unless this Convertible Debenture shall have been previously repaid or converted in accordance with the provisions hereof) and to pay interest on the Principal Amount outstanding from time to time from the date of this Convertible Debenture or from the last interest payment date to which interest has been paid on this Convertible Debenture, whichever is later, at the nominal rate equal to the "ATB Prime Rate" (as defined below) plus three (3%) per cent per annum, compounded annually (after as well as before each of maturity, default and judgment). Such interest shall be calculated and payable in accordance with Article 2 hereof and interest on overdue interest shall be calculated, and shall be due and payable, in like money in the same manner and at the same time and place as set out in Article 2. This Convertible Debenture creates a security interest in the property of the Company.

**ARTICLE 1
INTERPRETATION**

1.1 Definitions

In this Convertible Debenture, unless there is something in the subject-matter or context inconsistent therewith:

"**ATB Prime Rate**" means the floating annual rate of interest established from time to time by ATB Financial as the reference rate it will use to determine rates of interest charged on Canadian dollar loans made to its customers in Canada and designated as its "prime rate";

"**Board Composition Arrangement**" means that certain agreement between the Holder and the Company dated September 29, 2008 pursuant to which the Holder has the right to name two (2) of the directors to the board of directors of the Company, which board shall either be comprised of five (5) total directors, or six (6) total directors with the chairman having the swing vote;

"**Business Day**" means a day which is not a Saturday, Sunday or civic or statutory holiday in Calgary, Alberta;

"**Capital Reorganization**" has the meaning attributed thereto in section 5.3;

"**Collateral**" has the meaning attributed thereto in section 3.1;

"**Common Shares**" means common shares in the capital of the Company as such shares exist at the close of business on the date of execution and delivery of this Convertible Debenture or, upon any subdivision or consolidation of the Common Shares, the shares resulting therefrom or, upon the occurrence of a Capital Reorganization, the shares and/or other securities and/or

property substituted for the Common Shares or into which Common Shares are reclassified or changed;

"**Company's Auditors**" or "**Auditors of the Company**" means an independent firm of chartered accountants duly appointed as auditors of the Company;

"**Contractual Rights**" has the meaning attributed thereto in section 3.8;

"**Conversion Date**" has the meaning attributed thereto in subsection 5.2(b);

"**Conversion Price**" means the price of \$1.75 per Common Share at which this Convertible Debenture shall be convertible into Common Shares;

"**Conversion Privilege**" means the right to convert this Convertible Debenture into Common Shares as provided in Article 5;

"**Convertible Debenture**" means this secured convertible debenture of the Company, as the same may be amended, restated or replaced from time to time;

"**Credit Documents**" has the meaning attributed thereto in section 3.2;

"**Event of Default**" has the meaning attributed thereto in Article 7;

"**Governmental Body**" means any government, parliament, legislature, or any regulatory authority, agency, commission or board of any government, parliament or legislature, or any court of (without limitation to the foregoing) any other law, regulation or rule-making entity (including, without limitation, any central bank, fiscal or monetary authority or authority regulating banks), having or purporting to have jurisdiction in the relevant circumstances, or any Person acting or purporting to act under the authority of any of the foregoing (including, without limitation, any arbitrator);

"**Holder**" initially means Shawana Estates Ltd. and thereafter means any other permitted holder of this Convertible Debenture;

"**Indebtedness**" means the Principal Amount together with any and all interest and other amounts or charges owing by the Company to the Holder and outstanding from time to time;

"**Interest Rate**" means the ATB Prime Rate from time to time plus three (3%) percent per annum;

"**Issue Date**" means the date of issue of this Convertible Debenture;

"**Maturity Date**" means September 29, 2011.

"**Obligations**" has the meaning attributed thereto in section 10.3;

"**Permitted Liens**" means the liens, encumbrances and security interests listed and described in Schedule "C" attached hereto;

"**Person**" or "**person**" means any individual, corporation or company, partnership, joint venture, syndicate, sole proprietorship, trust, trustee, executor, administrator or other legal representative

or an unincorporated organization, government or governmental authority or entity and pronouns have a similarly extended meaning;

"Primary Indebtedness" means the principal of and the interest on indebtedness of the Company outstanding to Alberta Treasury Branches, whether outstanding on the date of this Convertible Debenture or thereafter created and incurred by the Company, for money borrowed by the Company from Alberta Treasury Branches;

"Request to Repay" has the meaning attributed thereto in section 6.1;

"Security Interest" has the meaning attributed thereto in section 3.1;

"Shaw Family" means any lineal descendant of JR Shaw;

"Shaw Family Group of Companies" means any companies or other entities in which JR Shaw or any of his lineal descendants, or any combination thereof, holds a controlling interest; and

"Subsidiary" means any corporation which is or hereafter becomes directly or indirectly controlled by the Company and for the purposes of this definition, the Company shall be deemed to control a corporation if the Company beneficially owns, directly or indirectly, shares to which are attached more than 50% of the voting rights ordinarily exercisable at meetings of shareholders of such corporation, and the Company shall be deemed to own beneficially shares beneficially owned by a corporation controlled by it and so on indefinitely.

1.2 Headings and Gender

The division of this Convertible Debenture into Articles, sections, subsections and clauses, and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof. Words importing the singular number include the plural and vice versa and words importing gender include the neuter, feminine and masculine genders.

1.3 Applicable Law

This Convertible Debenture shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein. The parties hereto submit to the exclusive jurisdiction of the courts in the Province of Alberta. The parties agree that any litigation between the parties which arises pursuant to or in connection with this Convertible Debenture, or any of its provisions, shall be referred to the courts in the Province of Alberta and shall not be referred to the courts in any other jurisdiction.

1.4 Business Day

In the event that any day on or before which any action is required to be taken hereunder is not a Business Day, then such action shall be required to be taken on or before the requisite time on the next succeeding day that is a Business Day.

1.5 Monetary Reference

Any reference in this Convertible Debenture to "Dollars", "dollars" or "\$" shall be deemed to be a reference to lawful money of Canada.

1.6 Invalidity of Provisions

Each of the provisions contained in this Convertible Debenture is distinct and severable and a declaration of invalidity or unenforceability of any such provision by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision hereof or thereof.

ARTICLE 2 PRINCIPAL AND INTEREST

2.1 Principal

The Company shall pay to the Holder the Principal Amount, or such portion of the Principal Amount as may be outstanding at the time, on the Maturity Date as set forth herein (unless this Convertible Debenture shall have been previously repaid or converted in full in accordance with the provisions hereof).

2.2 Interest

Interest shall accrue from the Issue Date hereof or from the last interest payment date to which interest on this Convertible Debenture shall have been paid in full to such date, on the outstanding Principal Amount of this Convertible Debenture at the Interest Rate (after as well as before each of maturity, default and judgment) payable monthly in arrears on the last day of each month commencing on October 31, 2008.

2.3 Payment of Interest and Principal

As interest or principal become due on this Convertible Debenture, the Company shall send by prepaid ordinary mail a cheque for such interest and principal payable to the then registered Holder of this Convertible Debenture and addressed to such Holder at its last address appearing on the register. The forwarding of such cheque shall satisfy and discharge the liability for interest and principal on this Convertible Debenture to the extent of the sum represented thereby unless such cheque be not paid at par on presentation.

2.4 Cancellation of Convertible Debenture

Upon full payment, repayment and/or conversion of the outstanding Principal Amount of, and any accrued but unpaid interest on, this Convertible Debenture, together with any and all other amounts as may be outstanding hereunder, this Convertible Debenture shall be cancelled and destroyed by the Company and no Convertible Debenture shall be issued in substitution therefor.

