

## SAHARA ENERGY LTD.

### NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

Dear Shareholder:

The Board of Directors of Sahara Energy Ltd. (the "Corporation") invites you to attend the Annual and Special Meeting (the "Meeting") of holders of Common Shares (the "Shares") of the Corporation to be held at 3100, 324 – 8<sup>th</sup> Avenue S.W., Calgary, Alberta on Wednesday, June 14, 2006 at 10:00 a.m. (Calgary time) for the following purposes:

1. To present the annual report to Shareholders, including the audited financial statements of the Corporation for the fiscal year ended December 31, 2005, together with the auditors' report thereon;
2. To appoint auditors for the ensuing year and authorize the directors to fix their remuneration;
3. To set the number of directors to be elected at the Meeting at four members and to elect four directors to hold office until the next annual meeting;
4. To approve the Option Plan of the Corporation; and
5. To transact such other business as may properly come before the Meeting.

All holders of Common Shares of the Corporation are invited to attend the Meeting. Only Shareholders of record at the close of business on May 15, 2006 are entitled to vote at the Meeting. The Information Circular accompanying this Notice provides additional information relating to the matters to be dealt with at the Meeting and is incorporated into and forms part of this Notice. **If you are unable to attend the Meeting in person, please complete, date and sign the enclosed form of proxy and return it, in the envelope provided to Olympia Trust Company, 2300, 125 - 9 Avenue S.E., Calgary, Alberta, T2G 0P6, so that it is received no later than 4:30 p.m. (Calgary time) on Monday, June 12, 2006 or by 4:30 p.m. (Calgary time) on the second business day prior to the date on which any adjournment of the Meeting is held.** We thank you for your participation as a shareholder of the Corporation.

Calgary, Alberta  
May 16, 2006.

By Order of the Board of Directors  
(Signed) "Peter J. Boswell"  
Peter J. Boswell  
President and Chief Executive Officer



**SAHARA ENERGY LTD.**  
**INFORMATION CIRCULAR**

**GENERAL PROXY INFORMATION**

**Solicitation of Proxies**

**This Information Circular is furnished in connection with the solicitation of proxies by the management of Sahara Energy Ltd. (the "Corporation") for use at the Annual and Special Meeting of the Shareholders of the Corporation (the "Meeting") to be held on Wednesday, June 14, 2006 at the place and time and for the purpose set forth in the Notice of Meeting and at any adjournments thereof.** Solicitation of proxies will be primarily by mail but proxies may also be solicited personally or by telephone by directors, officers or regular employees of the Corporation at nominal cost. The cost of any solicitation will be borne by the Corporation.

**Appointment of Proxyholders and Revocation of Proxies**

The individuals named in the accompanying form of Proxy are the President and Chief Executive Officer and the Chief Financial Officer, respectively, of the Corporation. **A Shareholder has the right to appoint some other person, who need not be a Shareholder, to represent the Shareholder at the Meeting by inserting such person's name in the blank space provided in the Proxy or by completing another form of proxy.** The instrument appointing a Proxy must be in writing, signed by the Shareholder, or his attorney authorized in writing or, where the Shareholder is a company, by a duly authorized officer or attorney of the company. An instrument of Proxy will only be valid if it is duly completed, signed, dated and returned to Olympia Trust Company, 2300, 125 - 9 Avenue S.E., Calgary, Alberta, T2G 0P6 before 4:30 p.m. (Calgary time), on Monday, June 12, 2006 or delivered to the Chairman of the Meeting prior to the commencement of the Meeting.

A Shareholder has the right to revoke a Proxy by delivering an instrument in writing, executed by the Shareholder or by the Shareholder's attorney authorized in writing or, where the Shareholder is a company, by a duly authorized officer or attorney of the company and delivered either to the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the Proxy is to be used, or with the Chairman of the Meeting prior to commencement of the Meeting, or any adjournment thereof before any vote in respect of which the Proxy to be used shall have been taken, or in any other manner provided by law.

**Advice to Beneficial Shareholders on Voting Their Shares**

The information set forth in this section is of significant importance to many shareholders of the Corporation, as a substantial number of shareholders do not hold their Shares in their own name. Shareholders who do not hold their Shares in their own name (referred to in this Information Circular as "Beneficial Shareholders") should note that only proxies deposited by shareholders whose names appear on the records of the Corporation as the registered holders of Shares can be recognized and acted upon at the Meeting. If the Shares are listed in an account statement provided to a shareholder by a broker, then, in almost all cases, those Shares will not be registered in the shareholder's name on the records of the Corporation. Such Shares will more likely be registered under the name of the shareholder's broker or an agent of that broker. In Canada, the vast majority of such Shares are registered under the name of CDS & Co. (the nominee of The Canadian Depository for Securities Limited, which acts as depository for many Canadian brokerage firms). Shares held by brokers or their agents or nominees can only be voted (for or against resolutions) upon the instructions of the Beneficial Shareholder. Without specific instructions, a broker and its agents and nominees are prohibited from voting their Shares for the broker's clients. Therefore, Beneficial Shareholders should ensure that instructions respecting the voting of their Shares are communicated to the appropriate person.

