

CORPORATE GOVERNANCE

1. **Board of Directors** - The Board of Directors considers that Brian Edgar, John Craig and Victor Luhowy, are independent according to the definition of "independent" set out in MI 52-110 as it applies to the Board of Directors. The Board of Directors considers that John Festival, President and CEO and Keith Hill, the former President and CEO are not independent.

The Board of Directors facilitates its exercise of independent supervision over management by having more than half of the Board of Directors members consist of individuals who are independent of the Corporation, as defined in MI 52-110.

The Board of Directors has adopted formal terms of reference setting out the Board of Directors stewardship responsibilities. In carrying out its mandate, the Board of Directors meets regularly and a broad range of matters are discussed and reviewed for approval. The Board of Directors participates with management in the development and approval of the Corporation's strategic plan, which takes into account the Corporation's opportunities and risks associated with its business. The Board of Directors also approves all overall plans and strategies, budgets, internal controls and management information systems, risk management as well as interim and annual financial and operating results. At regularly scheduled meetings, members of the Board of Directors and management discuss a broad range of issues relevant to the Corporation's strategy. At the end of each meeting of the Board of Directors, the members of management of the Corporation who are present at such meeting may be asked to leave the meeting in order for the independent directors to meet. Keith Hill is the Chairman of the Board of Directors, but is not considered to be an independent director as he is the former President and CEO of the Corporation. A copy of the mandate of the Board of Directors is attached as Appendix "B".

A summary of attendance for the Board of Directors and Committee members during fiscal 2008 is set out below:

Name	Board Meetings Attended	Audit Committee Meetings Attended	Corporate Governance Committee Attended	Reserves Committee Attended
Keith C. Hill	9/9	-	-	-
Brian D. Edgar	9/9	5/5	1/1	-
Lloyd Arnason ⁽¹⁾	3/3	3/3	-	1/1
Gary Guidry ⁽²⁾	8/9	2/2	-	1/1
Gord Harris ⁽³⁾	6/9	-	1/1	-
John Ladd ⁽⁴⁾	7/9	-	-	1/1
Lukas Lundin	8/9	-	-	-
A. Murray Sinclair ⁽⁵⁾	5/9	3/5	1/1	-

Notes:

- (1) Lloyd Arnason served as a director until May 24, 2008.
- (2) Gary Guidry served as a director until January 8, 2009.
- (3) Gord Harris served as a director until January 8, 2009.
- (4) John Ladd served as a director until January 8, 2009.
- (5) A. Murray Sinclair served as a director until January 8, 2009.

2. **Directorships** - The following directors of the Corporation are presently directors of the following other issuers that are reporting issuers, or the equivalent, in a Canadian jurisdiction or a foreign jurisdiction:

Keith C. Hill	- Africa Oil Corp. Bayou Bend Petroleum Ltd.	- Petrovista Energy Corp. Tyner Resources Ltd.
Brian Edgar	- Bayou Bend Petroleum Ltd. Denison Mines Corp. Dome Ventures Corporation Lucara Diamond Corp.	- Lundin Mining Corporation New West Energy Services Inc. Red Back Mining Inc.
John Craig	- Atacama Minerals Corp. Canadian Gold Hunter Corp. Consolidated HCI Holdings Corp.	- Denison Mines Corp. Lundin Mining Corporation PetroFalcon Corporation Suramina Resources Inc.
Victor Luhowy	- Mystique Energy Inc.	
John Festival	- None	

3. **Position Descriptions** – As at the date hereof, the Board of Directors has not developed written position descriptions for the Chairman of the Board of Directors, the Chief Executive Officer nor the respective Chairman of each committee of the Board of Directors. While the Board of Directors has not developed a written position description for the Chairman of the Board of Directors, the Chief Executive Officer nor the respective Chairman of each committee of the Board of Directors, the Board of Directors has successfully delineated the roles and responsibilities of each such position given the ongoing discussions and communications that occur with respect to each member's respective role and responsibilities and the relatively small size of the Board of Directors which allows for clear and effective communication between all Board of Directors members.
4. **Orientation and Continuing Education** – Under the Mandate of the Corporate Governance and Nominating Committee, the Committee is responsible for developing, with the assistance of management, an orientation and education program for new recruits to the Board of Directors. Currently the Committee has not developed a formal orientation and training program for newly appointed directors. The Board of Directors encourages continuing education for the Corporation's employees, management and directors. Directors are encouraged to communicate with management, auditors and technical consultants, to keep themselves current with industry trends and developments and changes in legislation with management's assistance, to attend related industry seminars and to visit the Corporation's operations. Members of the Board of Directors have full access to the Corporation's records.
5. **Ethical Business Conduct** – The Board of Directors has adopted a Code of Business Conduct and Ethics which is available on SEDAR at www.sedar.com. In addition, the Board of Directors has adopted a Whistleblower Policy, whereby complaints will be received by the Chairman of the Audit Committee. It is through this whistleblowing avenue that the Board of Directors monitors compliance with the Code of Business Conduct and Ethics.

The Corporation intends to resolve all conflicts of interest in accordance with the provisions of the CBCA in order to ensure directors exercise independent judgment in considering transactions and agreements in which a director or officer has a material interest.

The CBCA provides that a director or officer shall disclose the nature and extent of any interest that he or she has in a material contract or material transaction, whether made or proposed, if the director or officer:

- is a party to the contract or transaction,
- is a director or an officer, or an individual acting in a similar capacity, of a party to the contract or transaction, or
- has a material interest in a party to the contract or transaction,

and shall refrain from voting on any matter in respect of such contract or transaction unless otherwise provided under the CBCA.

