

options which have been granted pursuant to the Option Plan require only the prior approval of the Board of Directors provided, however, that amendments to options which have been granted pursuant to the Option Plan which are held by insiders and which entail a reduction in the exercise price or an extension of the term of such options will require disinterested shareholder approval.

CORPORATE GOVERNANCE DISCLOSURE

National Instrument 58-101 entitled "Disclosure of Corporate Governance Practices" ("NI 58-101") requires that if management of an issuer solicits proxies from its securityholders for the purpose of electing directors that certain prescribed disclosure respecting corporate governance matters be included in its management information circular. The TSX also requires listed companies to provide, on an annual basis, the corporate governance disclosure which is prescribed by NI 58-101.

The prescribed corporate governance disclosure for the Corporation is that contained in Form 58-101F1 which is attached to NI 58-101 ("Form 58-101F1 Disclosure").

Set out below is a description of the Corporation's current corporate governance practices, relative to the Form 58-101F1 Disclosure (which is set out below in italics).

1. Board of Directors

- (a) *Disclose the identity of directors who are independent.*

The Board of Directors of the Corporation has determined that the following four (4) directors of the Corporation are independent:

Matthew J. Brister
Stuart G. Clark
Peter Malowany
James K. Wilson

- (b) *Disclose the identity of directors who are not independent, and describe the basis for that determination.*

The Board of Directors of the Corporation has determined that the following director of the Corporation is not independent:

Allen J. Bey

Allen J. Bey is not considered to be independent as Mr. Bey is the President and Chief Executive Officer of the Corporation.

- (c) *Disclose whether or not a majority of directors are independent. If a majority of directors are not independent, describe what the board of directors (the "board") does to facilitate its exercise of independent judgement in carrying out its responsibilities.*

The Board of Directors of the Corporation has determined that a majority of the directors are independent.

- (d) *If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.*

The following directors are presently directors of other issuers that are reporting issuers (or the equivalent):

| Name of Director | Name of Other Issuer |
|--------------------|--|
| Allen J. Bey | None |
| Matthew J. Brister | Storm Exploration Inc., Focus Energy Trust |
| Stuart G. Clark | Storm Exploration Inc., Focus Energy Trust |
| Peter Malowany | None |
| James K. Wilson | Ironhorse Oil & Gas Inc. |

- (e) *Disclose whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held since the beginning of the issuer's most recently completed financial year. If the independent directors do not hold such meetings, describe what the board does to facilitate open and candid discussion among its independent directors.*

In accordance with the mandate of each of the Board of Directors as well as the mandate of each of the Audit Committee, the Compensation, Nomination and Governance Committee and the Reserve Committee, at the end of or during each meeting of the Board of Directors or committee, as applicable, the members of management of the Corporation who are present at such meeting leave the meeting in order that the independent directors can discuss any necessary matters without management being present. [Seven] meetings of the independent directors (including meetings of the Board of Directors and of the Committees) have been held since January 1, 2005.

- (f) *Disclose whether or not the chair of the board is an independent director. If the board has a chair or lead director who is an independent director, disclose the identity of the independent chair or lead director, and describe his or her role and responsibilities. If the board has neither a chair that is independent nor a lead director that is independent, describe what the board does to provide leadership for its independent directors.*

The Board of Directors of the Corporation has determined that Stuart G. Clark, the Chairman of the Board of Directors, is independent. The Chairman presides at all meetings of the Board and, unless otherwise determined, at all meetings of shareholders and enforces the rules of order in connection with such meetings. The Chairman is to provide overall leadership to the Board without limiting the principle of collective responsibility and the ability of the Board to function as a unit. The Chairman is to endeavour to fulfill his Board responsibilities in a manner that will ensure that the Board is able to function independently of management and is to consider, and allow for, when appropriate, a meeting of independent directors, so that Board meetings can take place without management being present. The Chairman is also to endeavour to ensure that reasonable procedures are in place to allow directors to engage outside advisors at the expense of the Corporation in appropriate circumstances.