Applicable regulatory rules require intermediaries/brokers to seek voting instructions from Beneficial Shareholders in advance of shareholders' meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions to clients, which should be carefully followed by Beneficial Shareholders in order to ensure that their Shares are voted at the Meeting. Often, the form of proxy supplied to a Beneficial Shareholder by its broker (or the agent of the broker) is identical to the form of proxy provided to registered shareholders. However, its purpose is limited to instructing

the registered shareholder (the broker or agent of the broker) how to vote on behalf of the Beneficial Shareholder. The majority of brokers now delegate responsibility for obtaining instructions from clients to ADP Investor Communications ("ADP"). ADP typically applies a special sticker to the proxy forms, mails those forms to the Beneficial Shareholders and asks Beneficial Shareholders to return the proxy forms to ADP. ADP then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of their Shares to be represented at a meeting. A Beneficial Shareholder receiving a proxy with an ADP sticker on it cannot use that proxy to vote their Shares directly at the Meeting. The proxy must be returned to ADP well in advance of the Meeting in order to have their Shares voted at the Meeting.

Although a Beneficial Shareholder may not be recognized directly at the Meeting for the purposes of voting Shares registered in the name of his or her broker (or an agent of the broker), a Beneficial Shareholder may attend at the Meeting as proxyholder for the registered shareholder and vote the Shares in that capacity. Beneficial Shareholders who wish to attend the Meeting and indirectly vote their Shares as proxyholder for the registered shareholder, should enter their own names in the blank space on the form of proxy provided to them and return the same to their broker (or the broker's agent) in accordance with the instructions provided by such broker (or agent), well in advance of the Meeting.

### **Voting of Proxies**

A Shareholder may direct the manner in which his or her Shares are to be voted by marking the Proxy accordingly. If the instructions in a Proxy given to management are certain, the Shares represented by the Proxy will be voted on any poll, and where a choice with respect to the resolution has been specified in the Proxy, the Shares will be voted on any poll in accordance with the specification so made. **In the absence of such instructions, the Shares will be voted FOR each resolution proposed by management of the Corporation.**

### **Exercise of Discretion by Proxyholders**

The enclosed Proxy confers discretionary authority upon the holders named therein with respect to amendments or variations to matters identified in the Notice of Annual and Special Meeting and other matters not so identified which may properly be brought before the Meeting. At the date of this Information Circular, the management of the Corporation knows of no such amendments, variations or other matters to come before the Meeting. **If any other matter comes before the Meeting, the persons named in the Proxy will vote in accordance with their judgement on such matter.**

### **Record Date and Voting of Shares**

The Board of Directors of the Corporation has fixed the close of business on Monday, May 15, 2006 as the Record Date for the purposes of determining the holders of Shares entitled to receive notice of and to vote at the Meeting. In accordance with the provisions of the *Business Corporations Act*, (Alberta), the Corporation has prepared a list of the holders of the Shares (the "Shares") on the Record Date. Each holder of the Shares named in the list will be entitled to vote the Shares shown opposite his name on the list at the Meeting, except to the extent that (a) the Shareholder has transferred any of his Shares after the date on which the list was prepared, and (b) the transferee of those Shares produces properly endorsed share certificates or otherwise establishes that he owns such Shares and demands not later than ten (10) days before the Meeting that his name be included in the list before the Meeting, in which case the transferee is entitled to vote his Shares at the Meeting.

**As of the Record Date, the Corporation has 12,116,000 Common Shares issued and outstanding. The holders of the Common Shares are entitled to one vote for each share held, which number may be adjusted if any additional Shares are issued between the date hereof and the Record Date. In order to be effective, each ordinary resolution to be submitted to Shareholders at the Meeting must be approved by the affirmative vote of at least 50% of the votes cast thereon. A quorum at the Meeting will consist of at least two Shareholders present in person or represented by proxy and representing not less than 5% of the entitled to vote at the Meeting.**

### **Principal Shareholders**

To the knowledge of the directors and senior officers of the Corporation as of the date hereof, there are no persons, firms or corporations (other than securities depositories) beneficially owning, directly or indirectly, or exercising control or discretion over voting securities carrying more than 10% of the voting rights attached to any class of voting securities of the Corporation, except for Hesperian Capital Management Ltd. who have 3,000,000 common shares, which represents

24.76% of the issued and outstanding common shares of the Corporation and Brolandar Holdings Ltd. who have 1,590,000 common shares, which represents 13.2% of the issued and outstanding common shares of the Corporation.

## **BUSINESS OF THE MEETING**

To the knowledge of the Corporation's directors, the only matters to be placed before the Meeting are those matters set forth in the accompanying Notice of Meeting relating to: (i) the receipt of the Financial Statements and Auditor's Report thereon; (ii) the appointment of Auditors; (iii) the election of directors; and (iv) the approval of the Option Plan.