ARTICLE 3 SECURITY

3.1 Security

As general and continuing collateral security for the due payment of the Principal Amount, interest and all other monies payable hereunder or from time to time secured hereby and as security for the performance and observance of the covenants and agreements on the part of the Company herein contained, but subject to Permitted Liens, the Company hereby mortgages and charges in favour of the Holder, as and by way of a second floating charge, all of the Company's present and after-acquired real property wherever situate, and grants in favour of the Holder a second priority security interest in and to

all of the Company's present and after-acquired personal property (both tangible and intangible) of every nature and kind and wherever situate. In this Convertible Debenture, the mortgages, charges and security interests hereby constituted are called the "**Security Interest**" and the subject matter of the Security Interest is called the "**Collateral**". The payment of the Obligations is hereby expressly subordinated and postponed in right of payment to the prior payment in full of the Primary Indebtedness, and any and all Security Interests now or hereinafter held by the Holder in connection with the Obligations or any part thereof are hereby and shall hereafter be subordinated to any and all security interests now or hereafter held in respect of and securing the Primary Indebtedness or any part thereof.

3.2 Business in the Ordinary Course

Until the Security Interest becomes enforceable, the Company, subject to the terms of this Debenture and any other agreements, instruments, notes, debentures and other documents entered into from time to time between the Company and the Holder (collectively, the "**Credit Documents**"), may dispose of or deal with the Collateral in the ordinary course of its business and for the purpose of carrying on the same, so that purchasers thereof or parties dealing with the Company take title thereto free and clear of the Security Interest. In the event of any such disposition in the ordinary course of business, the Holder will, at the written request of the Company which will include a certificate of the Company stating that such Collateral is being dealt with or disposed of in accordance with this Section 3.2, release its Security Interest over the Collateral which has been disposed.

3.3 Leases

The Security Interest will not extend or apply to the last day of the term of any lease of real property or agreement therefor, but upon the enforcement of the Security Interest, the Company will stand possessed of such last day in trust to assign the same at the direction of the Holder to any Person.

3.4 Crystallizing the Security

Without limiting its rights hereunder to crystallize the Security Interest in any other manner, the Holder may, at its option, crystallize the Security Interest in respect of all or a portion of the Collateral by (a) giving notice to the Company of, and (b) registering this Debenture, or a caveat, security notice, financing statement or other instrument in respect of this Debenture, at any public registry or other office maintained for the purposes of registering fixed and specific mortgages and charges, security interests and other like interests, and after such crystallization, the Security Interest in respect of such Collateral that is the subject of the registration shall constitute a fixed and specific mortgage and charge and security interest to and in favour of the Holder, its successors and assigns, in respect of such Collateral, and the Company shall not thereafter dispose of or otherwise deal with such Collateral without the consent of the Holder. The Company shall execute such further documents and do all acts reasonably requested by the Holder to give effect to the foregoing.

3.5 After Acquired Property

The Security Interest created by this Debenture is intended to attach:

- (a) to the existing Collateral when the Company signs this Debenture; and
- (b) to Collateral subsequently acquired by the Company, immediately upon the Company acquiring any rights in such Collateral.

The Holder and the Company do not intend to postpone the attachment of any security created by this Debenture.

3.6 Continued Performance

Notwithstanding the provisions of this Debenture, (i) the Company shall remain liable to perform all of its duties and obligations in regard to the Collateral (including, without limitation, all of its duties and obligations arising under any leases, licenses, permits, reservations, contracts, agreements, instruments, contractual rights and governmental orders, authorizations, licenses and permits now or hereafter pertaining thereto) to the same extent as if this Debenture had not been executed, (ii) the exercise by the Holder of any of its rights and remedies under or in regard to this Debenture shall not release the Company from such duties and obligations, and (iii) the Holder shall have no liability for such duties and obligations by reason only of the execution and delivery of this Debenture.

3.7 Discharge

The Holder is the party entitled to receive all amounts payable hereunder and to give a discharge hereof.

3.8 Contractual Rights

The Security Interest does not and will not extend to, and the Collateral will not include, any agreement, right, franchise, licence or permit (the "**Contractual Rights**") to which the Company is a party or of which the Company has the benefit, to the extent that the creation of the Security Interest would constitute a breach of the terms of or permit any Person to terminate the Contractual Rights, but the Company will hold its interest therein in trust for the Holder and will assign such Contractual Rights to the Holder forthwith upon obtaining the consent of the other party or parties thereto.

ARTICLE 4 SUBORDINATION

4.1 Agreement to Subordinate

The Company covenants and agrees, and the Holder by its acceptance hereof likewise covenants and agrees, that the payment of the Indebtedness is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all Primary Indebtedness.

4.2 Subrogation of Convertible Debenture

Subject to the payment in full of all Primary Indebtedness, the rights of the Holder shall be subrogated to the rights of the holders of the Primary Indebtedness to receive payments on account of the Primary Indebtedness or to receive distributions of assets of the Company for application to the Primary Indebtedness, to the extent of the application to the Primary Indebtedness of monies or other assets which would have been received by the Holder but for the provisions of this Article 4, until the Holder shall be paid in full. No such subrogation shall be deemed to be a payment by the Company to or on account of the Holder, it being understood that the provisions of this Article 4 are solely for the purpose of defining the relative rights of the Holder on the one hand, and the holder of the Primary Indebtedness, on the other hand. Nothing contained in this Convertible Debenture is intended to or shall impair, as between the Company and its creditors (other than the holder of Primary Indebtedness and the Holder), the obligation of the Company, which is unconditional and absolute, to pay to the Holder the Indebtedness and other amounts payable under this Convertible Debenture as and when the same shall become due and payable

in accordance with their terms, or to affect the relative rights of the Holder and creditors of the Company (other than the holder of the Primary Indebtedness), nor shall anything in this Convertible Debenture prevent any Holder from exercising all remedies otherwise permitted in this Convertible Debenture and by applicable law upon default under this Convertible Debenture, subject to the rights, if any, of the holder of the Primary Indebtedness, if any, in respect of cash, property or securities of the Company received upon the exercise of any such remedy.

4.3 No Payment to Holder if Primary Indebtedness Due or in Default

- (a) Upon the maturity of any Primary Indebtedness by lapse of time, acceleration or otherwise, then, except as otherwise provided in section 4.5, all principal of and premium, if any, and interest on such Primary Indebtedness shall first be paid in full, or shall first have been duly provided for, before any payment under this Convertible Debenture is made.
- (b) Upon the happening of an event of default with respect to any Primary Indebtedness, as defined therein or in the instrument under which the same is outstanding, permitting the holders thereof to accelerate the maturity thereof, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, no payment (by purchase of this Convertible Debenture or otherwise) shall be made by the Company with respect to this Convertible Debenture.
- (c) The fact that a payment hereunder is prohibited by this section 4.3 shall not prevent the failure to make such a payment from being an Event of Default under this Convertible Debenture.