- 6. Nomination of Directors** – Under the Mandate of the Corporate Governance and Nominating Committee, the Committee, which is comprised solely of independent directors, shall identify and review possible candidates for Board membership consistent with criteria approved by the Board of Directors, and annually recommend qualified candidates for a slate of nominees to be proposed for election to the Board of Directors at the annual meeting of the Corporation's shareholders. The Committee shall consider the appropriate size of the Board of Directors with a view to facilitating effective decision making. In the event of a vacancy on the Board of Directors between annual meetings of the Corporation's shareholders, the Committee may identify, review and recommend qualified candidates for Board of Director membership to the Board of Directors for consideration to fill such vacancies, if the Board of Directors determines that such vacancies will be filled.

When formulating these recommendations, the Committee shall seek and consider advice and recommendations from management, and may seek or consider advice and recommendations from consultants, outside counsel, accountants, or other advisors as it or the Board of Directors may deem appropriate. See: "Other Board Committees – Corporate Governance and Nominating Committee."

- 7. Compensation** – The Board of Directors has a Compensation Committee comprised solely of independent directors. The Board of Directors provides approval for determining compensation for directors and the Chief Executive Officer based on recommendations by the Compensation Committee. The Compensation Committee is responsible for the Corporation's executive compensation policies, including among other things:

- reviewing the compensation of the President and Chief Executive Officer of the Corporation, including annual, long-term and other compensation;
- reviewing and approve corporate goals and objectives relevant to the President and Chief Executive Officer's compensation and evaluate the President and Chief Executive Officer's performance in light of these corporate goals and objectives;
- reviewing the compensation of senior management, other executive officers and key employees of the Corporation, including annual, long-term and other compensation; and

- reviewing the compensation of directors in light of risks and responsibilities.

The Corporation reimburses its directors for reasonable expenses incurred by them in the exercise of their duties. More information pertaining to compensation can be found under the heading "Compensation of Directors and Executive Officers".

- 8. Other Board Committees** – The standing committees of the Board of the Directors are the Audit Committee, the Compensation Committee, the Reserves Committee and the Corporate Governance and Nominating Committee.

Corporate Governance and Nominating Committee – The members of the Corporate Governance and Nominating Committee composed of solely independent directors. Under the Mandate of this Committee, the Committee is responsible for proposing new nominees, when deemed appropriate, for appointment or election to the Board of Directors and recommending the new Board of Director nominees at the next annual meeting of shareholders. As well, the Committee has the responsibility in general for developing and monitoring the Corporation's approach to corporate governance issues such as:

- developing a code of ethical business conduct;
- the Corporation's response to applicable rules, policies and guidelines respecting corporate governance matters;
- assessing the effectiveness of the Board of Directors as a whole, the committees of the Board of Directors and the contribution of individual directors on a periodic basis, which will include monitoring the quality of the relationship between management and the Board of Directors and recommending any improvements, if necessary;
- ensuring that, where necessary, appropriate structures and procedures are in place to ensure that the Board of Directors can function independently of management;
- periodically examining the size of the Board of Directors, with a view to determining the impact of the number of directors upon effectiveness, and making recommendations where appropriate to the Board of Directors as to any programs the Committee determines to be appropriate to reduce or increase the number of directors to a number which facilitates more effective decision making;
- taking responsibility for the development, adoption and enforcement of the Code of Business Conduct and Ethics by the Board of Directors, and filing the same on SEDAR; and
- proposing new nominees, when deemed appropriate, for appointment or election to the Board of Directors and recommending the new Board of Director nominees at the next annual meeting of shareholders.

Reserves Committee – a majority of the members of the Reserves Committee are independent. The Reserves Committee of the Corporation has the responsibility in general for developing the Corporation's approach to the reporting of oil and gas reserves and the valuation of those reserves. Its responsibilities include:

- the Corporation's response to applicable rules, policies and guidelines respecting the reporting of oil and gas reserves and the valuation of such reserves;
- reviewing and approving the selection of the independent evaluator by management of the Corporation;
- reviewing the Corporation's procedures for providing information to the independent evaluator;
- meeting with 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;
- reviewing the reconciliation of changes in reserves and future net revenue;
- reviewing with management and the independent evaluator, and approving, the reserves data; and
- reviewing procedures for reporting other information associated with oil and gas producing activities.

Audit Committee – all of the members of the Audit Committee are independent and financially literate for purposes of Multilateral Instrument 52-110 – Audit Committees. Further details including the specific responsibilities, power and operation of the Audit Committee are set out in the Audit Committee Charter, a copy of which is included in the Corporation's annual information form ("**AIF**") for the year ended December 31, 2008 which has been filed on SEDAR at www.sedar.com. This committee is primarily responsible for overseeing the accounting and financial reporting processes of the Corporation and its subsidiaries and all audits and external reviews of the financial statements of the Corporation on behalf of the Board of Directors, and has general responsibility for oversight of internal controls, accounting and auditing activities of the Corporation and its subsidiaries.

9. **Assessments** - Under the Mandate of the Corporate Governance and Nominating Committee, the Committee is responsible for assessing the effectiveness of the Board of Directors as a whole, the committees of the Board of Directors and the contribution of individual directors on a periodic basis, which includes monitoring the quality of the relationship between management and the Board of Directors and recommending any improvements, if necessary. As there has been a significant change in the members of the Board of Directors, no assessment was performed in 2008.