- (g) *Disclose the attendance record of each director for all board meetings held since the beginning of the issuer's most recently completed financial year.*

The attendance record of each of the directors of the Corporation in respect of board meetings and committee meetings held since January 1, 2005, is as follows:

| Name of Director | Attendance Record |
|------------------|---|
| Allen J. Bey | Board: 7 out of 7 meetings Reserves Committee: 2 out of 2 meetings |

| Name of Director | Attendance Record |
|--------------------|---|
| Matthew J. Brister | Board: 7 out of 7 meetings Compensation, Nomination and Governance Committee: 3 out of 3 meetings Reserves Committee: 1 out of 2 meetings |
| Stuart G. Clark | Board: 7 out of 7 meetings Audit Committee: 5 out of 5 meetings Compensation, Nomination and Governance Committee: 3 out of 3 meetings |
| Peter Malowany | Board: 7 out of 7 meetings Audit Committee: 5 out of 5 meetings Reserves Committee: 2 out of 2 meetings |
| James K. Wilson | Board: 7 out of 7 meetings Audit Committee: 5 out of 5 meetings Compensation, Nomination and Governance Committee: 3 out of 3 meetings |

2. **Board Mandate**

Disclose the text of the board's written mandate. If the board does not have a written mandate, describe how the board delineates its role and responsibilities.

The mandate of the Board of Directors is attached as Schedule "A" hereto.

3. **Position Descriptions**

- (a) *Disclose whether or not the board has developed written position descriptions for the chair and the chair of each board committee. If the board has not developed written position descriptions for the chair and/or the chair of each board committee, briefly describe how the board delineates the role and responsibilities of each such position.*

The Board of Directors has developed written position descriptions for the Chairman of the Board of Directors as well as the Chairman of each of the Audit Committee, the Compensation, Nomination and Governance Committee and the Reserves Committee.

- (b) *Disclose whether or not the board and CEO have developed a written position description for the CEO. If the board and the CEO have not developed such a position description, briefly describe how the board delineates the role and responsibilities of the CEO.*

The Board of Directors of the Corporation, with input from the Chief Executive Officer of the Corporation has developed a written position description for the Chief Executive Officer.

4. **Orientation and Continuing Education**

- (a) *Briefly describe what measures the board takes to orient new directors regarding:*
- (i) *the role of the board, its committees and its directors; and*
 - (ii) *the nature and operation of the issuer's business.*

The Compensation, Nomination and Governance Committee is responsible, if determined appropriate, to develop for approval by the Board and periodically review orientation and education programs for new directors. While the Corporation does not currently have a formal orientation and education program for new recruits to the Board, the Corporation has historically provided such orientation and education on an informal basis. As new directors join the Board, management will provide these individuals with corporate policies, historical information about the Corporation, as well as information on the Corporation's performance and its strategic plan with an outline of the general duties and responsibilities entailed in carrying out their duties. The Board believes that these procedures will prove to be a practical and effective approach in light of the Corporation's particular circumstances, including the size of the Corporation, limited changes to members of the Board and the experience and expertise of the members of the Board.

- (b) *Briefly describe what measures, if any, the board takes to provide continuing education for its directors. If the board does not provide continuing education, describe how the board ensures that its directors maintain the skill and knowledge necessary to meet their obligations as directors.*

No formal continuing education program currently exists for the directors of the Corporation. The Board believes that no formal continuing education program is currently required as a result of the knowledge and experience of the Board members and as the Corporation's legal counsel and auditors provide the Board and applicable Committees with updates of new developments regarding corporate governance and regulatory requirements as they arise.

5. **Ethical Business Conduct**

- (a) *Disclose whether or not the board has adopted a written code for the directors, officers and employees. If the board has adopted a written code:*

- (i) *disclose how a person or company may obtain a copy of the code;*

The Board of Directors has adopted a code of ethics applicable to all members of the Corporation, including directors, officers and employees. Each director, officer and employee of the Corporation has been provided with a copy of the code of ethics. In addition, a copy of the code of ethics has been filed on SEDAR at www.sedar.com.