4.4 Distribution on Dissolution, Winding-Up, Liquidation or Reorganization

Upon any distribution of assets of the Company on any dissolution, winding-up, total liquidation, bankruptcy, insolvency or receivership of the Company:

- (a) the holder of all Primary Indebtedness shall be entitled to receive payment in full of the principal of such Primary Indebtedness and the interest and premium (if any) due thereon before the Holder is entitled to receive any payment upon the Indebtedness evidenced by this Convertible Debenture;
- (b) any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holder would be entitled except for the provisions of this Article 4, shall be paid by the liquidating trustee or agent or other person making such payment or distribution (whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise), directly to the holder of the Primary Indebtedness or its representatives or trustees, as its interests may appear, to the extent necessary to pay in full all Primary Indebtedness remaining unpaid after giving effect to any concurrent payment or distribution to the holder of such Primary Indebtedness; and
- (c) in the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, shall be received by the Holder under the above-noted dissolution, winding up, total liquidation, bankruptcy insolvency or receivership of the Company on account of this Convertible Debenture before all Primary Indebtedness is paid in full, such payment or distribution shall be held in trust for the benefit of and shall be paid over to the holder of such

Primary Indebtedness or its representatives or trustees, as its interest may appear, for application to the payment of all Primary Indebtedness remaining unpaid until all Primary Indebtedness shall have been paid in full after giving effect to any concurrent payment or distribution to the holders of such Primary Indebtedness.

Upon any distribution of assets of the Company referred to in this section 4.4, the Holder shall be entitled to rely upon a certificate of the liquidating trustee or agent or other person making the distribution for the purpose of ascertaining the persons entitled to participate in such distribution, including the holder of the Primary Indebtedness of the Company, the amount thereof or payable thereon, the amount paid or distributed thereon and all other facts pertinent thereto or to this section 4.4.

4.5 Payment of Convertible Debentures Permitted

Notwithstanding sections 4.2 and 4.4 or any other provision of this Convertible Debenture:

- (a) the Company may make payments in respect of this Convertible Debenture pursuant to Article 6 even though at the time such payments are made circumstances described in section 4.3 which, but for this subsection, would prohibit such payments shall have occurred or be continuing or an event of default shall have occurred and be continuing, if notice of repayment shall have been given prior to such circumstances or such event of default occurring; and
- (b) unless and until written notice shall be given to the Holder by or on behalf of the holder of Primary Indebtedness, notifying the Holder of the happening of an event of default with respect to such Primary Indebtedness or of the existence of any other facts which would result in the making of any payment with respect to this Convertible Debenture to be in contravention of the provisions of this Article 4, the Holder and the Company shall be entitled to assume that no such event of default has occurred or that no such facts exist; and, with respect to any monies which may at any time be received by the Holder pursuant to any provision of this Convertible Debenture prior to the receipt by the Holder of such written notice, nothing in this Convertible Debenture shall prevent the Holder from applying such monies to the purposes for which the same were so received, notwithstanding the occurrence or continuance of an event of default or other facts with respect to such Primary Indebtedness.

4.6 Subordination not to be Impaired

No right of the holder of Primary Indebtedness or its representative or trustee to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or such holder, or by any non-compliance by the Company with the terms, provisions and covenants of this Convertible Debenture regardless of any knowledge thereof which such holder may have or be otherwise charged with.

ARTICLE 5 CONVERSION

5.1 Conversion Privilege and Conversion Price

Subject to and upon compliance with the provisions of this Article 5, the Holder shall have the right, at such Holder's option, at any time or times on or before the Maturity Date to convert the Principal Amount or any portion thereof then outstanding under this Convertible Debenture into fully paid and non-

assessable Common Shares at the Conversion Price. The number of Common Shares to be received by the Holder on conversion shall be determined by dividing the portion of the Principal Amount being converted by the Conversion Price.

5.2 Manner of Exercise of Right to Convert

- (a) In order to exercise the Conversion Privilege, the Holder shall, within the time specified in section 5.1, surrender such Convertible Debenture to the Company at its registered office in the City of Calgary, Alberta accompanied by a written notice (which shall be irrevocable) in the form of the "Notice of Election to Convert" attached to this Convertible Debenture as Schedule "A", duly signed by the Holder or the Holder's executors, administrators or other legal representatives or the Holder's attorney duly appointed by an instrument in writing in form and execution satisfactory to the Company stating:
- (i) that the Holder elects to convert the then outstanding Principal Amount under this Convertible Debenture or a specified portion thereof;
 - (ii) the names (with addresses) in which the Common Shares issuable upon such conversion are to be registered, provided that the Holder shall only be entitled to direct the registration of its entitlement to the Common Shares in a manner permitted by applicable securities legislation;
 - (iii) the address or addresses to which the certificate or certificates representing the Common Shares issuable upon conversion is or are to be delivered; and
 - (iv) upon surrender of the "Notice of Election to Convert" in accordance with section 5.2(a) above, the Holder or its permitted nominees shall be entitled to be entered in the books of the Company as at the Conversion Date, as defined below (or such later date as is specified in subsection 5.2(b)) as the holder or holders of the number of Common Shares into which this Convertible Debenture was converted, in accordance with the provisions of this Article 5, and as soon as practicable thereafter, the Company shall deliver to the Holder electing to convert or, subject as aforesaid, its nominees or assignees, a certificate or certificates representing the number of Common Shares comprising the number of Common Shares into which all or any portion of the Principal Amount hereof has been converted to the address or addresses indicated in the "Notice of Election to Convert".
- (b) For the purposes of this Article 5, this Convertible Debenture shall be deemed to be surrendered for conversion on the date (the "**Conversion Date**") on which it is so surrendered in accordance with the provisions of this Article 5 and, if surrendered by mail or other means of delivery, on the date on which it is received by the Company, provided that if this Convertible Debenture is surrendered for conversion on a day on which the register of Common Shares is closed, the Person entitled to receive Common Shares shall become the holder of record of such Common Shares as at the date on which such register is next reopened.
- (c) In the event of any partial conversion of this Convertible Debenture, the Holder shall, upon the exercise of the Conversion Privilege, surrender this Convertible Debenture to the Company, and the Company shall cancel the same and shall, without charge,

forthwith certify and deliver to the Holder a new Convertible Debenture in an aggregate Principal Amount equal to the unconverted part of the Principal Amount of this Convertible Debenture outstanding and so surrendered upon the same terms and conditions as this Convertible Debenture.

- (d) If this Convertible Debenture is surrendered for conversion in accordance with this section 5.2, the Holder shall be entitled to receive accrued and unpaid interest in respect of the Principal Amount converted only for the period up to the Conversion Date, such interest to be paid within 30 days of the Conversion Date in accordance with section 2.2.
- (e) Notwithstanding anything herein contained, Common Shares will only be issued and registered upon conversion of this Convertible Debenture in compliance with the securities laws of any applicable jurisdiction and, without limiting the generality of the foregoing, in the event that this Convertible Debenture is converted prior to the expiry of any applicable hold period under applicable securities legislation, the certificates representing the Common Shares thereby issued will bear such legend as may, in the opinion of counsel to the Company, be necessary in order to avoid a violation of any securities laws of any province of Canada or of the United States or to comply with the requirements of any stock exchange on which the Common Shares are listed, provided that if, at any time, in the opinion of counsel to the Company, such legends are no longer necessary in order to avoid a violation of any such laws, or the Holder of any such legended certificate, at the Holder's expense, provides the Company with evidence satisfactory in form and substance to the Company (which may include an opinion of counsel satisfactory to the Company) to the effect that such Holder is entitled to sell or otherwise transfer such Common Shares in a transaction in which such legends are not required, such legended certificate may thereafter be surrendered to the Company in exchange for a certificate which does not bear such legend.

5.3 Adjustment of Conversion Price

If and whenever at any time after the date hereof, and prior to the Conversion Date, there is a reclassification of the Common Shares at any time outstanding or other change of the Common Shares into other shares or into other securities, whether of the Company or of another body corporate, or other capital reorganization, or a consolidation, amalgamation or merger of the Company with or into any other corporate or other entity (other than a consolidation, amalgamation or merger which does not result in any reclassification of the outstanding Common Shares or a change of the Common Shares into other shares), or a transfer of the undertaking or assets of the Company as an entirety or substantially as an entirety to another corporation or other entity in which the holders of Common Shares are entitled to receive shares, other securities or other property or a share split or other subdivision of the issued and outstanding common shares into a greater number of common shares or a payment of a dividend on the common shares other than in the ordinary course (any of such events being called a "**Capital Reorganization**"), the Holder who exercises the Conversion Privilege pursuant to this Convertible Debenture after the effective date of such Capital Reorganization will be entitled to receive, and will accept for the same aggregate consideration in lieu of the number of Common Shares to which the Holder was previously entitled upon such conversion, the aggregate number of shares, other securities or other property which the Holder would have been entitled to receive as a result of such Capital Reorganization if, on the effective date thereof, the Holder had been the registered Holder of the number of Common Shares into which this Convertible Debenture was convertible immediately prior to such Capital Reorganization. The Company will take all steps necessary to ensure that, on a Capital Reorganization, the Holder will, if it exercises its Conversion Privilege hereto, receive the aggregate number of shares, other securities or other property to which it is entitled as a result of the Capital Reorganization. Appropriate adjustments will be

made as a result of any such Capital Reorganization in the application of the provisions set forth in this Article 5 with respect to the rights and interests thereafter of the Holder under this Convertible Debenture to the end that the provisions set forth in this Article 5 will thereafter correspondingly be made applicable as nearly as may reasonably be in relation to any shares, other securities or other property thereafter deliverable upon the conversion of this Convertible Debenture.

5.4 Rules Regarding Calculation of Adjustment of Conversion Price

If within five days of receipt of an Adjustment Notice, as defined below, a Holder notifies the Company in writing that it disputes the content of the Adjustment Notice, or if at any time a shareholder or other creditor of the Company disputes adjustments provided for in section 5.3, such dispute will be conclusively determined by the Company's Auditors, or if they are unable or unwilling to act, by such other firm of independent chartered accountants as may be selected by the directors of the Company, and any such determination will be binding upon the Company, the Holder and shareholders of the Company; such auditors or accountants will be given access to all necessary records of the Company. If any such determination is made, the Company will deliver a certificate of the Company to the Holder describing such determination.

5.5 Notice as to Adjustment

The Company shall from time to time, immediately after the occurrence of any event which requires an adjustment or readjustment as provided in section 5.3, deliver a notice in writing (an "**Adjustment Notice**") to the Holder specifying the nature of the event requiring the same and the amount of the adjustment or readjustment necessitated thereby and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Such notice and the amount of the adjustment specified therein shall, subject to the provisions of section 5.4, be conclusive and binding on all parties.

5.6 No Requirement to Issue Fractional Common Shares

The Company shall not be required to issue fractional Common Shares upon the conversion of all or any part of this Convertible Debenture pursuant to this Article 5. The number of whole Common Shares issuable upon conversion of this Convertible Debenture shall be computed on the basis of the aggregate Principal Amount of this Convertible Debenture so converted.

5.7 Cancellation of Converted Convertible Debenture

This Convertible Debenture when converted in full shall be forthwith delivered to and cancelled by the Company and no Convertible Debenture shall be issued in substitution therefor.

ARTICLE 6 REPAYMENT

6.1 Optional Repayment Restricted

The Company shall not have the right to repay all or any portion of the Principal Amount hereunder at its option prior to the Maturity Date. If approved by the board of directors of the Company, the Company may provide written notice to the Holder of its request to make a repayment of all or any portion of the Principal Amount hereunder at any time prior to the Maturity Date (a "**Request to Repay**"), which request the Holder may either accept or reject at its sole discretion. Any such Request to Repay

shall specify the aggregate Principal Amount of this Convertible Debenture proposed to be repaid, the date proposed for repayment, the proposed amount to be repaid and the proposed place of payment.

6.2 Payment

Upon a Request to Repay being accepted by the Holder, in its sole discretion, the Principal Amount of this Convertible Debenture to be repaid shall be and become due and payable on the date specified in the Request to Repay, anything therein or hereon to the contrary notwithstanding and, from and after such date, interest upon the Principal Amount so becoming due and payable shall cease unless payment of the amount to be repaid shall not be made on surrender of this Convertible Debenture.

6.3 Cancellation of Repaid Convertible Debenture

Upon this Convertible Debenture being fully repaid by the Company pursuant to this Article 6, this Convertible Debenture will be cancelled by the Company and not re-issued.

ARTICLE 7 DEFAULT AND REMEDIES

7.1 Events of Default

Each of the following events is herein sometimes called an "**Event of Default**":

- (a) failure by the Company to pay principal outstanding when due, or failure to pay interest or fees outstanding within three (3) Business Days of when due;
- (b) if there is a breach, non-performance or non-observance of any term or condition of this Convertible Debenture that does not relate to payment and, if such default is capable of being remedied and such default is not remedied within ten (10) Business Days after notice of its occurrence has been delivered by the Holder;
- (c) if any representation or warranty made hereunder or in connection herewith is materially false or materially misleading at any time;
- (d) if the Company makes a general assignment for the benefit of creditors, files or presents a petition, makes a proposal or commits any act of bankruptcy, or if any action is taken for the winding up, liquidation or the appointment of any liquidator, trustee in bankruptcy, custodian, receiver, receiver and manager or any other officer with similar powers or if a judgment or order shall be entered by any court approving a petition for reorganization, arrangement or composition of or in respect of the Company, or if the Company becomes insolvent or declared a bankrupt;
- (e) if the Company ceases or threatens to cease to carry on business as currently being carried on by it;
- (f) if the Security Interest hereunder is not enforceable or if the Company shall dispute or deny any liability or any of its obligations hereunder;
- (g) if any final judgment for the payment of monies in excess of \$100,000 is made against the Company and is not discharged within 30 days after the imposition of such judgment,

unless the Company has procured a stay of execution in respect thereof or has appealed such judgment and caused the execution thereof to be stayed during such appeal;

- (h) if there exists an event the effect of which with lapse of time or the giving of notice will constitute a default or an event of default under any other agreement for borrowed money entered into by the Company, including without limitation under and pursuant to the terms of the Primary Indebtedness;
- (i) if the Company is in breach of any applicable law, except to the extent that any failure to so comply would not reasonably be expected to have a materially adverse effect on the Company or its business;
- (j) if, without the prior written consent of the Holder acting reasonably there should occur any material change of ownership or control of the Company from that held on the date hereof; or
- (k) if there is any breach of the terms of the Board Composition Arrangement.

7.2 Waiver of Default

The Holder may waive, in writing, any breach by the Company of any of the provisions contained in this Convertible Debenture or any default by the Company in the observance or performance of any covenant, agreement or condition required to be kept, observed or performed by the Company under the terms of this Convertible Debenture; provided always that no act or omission of the Holder in the enforcement of any of the provisions contained in this Convertible Debenture shall extend to or be taken in any manner whatsoever to affect any subsequent breach or default of the rights of the Holder resulting therefrom.