- (ii) *describe how the board monitors compliance with its code, or if the board does not monitor compliance, explain whether and how the board satisfies itself regarding compliance with its code; and*

The Board of Directors monitors compliance with the code of ethics by requiring each of the senior officers of the Corporation to affirm in writing on an annual basis his or her agreement to abide by the code of ethics, as to his or her ethical conduct and in respect of any conflicts of interest.

- (iii) *provide a cross-reference to any material change report filed since the beginning of the issuer's most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the code.*

There have been no material change reports filed since the beginning of the year ended December 31, 2005, that pertain to any conduct of a director or executive officer that constitutes a departure from the Corporation's code of ethics.

- (b) *Describe any steps the board takes to ensure directors exercise independent judgement in considering transactions and agreements in respect of which a director or executive officer has a material interest.*

In accordance with the *Business Corporations Act* (Alberta), directors who are a party to or are a director or an officer of a person who is a party to a material contract or material transaction or a proposed material contract or proposed material transaction are required to disclose the nature and extent of their interest and not to vote on any resolution to approve the contract or transaction. In certain cases, an independent committee may be formed to deliberate on such matters in the absence of the interested party.

- (c) *Describe any other steps the board takes to encourage and promote a culture of ethical business conduct.*

The Board of Directors has also adopted a "Whistleblower Policy" wherein employees and consultants of the Corporation are provided with a mechanism by which they can raise concerns in a confidential, anonymous process.

6. **Nomination of Directors**

- (a) *Describe the process by which the board identifies new candidates for board nomination.*

Pursuant to the mandate of the Compensation, Nomination and Governance Committee, such Committee has responsibility for recruiting and recommending new members to the Board. At present, the Compensation, Nomination and Governance Committee has not identified the need to add any new directors. However it is expected that any new candidates will be identified having regard to: (i) the competence and skills that the Board considers to be necessary for the Board, as a whole, to possess; (ii) the competence and skills that the Board considers each existing director to possess; (iii) the competencies and skills that each new nominee will bring to the boardroom; and (iv) whether or not each new nominee can devote sufficient time and resources to his or her duties as a member of the Board.

The Compensation, Nomination and Governance Committee reviews on a periodic basis the composition of the Board to ensure that an appropriate number of independent directors sit on the Board, and analyze the needs of the Board and recommend nominees who meet such needs.

- (b) *Disclose whether or not the board has a nominating committee composed entirely of independent directors. If the board does not have a nominating committee composed entirely of independent directors, describe what steps the board takes to encourage an objective nomination process.*

As noted above, the Board of Directors has appointed a Compensation, Nomination and Governance Committee. The members of such Committee are Matthew K. Brister, Stuart G. Clark and James K. Wilson, each of whom has been determined to be independent.

- (c) *If the board has a nominating committee, describe the responsibilities, powers and operation of the nominating committee.*

The Compensation, Nomination and Governance Committee has the responsibility, among other things, to prospectively recruit and recommend new members to the Board. Further information in respect of the operation of the Compensation, Nomination and Governance Committee is set forth below under "Compensation" in paragraph (c).

7. **Compensation**

- (a) *Describe the process by which the board determines the compensation for the issuer's directors and officers.*

Executive Compensation

The compensation of the Corporation's officers is described in this Information Circular – Proxy Statement under the heading “Directors’ and Officers’ Compensation – Compensation, Nomination and Government Committee Report on Compensation”.

Director’s Compensation

The Compensation, Nomination and Governance Committee conducts a periodic review of directors' compensation having regard to various governance reports on current trends in directors' compensation and compensation data for directors of reporting issuers of comparative size to the Corporation.

- (b) *Disclose whether or not the board has a compensation committee composed entirely of independent directors. If the board does not have a compensation committee composed entirely of independent directors, describe what steps the board takes to ensure an objective process for determining such compensation.*

The Board of Directors has appointed a Compensation, Nomination and Governance Committee whose members are Matthew K. Brister, Stuart G. Clark and James K. Wilson, each of whom has been determined to be independent.