7.3 Remedies

Subject to section 7.4 hereof and the terms of any Credit Document, upon the occurrence and during the continuance of any event of default under any Credit Document, the Holder will be entitled to exercise any of the remedies specified below:

- (a) **Receiver.** The Holder may appoint by instrument in writing one or more receivers, managers or receiver/manager for the Collateral or the business and undertaking of the Company pertaining to the Collateral (the "**Receiver**"). Any such Receiver will have, in addition to any other rights, remedies and powers which a Receiver may have at law, in equity or by statute, the rights and powers set out in clauses (b) through (d) in this section 7.3. In exercising such rights and powers, any Receiver will act as and for all purposes will be deemed to be the agent of the Company and the Holder will not be responsible for any act or default of any Receiver. The Holder may remove any Receiver and appoint another from time to time. No Receiver appointed by the Holder need be appointed by, nor need its appointment be ratified by, or its actions in any way be supervised by, a court.
- (b) **Power of Sale.** Any Receiver may sell, consign, lease or otherwise dispose of any Collateral by public auction, private tender, private contract, lease or deferred payment with or without notice, advertising or any other formality, all of which are hereby waived by the Company. Any Receiver may, at its discretion establish the terms of such disposition, including terms and conditions as to credit, upset, reserve bid or price. All

payments made pursuant to such dispositions will be credited against the Principal Amount only as they are actually received. Any Receiver may buy in, rescind or vary any contract for the disposition of any Collateral and may dispose of any Collateral without being answerable for any loss occasioned thereby. Any such disposition may take place whether or not the Receiver has taken possession of the Collateral.

- (c) **Pay Liens and Borrow Money.** Any Receiver may pay any liability secured by any actual or threatened lien, pledge, charge, security interest, mortgage or other encumbrance of any kind against any Collateral. Any Receiver may borrow money for the maintenance, preservation or protection of any Collateral or for carrying on any of the business or undertaking of the Company pertaining to the Collateral and may grant liens, pledges, charges, security interests, mortgages or other encumbrances of any kind in any Collateral (in priority to the Security Interest) as security for the money so borrowed. The Company will forthwith upon demand reimburse the Receiver for all such payments and borrowings and such payments and borrowings will be secured hereby and will be added to the money hereby secured and bear interest at the rate set forth in Section 2.2 hereof.
- (d) **Dealing with Collateral.** Any Receiver may seize, collect, realize, dispose of, enforce, release to third parties or otherwise deal with any Collateral in such manner, upon such terms and conditions and at such time as it deems advisable, including without limitation:
 - (i) to ask, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in connection with the Collateral;
 - (ii) to receive, endorse, and collect any drafts or other instruments, documents and chattel paper in connection with subsection 7.3(d)(i) hereof;
 - (iii) to file any claims or take any action or institute any proceedings which the Holder may deem to be necessary or desirable for the collection of the Collateral or to enforce compliance with the terms and conditions of any contract or any account; and
 - (iv) to perform the affirmative obligations of the Company hereunder (including, without limitation, all obligations of the Company pursuant to this Debenture and the Credit Documents).
- (e) **Carry on Business.** The Holder or any Receiver may carry on, or concur in the carrying on of, any or all of the business or undertaking of the Company and enter on, occupy and use (without charge by the Company) any of the premises, buildings, plant and undertaking of, or occupied or used by, the Company.
- (f) **Right to Have Court Appoint a Receiver.** The Holder may, at any time, apply to a court of competent jurisdiction for the appointment of a Receiver, or other official, who may have powers the same as, greater or lesser than, or otherwise different from, those capable of being granted to a Receiver appointed by the Holder pursuant to this Debenture.
- (g) **Holder May Exercise Rights of a Receiver.** In lieu of, or in addition to, exercising its rights, remedies and powers under clauses (a), (f) and (h) of this section 7.3, the Holder

has, and may exercise, any of the rights and powers which are capable of being granted to a Receiver appointed by the Holder pursuant to this Debenture.

- (h) **Retention of Collateral.** The Holder may elect to retain any Collateral in satisfaction of the Principal Amount. The Holder may designate any part of the Principal Amount to be satisfied by the retention of particular Collateral which the Holder considers to have a net realizable value approximating the amount of the designated part of the Principal Amount, in which case only the designated part of the Principal Amount will be deemed to be satisfied by the retention of the particular Collateral.
- (i) **Limitation of Liability.** The Holder will not be liable or accountable for any failure to take possession of, seize, collect, realize, dispose of, enforce or otherwise deal with any Collateral and it will not be bound to institute proceedings for any such purposes or for the purpose of reserving any rights, remedies and powers of the Holder, the Company or any other Person in respect of any Collateral. If any Receiver or the Holder takes possession of any Collateral, neither the Holder nor any Receiver will have any liability as a mortgagee in possession or be accountable for anything except actual receipts.
- (j) **Extensions of Time.** The Holder may grant renewals, extensions of time and other indulgences, accept compositions, grant releases and discharges, and otherwise deal or fail to deal with the Company, debts of the Company, guarantors, sureties and others and with any Collateral as the Holder may see fit, all without prejudice to the liability of the Company to the Holder or the Holder's rights, remedies and powers under this Debenture or under any other Credit Documents.
- (k) **Validity of Sale.** No Person dealing with the Holder or any Receiver, or with any officer, employee, agent or solicitor of the Holder or any Receiver will be concerned to inquire whether the Security Interest has become enforceable, whether the right, remedy or power of the Holder or the Receiver has become exercisable, whether the Principal Amount remaining outstanding or otherwise as to the proprietary or regularity of any dealing by the Holder or the Receiver with any Collateral or to see to the application of any money paid to the Holder or the Receiver, and in the absence of fraud on the part of such Person such dealings will be deemed, as regards such Person, to be within the rights, remedies and powers hereby conferred and to be valid and effective accordingly.
- (l) **Effect of Appointment of Receiver.** As soon as the Holder takes possession of any Collateral or appoints a Receiver, all powers, functions, rights and privileges of the Company including, without limitation, any such powers, functions, rights and privileges which have been delegated to directors, officers of the Company or committees with respect to such Collateral will cease, unless specifically continued by the written consent of the Holder or the Receiver.
- (m) **No Implied Waiver.** The rights of the Holder (whether arising under this Debenture, any other Credit Document, any other agreement, at law or in equity) will not be capable of being waived or varied otherwise than by an express waiver or variation in writing, and in particular any failure to exercise or any delay in exercising any of such rights will not operate as a waiver or variation of that or any other such right; any defective or partial exercise of any of such rights will not preclude any other or further exercise of that or any other such right, and no act or course of conduct or negotiation on the part of the Holder or on its behalf will in any way preclude the Holder from exercising any such right or constitute a suspension or any variation of any such right.

- (n) **Rights Cumulative.** The rights, remedies and powers conferred by this Section 7.3 are in addition to, and not in substitution for, any other rights, remedies or powers that the Holder may have under this Debenture, any other Credit Document, at law, in equity, by or under the *Personal Property Security Act* (Alberta) or by any other statute or agreement. The Holder may proceed by way of any action, suit or other proceeding at law or in equity and no right, remedy or power of the Holder will be exclusive of or dependent on any other. The Holder may exercise any of its rights, remedies or powers separately or in combination and at any time.

7.4 Application of Amounts Received

The proceeds of realization or enforcement hereunder or any other amount from time to time received by the Holder or the Receiver will be applied as follows: first, to the payment in full of all reasonable remuneration, fees and disbursements of the Holder and the Receiver and all reasonable out-of-pocket costs, fees and expenses (including, without limitation, reasonable legal fees on a solicitor and his own client full indemnity basis) incurred by the Holder and any Receiver or other enforcement agent appointed by the Holder or a court of competent jurisdiction, as the case may be, in connection with the collection or enforcement of the Principal Amount owed to the Holder, the enforcement of the Security Interest or the preservation of the Collateral, including without limitation, keeping in good standing all mortgages, liens, pledges, charges, security interests or other encumbrances of any kind on the Collateral having priority over the Security Interest; second, in payment to the Holder of the Principal Amount and other amounts payable hereunder; and third, the balance, if any, will be paid, subject to applicable law, to the Company.

7.5 Deliver Possession

If the Holder or any Receiver exercises its rights herein to take possession of the Collateral, the Company will upon request from the Holder or any such Receiver, assemble and deliver possession of the Collateral at such place or places as directed by the Holder or any such Receiver.

7.6 Release

If the Company pays to the Holder the balance of the Principal Amount (including, without limitation, all amounts forming part thereof) with interest thereon as set forth in this Debenture and any and all other amounts that are payable to the Holder on or in relation to the repayment thereof, then the Holder will, at the written request and sole expense of the Company, reassign and reconvey the Collateral to the Company and release the Security Interest.

ARTICLE 8 SATISFACTION AND DISCHARGE

8.1 Release from Covenants

Upon the payment or satisfaction of the Principal Amount of this Convertible Debenture and any interest thereon or as may otherwise be required under section 2.4, together with any and all other amounts as may be outstanding hereunder, the Company will be released from its covenants herein contained and this Convertible Debenture shall be cancelled and have no further force and effect and the Holder shall deliver to the Company all such instruments as may be requested by the Company to release the Company from its covenants herein contained.

**ARTICLE 9
REPRESENTATIONS AND WARRANTIES OF THE COMPANY**

9.1 Representations and Warranties

The Company represents and warrants to the Holder as follows:

- (a) the Company is a corporation duly incorporated, validly existing and duly registered or qualified to carry on business in the Province of Alberta and in each other jurisdiction where it carries on any material business where a failure to so qualify would have a materially adverse effect on the business or operations of the Company;
- (b) the Company is duly authorized and empowered to execute, deliver and perform its obligations under this Convertible Debenture, all corporate action on the part of the Company for the due execution, delivery and performance by the Company of this Convertible Debenture has been duly and effectively taken and this Convertible Debenture constitutes a valid and binding obligation of the Company enforceable in accordance with its terms;
- (c) the Company has conducted and is conducting its business in compliance in all material respects with any contract, agreement (written or oral), instrument, lease or other document to which the Company is a party or by which it is bound and all applicable laws, rules and regulations in each jurisdiction which any material portion of its business is carried on; and
- (d) the execution and delivery of this Convertible Debenture and performance of its obligations hereunder will not result in any breach of, or constitute a material default under, or create a state of facts which, after notice or lapse of time or both, would constitute a material default under, any term or provision of the articles of incorporation, by-laws or any contract, agreement (written or oral), instrument, lease or other document to which the Company is a party or by which it is bound, including but not restricted to the Primary Indebtedness, which might reasonably be expected to materially adversely affect the business, operations or condition (financial or otherwise) of the Company or its assets.

**ARTICLE 10
NEGATIVE COVENANTS**

10.1 Negative Covenants

The Company covenants with the Holder that it will not, without the prior written consent of the Holder:

- (a) create or permit to exist any mortgage, charge, lien, encumbrance or other security interest on any of its present or future assets, other than Permitted Liens;
- (b) create, incur, assume or allow to exist any indebtedness other than (i) trade payables incurred in the ordinary course of business, (ii) any indebtedness to an affiliate that has also provided security to the Holder, (iii) any indebtedness secured by a Permitted Lien, (iv) the Primary Indebtedness, (v) the Indebtedness hereunder, and (vi) indebtedness to each of SJ Capital Corp., S.P.L.H. Investments Ltd., Julmar Holdings Ltd., and Grant

Bartlett (or his nominee) under convertible debentures on substantially the same terms and conditions as this Convertible Debenture;

- (c) sell, lease or otherwise dispose of any assets except (i) inventory sold, lease or disposed of in the ordinary course of business, (ii) assets sold, leased or disposed of to an affiliate of the Company that has also provided security to the Holder, and (iii) assets sold, leased or disposed of during any fiscal year having an aggregate fair market value not exceeding \$100,000 for such fiscal year;
- (d) provide any financial assistance (by means of a loan, guarantee or otherwise) to any person (other than Alberta Treasury Branches) other than in respect of loans permitted under clause (b) above;
- (e) pay to or for the benefit of shareholders or persons associated with shareholders (within the meaning of the *Business Corporations Act* (Alberta)) by way of salaries, bonuses, dividends, management fees, repayment of loans or otherwise, any amount which would cause a breach of a provision of this Convertible Debenture;
- (f) reduce its capital or redeem, purchase or otherwise acquire, retire or pay off any of its present or future share capital other than to an affiliate that has also provided security to the Holder;
- (g) amalgamate, consolidate or merge with any person other than an affiliate that has also provided security to the Holder, and then only if no default or Event of Default is then in existence or would thereafter be in existence, and will not enter into any partnership with any other person unless the partnership provides security in favour of the Holder;
- (h) consent to or facilitate a change of ownership of its shares or allow a material change in its management;
- (i) move or allow any of its assets to be moved to a jurisdiction where the Holder has not registered or perfected its Security;
- (j) change the present nature of its business;
- (k) incur capital expenditures in respect of oil and gas properties outside of the Western Canadian Sedimentary Basin;
- (l) enter into any crude oil, natural gas or natural gas liquids price hedging arrangements if as a result thereof more than 50% of its forecasted production from proved producing reserves would be hedged at the time of determination for the hedged period, or if the term thereof would exceed two years;
- (m) enter into any currency or interest rate hedging arrangement on a speculative basis;
- (n) operate accounts with or otherwise conduct any banking business with any financial institution other than the holder of the Primary Indebtedness, other than to the extent expressly permitted in the definition of Permitted Liens hereunder;
- (o) allow any pollutant (including any pollutant now on, under or about such land) to be placed, handled, stored, disposed of or released on, under or about any of its lands unless

done in the normal course of its business and then only as long as it complies with all applicable laws in placing, handling, storing, transporting, disposing of or otherwise dealing with such pollutants, except to the extent any failure to do so could not reasonably be expected to materially adversely effect the Company or its business;

- (p) finance a hostile takeover; or
- (q) while "Facility #2" (as defined in the agreements constituting Primary Indebtedness) remains available, dispose of more than 5% of its shares in Scollard Energy Inc.

ARTICLE 11 MISCELLANEOUS

11.1 Attorney in Fact

The Company hereby irrevocably constitutes and appoints the Holder and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Company and in the name of the Company or in its own name, from time to time in the Holder's discretion, for the purpose of carrying out the terms of this Convertible Debenture, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Convertible Debenture and which the Company being required to take or execute has failed to take or execute; provided that this power of attorney will not be effective until the occurrence and during the continuance of any event of default under any Credit Document. The Company hereby ratifies all that said attorneys will lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and will be irrevocable until the Principal Amount has been unconditionally and irrevocably paid and performed in full. The Company also authorizes the Holder, at any time and from time to time, to execute any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral in connection with the sale provided for in Section 7.3(b) hereof.

10.2 Realization

The Holder will not, nor will it be entitled to, demand payment pursuant to this Convertible Debenture or enforce the Security Interest unless and until the Holder will be entitled or obligated to do so pursuant to the provisions of the Credit Documents, but thereafter the Holder may at any time exercise and enforce all of the rights and remedies of a holder of this Convertible Debenture in accordance with and subject to the Credit Documents as if the Holder was the absolute owner hereof, provided that the Holder will not be bound to exercise any such right or remedy.