- (c) *If the board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee.*

The Compensation, Nomination and Governance Committee has the responsibility, among other things, for reviewing matters relating to the human resource policies and compensation of the directors, officers and employees of the Corporation and its subsidiaries in the context of the budget and business plan of the Corporation. As part of the mandate and responsibility of the Compensation, Nomination and Governance Committee, the Compensation Committee is responsible for formulating and making recommendations to the Board of Directors in respect of compensation issues relating to directors and employees of the Corporation. Without limiting the generality of the foregoing, the Compensation, Nomination and Governance Committee has the following duties:

- (i) to review the compensation philosophy and remuneration policy for employees of the Corporation and to recommend to the Board changes to improve the Corporation's ability to recruit, retain and motivate employees;
- (ii) to review and recommend to the Board the retainer and fees to be paid to members of the Board;
- (iii) to review and approve corporate goals and objectives relevant to the compensation of the Chief Executive Officer ("CEO"), evaluate the CEO's performance in light of those corporate goals and objectives, and determine (or making recommendations to the Board with respect to) the CEO's compensation level based on such evaluation;
- (iv) to recommend to the Board with respect to non-CEO officer and director compensation including to review management's recommendations for proposed stock option, share purchase plans and other incentive-compensation plans and equity-based plans for non-CEO officer and director compensation and make recommendations in respect thereof to the Board;
- (v) to administer the stock option plan approved by the Board in accordance with its terms including the recommendation to the Board of the grant of stock options in accordance with the terms thereof;

- (vi) to determine and recommend for approval of the Board bonuses to be paid to officers and employees of the Corporation and to establish targets or criteria for the payment of such bonuses, if appropriate; and
- (vii) to prepare and submit a report of the Committee for inclusion of annual disclosure required by applicable securities laws to be made by the Corporation including the Compensation Committee Report required to be included in the information circular – proxy statement of the Corporation.

In addition to its duties in respect of human resource policy and compensation matters as described above, the Compensation, Nomination and Governance Committee also has the responsibility for recruiting and recommending new members to the Board.

The Compensation, Nomination and Governance Committee also has the responsibility to oversee the formulation of corporate governance policies and procedures applicable or appropriate to the Corporation. Without limiting the generality of the foregoing, the Compensation, Nomination and Governance Committee has the following duties:

- (i) to review on an ongoing basis the effectiveness of the Board and its Committees in fulfilling the mandate of the Board;
- (ii) to develop for approval by the Board and periodically review the Corporation's approach to corporate governance matters;
- (iii) to review and recommend to the Board for approval reports concerning the Corporation's corporate governance practices as required by any regulatory authority;
- (iv) to act as a forum for concerns of individual directors in respect of matters that are not readily or easily discussed in a full Board meeting, including the performance of management or individual members of management or the performance of the Board or individual members of the Board;
- (v) as determined appropriate, to develop and recommend to the Board for approval and periodically review structures and procedures designed to ensure that the Board can function independently of management;
- (vi) to determine the appropriate size of the Board, its composition of members between unrelated Directors and related Directors, the annual nomination of Directors for election;
- (vii) as determined appropriate, to undertake a periodic performance review of each Director and in the process ensure each Board member is aware of the contribution they are expected to make including the amount of time and energy expected of each Director;
- (viii) to review and recommend to the Board as to the acceptance of any offer to resign of any director of the Board;
- (ix) as determined appropriate, to develop for approval by the Board and periodically review orientation and education programs for new directors;
- (x) to annually review and recommend to the Board the appointments to each committee of the Board and any changes to the terms of reference of the committees;
- (xi) to review and recommend compensation for Directors of the Corporation and any other arrangements pursuant to which monies are payable to a director or a party related to a director;

- (xii) to review the Directors and Officers insurance policy and recommend appropriate coverage levels;
- (xiii) to periodically review and monitor the Corporation's communication policy with a view to determining whether the Corporation is communicating effectively with shareholders, other stakeholders, the investment community and the public generally;
- (xiv) to review and consider the engagement at the expense of the Corporation of professional and other advisors by any individual director when so requested by any such director; and
- (xv) to review such other matters of a corporate governance nature as may be directed by the Board from time to time.