10.3 Deemed Satisfaction

Payment to the Holder of the principal of the indebtedness, liabilities and obligations of the Company under the Credit Documents (the "**Obligations**") will be deemed to be payment in satisfaction of the Principal Amount. Notwithstanding the stated interest rate per annum in this Convertible Debenture, payment by the Company of the relevant fees and interest for any period in respect of the Obligations at the rate at which the Obligations bear interest for such period will be deemed to be payment in satisfaction of the interest payment for the same period under this Convertible Debenture. Notwithstanding the Principal Amount, interest and other monies expressed to be payable or secured hereunder, the obligations payable or secured hereunder shall not exceed the Obligations.

10.4 No Liability

The Holder shall not be liable for any error of judgment or act done by it in good faith, or be otherwise responsible or accountable under any circumstances whatsoever, except for their gross negligence or wilful misconduct. The Holder shall have the right to rely on any instrument, document or signature authorizing or supporting any action taken or proposed to be taken by the Holder hereunder, believed by the Holder in good faith to be genuine. The Holder shall be under no liability for interest on any moneys received by it hereunder. The Company hereby ratifies and confirms any and all acts which the Holder or its successors or substitutes shall do lawfully by virtue hereof.

10.5 Covenants

The Company covenants and agrees with the Holder that:

- (a) **Further Documentation; Pledge of Instruments.** At any time and from time to time, upon the written request of the Holder, and at the sole expense of the Company, the Company will promptly and duly execute and deliver such further instruments and documents and take such further action as the Holder may reasonably request for the purpose of obtaining or preserving the full benefits of this Convertible Debenture and of the rights and powers herein granted, including the filing or execution of any financing or financing change statements under any applicable law with respect to the Security Interest. The Company also hereby authorizes the Holder to file any such financing or financing change statement without the signature of the Company to the extent permitted by applicable law. Without limiting the generality of the foregoing, the Company acknowledges that this Convertible Debenture has been prepared based on applicable law and the Company agrees that the Holder will have the right to require that this Convertible Debenture be amended or supplemented: (i) to reflect any changes in applicable law, whether arising as a result of statutory amendments, court decisions or otherwise; (ii) to facilitate the creation and registration of appropriate security in all appropriate jurisdictions; or (iii) if the Company amalgamates with any other Person or enters into any reorganization, in each case in order to confer upon the Holder the mortgages, liens, pledges, charges and security interests or other encumbrances of any kind intended to be created hereby.
- (b) **Payment of Expenses; Indemnification.** The Company agrees to pay, and to indemnify and save the Holder harmless from, any and all reasonable liabilities, costs and expenses (including reasonable legal fees and expenses on a solicitor and his own client full indemnity basis): (i) incurred by the Holder in the preparation, registration, administration or enforcement of this Convertible Debenture; (ii) with respect to, or resulting from, any delay by the Company in paying any and all excise, sales, goods and services or other taxes which may be payable or determined to be payable with respect to any of the Collateral; (iii) with respect to, or resulting from, any delay by the Company in complying with any requirement of applicable law; or (iv) incurred by the Holder in connection with any of the transactions contemplated by this Convertible Debenture; except, in any case, to the extent such liabilities, costs and expenses result from the gross negligence or wilful misconduct of the Holder. The amount of all such liabilities, costs and expenses will be deemed to form part of the Principal Amount secured hereby.
- (c) **Further Identification of Collateral.** The Company will furnish to the Holder from time to time such statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Holder may

reasonably request, all to the extent necessary to permit the Collateral to be sufficiently described.

- (d) **Notices.** The Company will advise the Holder promptly, in reasonable detail, of: (i) any change in the location of any place of business or the chief executive office of the Company; or (ii) any change in the name of the Company.

10.6 Representations re Address and Jurisdictions

The Company represents and warrants to the Holder that (i) the address of the Company's chief executive office is Suite 1700, 205 - 5th Avenue S.W., Calgary, Alberta, T2P 2V7, and (ii) the Company carries on business and owns assets only in the Provinces of Alberta and Saskatchewan.

10.7 Presentment

The Company hereby expressly waives presentment, protest and notice of dishonour of this Convertible Debenture. Any failure or omission by the Holder to present this Convertible Debenture for payment, protest or provide notice of dishonour will not invalidate or adversely affect in any way any enforcement proceeding taken under this Convertible Debenture.

10.8 Enurement and Assignment by Company

The provisions of this Convertible Debenture will be binding upon the Company and its successors and will enure to the benefit of the Holder and its successors and assigns. Subject to the terms of the Credit Documents, the Company will not assign this Convertible Debenture without the Holder's prior written consent. In the event the ownership of the Collateral or any part thereof becomes vested in a Person other than the Company, then, without notice to the Holder, such successor or successors in interest may be dealt with, with reference to this Convertible Debenture and to the indebtedness secured hereby, in the same manner as with the Company, without in any way vitiating or discharging the Company's liability hereunder or for the payment of the indebtedness or performance of the obligations secured hereby. No transfer of the Collateral, no forbearance, and no extension of the time for the payment of the indebtedness secured hereby, shall operate to release, discharge, modify, change or affect, in whole or in part, the liability of the Company hereunder or for the payment of the indebtedness or performance of the obligations secured hereby, or the liability of any other Person hereunder or for the payment of the indebtedness secured hereby.

10.9 Notice

Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be given by facsimile or other means of electronic communication or by delivery as hereafter provided. Any such notice or other communication, if sent by facsimile or other means of electronic communication, shall be deemed to have been received on the Business Day following the sending, or, if delivered by hand, shall be deemed to have been received at the time it is delivered to the applicable address noted below either to the individual designated below or to an individual at such address having apparent authority to accept deliveries on behalf of the addressee. Notice of change of address shall also be governed by this section. Notices and other communications shall be addressed as follows:

- (a) if to the Company:

Darian Resources Ltd.
1700, 205-5th Ave. S.W.
Calgary, Alberta T2P 2V7
Attention: President
Fax: (403) 216-8575

- (b) if to the Holder:

Shawana Estates Ltd.
c/o Suite 900, 630 - 3rd Avenue S.W.
Calgary, Alberta T2P 4L4
Attention: President
Fax: (403) 750-7466

10.10 Replacement of Convertible Debenture Certificates

- (a) In case this Convertible Debenture shall become mutilated or be lost, destroyed or stolen, the Company shall issue, and thereupon deliver, a new Convertible Debenture of like tenor as the one mutilated, lost, destroyed or stolen in exchange for and upon surrender and cancellation of such mutilated Convertible Debenture or in lieu of and in substitution for such lost, destroyed or stolen Convertible Debenture.
- (b) The applicant for the issue of a new Convertible Debenture pursuant to this section shall bear the cost of the issue thereof and in case of loss, destruction or theft shall, as a condition precedent to the issue thereof, furnish to the Company such evidence of ownership and of the loss, destruction or theft of this Convertible Debenture so lost, destroyed or stolen as shall be satisfactory to the Company in its discretion and such applicant shall also furnish an indemnity in amount and form satisfactory to the Company in its discretion, and shall pay the reasonable charges of the Company in connection therewith.

10.11 Assignment by Holder

The Holder may assign all or part of this Convertible Debenture to any related entity within the Shaw Family Group of Companies without notice or the Company's consent.

10.12 Amendment, Waiver

No amendment or waiver of this Convertible Debenture will be binding unless executed in writing by the Company if it is to be bound thereby, or by the Holder if the Holder is to be bound thereby. No waiver of any provision of this Convertible Debenture will constitute a waiver of any other provision nor will any waiver of any provision of this Convertible Debenture constitute a continuing waiver unless otherwise expressly provided.

10.13 Transfer of Convertible Debenture

- (c) Every transfer of this Convertible Debenture, other than an assignment contemplated in section 10.11 hereof, must be approved in writing by and at the sole discretion of the board of directors of each of the Holder and the Company. Notwithstanding the

foregoing, this Convertible Debenture may only be transferred to another holder in accordance with applicable securities laws, if any.

- (d) Any such transfer in the form of the "Transfer Form" attached as Schedule "B" to this Convertible Debenture, accompanied by this Convertible Debenture, must be delivered at the registered office of the Company in Calgary, Alberta, together with such evidence of identity or title as the Company may reasonably require and together with the amount of any transfer or other tax payable on such transfer, whereupon, upon the approval of the board of directors of the Company, the transfer will be registered and duly noted by endorsement hereon signed by an officer of the Company.

10.14 Governing Law

This Convertible Debenture will be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein, without giving effect to the conflict of laws principles thereof. Without prejudice to the ability of the Holder to enforce this Convertible Debenture in any other proper jurisdiction, the Company hereby irrevocably submits and attorns to the jurisdiction of the courts of the Province of Alberta, or any appellate courts thereof, for the purposes of this Convertible Debenture.

10.15 Severability

If any portion of this Convertible Debenture or the application thereof to any circumstance will be held invalid or unenforceable by a court of competent jurisdiction from which no further appeal has or is taken, to an extent that does not affect in a fundamental way the operation of this Convertible Debenture, the remainder of the provision in question, or its application to any circumstance other than that to which it has been held invalid or unenforceable, and the remainder of this Convertible Debenture will not be affected thereby and will be valid and enforceable to the fullest extent permitted by applicable law.

10.16 Consent and Waiver

No consent or waiver by the Holder will be effective unless made in writing and signed by an authorized officer of the Holder.

10.17 Inconsistency

To the extent that there is any inconsistency or ambiguity between the provisions of this Convertible Debenture and any of the Credit Documents, the provisions of the Credit Documents will govern to the extent necessary to eliminate such inconsistency or ambiguity.

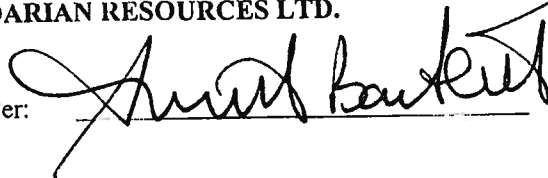
10.18 Receipt of Copy

The Company acknowledges receipt of an executed copy of this Convertible Debenture. The Company waives the right to receive any amount that it may now or hereafter be entitled to receive (whether by way of damages, fine, penalty or otherwise) by reason of the failure of the Holder to deliver to the Company a copy of any financing statement or any statement issued by any registry that confirms registration of a financing statement relating to this Convertible Debenture.

IN WITNESS WHEREOF the Company has caused this Convertible Debenture to be signed by its authorized signatory as of September 29, 2008.

DARIAN RESOURCES LTD.

Per: _____

A handwritten signature in black ink, written over a horizontal line. The signature is cursive and appears to read "A. M. Bantel". A long diagonal line extends from the top right of the signature towards the upper right corner of the page.

3487593_2 [Convertible Debenture - Shawana Estates Ltd.]

SCHEDULE "A"

NOTICE OF ELECTION TO CONVERT

TO: **DARIAN RESOURCES LTD.**
Suite 1700, 205 - 5th Ave. S.W.
Calgary, Alberta T2P 2V7

The undersigned registered Holder of the within Convertible Debenture dated as of September 29, 2008 hereby irrevocably elects to convert the Principal Amount of such Convertible Debenture set out below into Common Shares of Darian Resources Ltd. in accordance with the provisions thereof and hereby delivers this Convertible Debenture to the Company for such purpose and directs that the certificate for such Common Shares be registered and delivered as follows:

Principal Amount to be converted \$ _____

Number of shares to be issued at \$1.75 per share _____

(Print Name)

(Street Address)

(City, Province and Postal Code)

If any Common Shares are to be issued to a person or persons other than the Holder, the Holder must pay to the Company all applicable transfer taxes or other government charges.

The Holder certifies that each of the representation and warranties made by the undersigned to the Company in connection with the undersigned's acquisition of this Convertible Debenture remains true and correct on the date hereof.

(Signature of Registered Holder)

Dated: _____

SCHEDULE "B"

TRANSFER FORM

TO: DARIAN RESOURCES LTD.
Suite 1700, 205 - 5th Ave. S.W.
Calgary, Alberta T2P 2V7

FOR VALUE RECEIVED the undersigned sells, assigns and transfers the within Convertible Debenture of Darian Resources Ltd. to:

(Print Name of Transferee)

(Street Address of Transferee)

(City, Province and Postal Code of Transferee)

(Signature of Registered Holder)

Dated: _____

SCHEDULE "C"

PERMITTED LIENS

"Permitted Liens" means, as at any particular time, any of the following encumbrances on the property of the Company:

- (a) security interests in favour of Alberta Treasury Branches in respect of the Primary Indebtedness and related security documents;
- (b) security interests in favour of the Holder pursuant to this Convertible Debenture;
- (c) security interests in favour of other members of the Shaw Group of Companies on substantially the same terms and conditions as this Convertible Debenture;
- (d) security interests in favour of KYAL Energy Inc., as the nominee of Grant Bartlett, on substantially the same terms and conditions as this Convertible Debenture;
- (e) reservations, limitations, provisos and conditions expressed in any original grant from the Crown and the interests set out in Section 61(1) of the *Land Titles Act* (Alberta);
- (f) liens for taxes, assessments, governmental charges and other statutory liens or security interests which (i) are not at such date due or delinquent, or (ii) relate to claims the validity of which is being contested at the time by the Company in good faith by appropriate proceedings;
- (g) the lien of any judgment rendered, or claim filed, which is being contested at the time by the Company in good faith by appropriate proceedings or where the fair market value of the assets affected thereby is less than \$250,000;
- (h) undetermined or inchoate liens or security interests incidental to operations arising in the ordinary course of business which relate to obligations (i) not due or delinquent and which have not at such time been filed pursuant to law and no other statutory proceedings have been taken to enforce the same, or (ii) being contested at the time by the Company in good faith by appropriate proceedings;
- (i) easements, rights-of-way, servitudes or other similar rights or restrictions in property (including, without limitation, rights-of-way and servitudes for railways, sewers, drains, pipelines, gas and water mains, electric light, power, telephone, telegraph or cable television conduits, poles, wires and cables) granted to or reserved or taken by other persons and other minor defects, encumbrances and restrictions which either alone or in the aggregate do not materially detract from the value of such property or materially impair its use by the Company;
- (j) security interests or other interests given when required by the Company to any public utility, municipality, governmental or other public authority in the ordinary course of the business of the Company, which either alone or in the aggregate do not materially detract from the value of the property affected thereby or materially impair its use by the Company;

- (k) purchase money security interests and capital lease obligations of the Company;
- (l) security interests arising under operating leases; and
- (m) all other encumbrances as are specifically disclosed in writing to the Holder and for which the Holder agrees to accept such encumbrances as Permitted Liens for the purposes of this Convertible Debenture.