Pursuant to the mandate of the Compensation, Nomination and Governance Committee, the committee is to be comprised of at least three (3) directors of the Corporation and all of such members shall be independent. The Board of Directors is from time to time to designate one of the members of the Compensation, Nomination and Governance to be the Chair of the Compensation, Nomination and Governance. At present, the Chairman of the Compensation, Nomination and Governance is Matthew K. Brister.

The Compensation, Nomination and Governance meets at least one time per year and at such other times as the Chairman of the Compensation, Nomination and Governance determines.

- (d) *If a compensation consultant or advisor has, at any time since the beginning of the issuer's most recently completed financial year, been retained to assist in determining compensation for any of the issuer's directors and officers, disclose the identity of the consultant or advisor and briefly summarize the mandate for which they have been retained. If the consultant or advisor has been retained to perform any other work for the issuer, state that fact and briefly describe the nature of the work.*

A compensation consultant or advisor has not, at any time since the beginning of the year ended December 31, 2005, been retained to assist in determining compensation for any of the issuers, directors and officers; however, the Corporation does subscribe to a third party annual compensation survey specifically dedicated to the petroleum industry.

8. **Other Board Committees**

If the board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.

In addition to the Audit Committee and the Compensation, Nomination and Governance Committee, the Corporation has also created a Reserves Committee to which the Board of Directors has delegated the responsibility for the following matters:

- (i) reviewing the Corporation's procedures relating to the disclosure of information with respect to oil and gas activities including reviewing its procedures for complying with its disclosure requirements and restrictions set forth under applicable securities requirements;
- (ii) reviewing the Corporation's procedures for providing information to the independent evaluator;
- (iii) meeting, as considered necessary, with management and the independent evaluator to determine whether any restrictions placed by management affect the ability of the evaluator to report without reservation on the Reserves Data (as defined in National

Instrument 51-101) (the "Reserves Data") and to review the Reserves Data and the report of the independent evaluator thereon (if such report is provided);

- (iv) reviewing the appointment of the independent evaluator and, in the case of any proposed change to such independent evaluator, determining the reason therefor and whether there have been any disputes with management;
- (v) providing a recommendation to the Board of Directors as to whether to approve the content or filing of the statement of the Reserves Data and other information that may be prescribed by applicable securities requirements including any reports of the independent engineer and of management in connection therewith;
- (vi) reviewing the Corporation's procedures for reporting other information associated with oil and gas producing activities;
- (vii) generally reviewing all matters relating to the preparation and public disclosure of estimates of the Corporation's reserves; and
- (viii) co-ordinate meetings with the Audit Committee of the Corporation, the Corporation's senior engineering management, independent evaluating engineers and auditors as required to address matters of mutual concern in respect of the Corporation's evaluation of petroleum and natural gas reserves.

9. Assessments

Disclose whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If assessments are not regularly conducted, describe how the board satisfies itself that the board, its committees, and its individual directors are performing effectively.

As part of its mandate, the Compensation, Nomination and Governance Committee is responsible for reviewing on an ongoing basis the effectiveness of the Board and its Committees, undertaking a periodic performance review of each Director and annually reviewing and recommending to the Board the appointments to each Committee. The Compensation, Nomination and Governance Committee conducted an assessment of the Board, its Committees and individual directors in 2006 and is satisfied that the Board, its Committees and individual directors are working effectively.

AUDIT COMMITTEE

All of the Audit Committee members are independent directors.

Multilateral Instrument 52-110 – Audit Committees provides that an individual is "financially literate" if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements. All of the members of the Audit Committee are "financially literate" under the definition set out above.

Additional information in respect of the Corporation's Audit Committee is contained on pages 27 to 28 of the Corporation's Annual Information Form dated March 16, 2006, which is available on SEDAR at www.sedar.com.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of our insiders, proposed nominees for election as directors, or any associate or affiliate of such insiders or nominees since January 1, 2005, or in any proposed transaction which has materially affected or would materially affect us or any of our subsidiaries except as disclosed herein.