### **1. Annual Report and Financial Statements**

Pursuant to the *Business Corporation Act* (Alberta), the directors will place before the Shareholders at the Meeting the audited consolidated financial statements of the Corporation for the period ended December 31, 2005 and the Auditors' Report thereon as presented in the 2005 Annual Report of the Corporation. The Financial Statements, the Auditors' Report and Management's Discussion and Analysis were mailed to the Shareholders together with the Notice of Meeting and related meeting materials on May 17, 2006. Shareholder approval is not required in relation to the Financial Statements.

### **2. Appointment of Auditors**

The Shareholders will be asked to vote for the appointment of MacKay LLP, Chartered Accountants, as the auditors of the Corporation, to hold office until the next annual meeting of Shareholders and authorizing the Directors to fix the remuneration to be paid to the auditors. KPMG LLP has been the Corporation's auditors since incorporation. MacKay LLP, Chartered Accountants were appointed auditors of the Corporation on March 15, 2006 by the Board of Directors and Audit and Reserves Committee, subject to approval by Shareholders at the meeting. A Notice of Auditors as well as a letter of response from MacKay LLP, Chartered Accountants was filed on SEDAR. As indicated in the Notice, no reportable event, as that term is defined in National Instrument 51-102, had occurred prior to the change of auditor. The appointment of new auditors must be passed, by at least 50% plus one share of the votes cast with respect to the resolution by Shareholders present in person or by proxy at the Meeting. **The persons designated in the enclosed Proxy, unless instructed otherwise, intend to vote FOR the reappointment of Mackay LLP, Chartered Accountants as the auditors of the Corporation.**

### **3. Election of Directors**

The Board of Directors presently consists of five directors, each of whose term expires at the Meeting. At the Meeting, Shareholders will be asked to fix the number of directors to be elected at the Meeting at four and to elect four directors to serve until the next Annual Meeting or until their successors are duly elected or appointed. All proposed nominees have consented to be named in this Information Circular and to serve as directors, if elected. **In the absence of instructions to the contrary, the enclosed Proxy will be voted FOR the nominees herein listed.**

The following table sets out the name, residence and principal occupation of each proposed nominee for election as director. In addition, the table shows the date on which each proposed nominee first became a director and the number of Common Shares of the Corporation that each proposed nominee beneficially owns, or exercises control or direction over, directly or indirectly, as of the Record Date. The information as to Common Share owned beneficially, not being within the knowledge of the Corporation, has been forwarded by the nominees individually.

Name and Residence	Principal Occupation for the Past Five Years	Director Since	Common Shares Held
Peter J. Boswell <sup>(2)(3)</sup> Calgary, Alberta	President and Chief Executive Officer of the Corporation since October 11, 2005; He is also President and sole shareholder of Brolandar Holdings Ltd., a private oil and gas company; Vice President and director of Wave Energy Ltd., a private oil and gas company from January 2004 until August 2005; Prior thereto President of Stateside Oil Corporation from 1991 to 1996.	October 11, 2005	1,590,000 <sup>(3)</sup>
Michael Williamson <sup>(4)</sup> Calgary, Alberta	Vice-President, Operations of the Corporation since November 18, 2005; President of Momentum Energy Corp. since 1993. Consultant drilling /completions and production engineer for various oil and gas companies.	October 11, 2005	600,000
Ross O. Drysdale <sup>(1)(2)(5)</sup> Calgary, Alberta	Counsel to Burstall Winger LLP since February, 2005; Prior thereto, Partner of Baker and MacKenzie LLP since June, 2002; Prior thereto, Partner of McCarthy Tetrault LLP since January, 1989.	October 11, 2005	130,000
William H. Petrie Sr. <sup>(1)(2)(6)</sup> Calgary, Alberta	Currently President of Marengo Petroleum Corp., a private oil and gas company; Most recently President of Montego Exploration Ltd. until it was sold; Prior thereto, President of Marengo Exploration Ltd., a private oil and gas company; Director of Peyto Exploration & Development Corp. from June 1997 to December 2001	February 18, 2005	500,000

**Notes:**

- (1) Member of the Audit and Reserves Committee; and
- (2) Member of the Compensation and Governance Committee.
- (3) Brolandar Holdings Ltd. (wholly owned by Peter J. Boswell) owns 525,000 warrants, expiring May 25, 2006, and exercisable at \$0.75 per share.
- (4) Momentum Energy Corp. (wholly owned by Michael Williamson) owns 200,000 warrants, expiring May 25, 2006, and exercisable at \$0.75 per share.
- (5) Ross Drysdale owns 30,000 warrants, expiring May 25, 2006, and exercisable at \$0.75 per share.
- (6) William H. Petrie owns 35,000 warrants, expiring May 25, 2006, and exercisable at \$0.75 per share.

#### 4. Approval of Option Plan

Pursuant to TSX Venture Exchange Policy 4.4 (the "Option Policy"), the Corporation is permitted to maintain a stock option plan (the "Option Plan"). The Option Plan was originally approved at the last Annual and Special Meeting of Shareholders held on November 14, 2005. In accordance with the Option Policy, the Option Plan must receive Shareholder approval yearly at the Corporation's Annual Meeting. The total number of Shares that may be issued pursuant to the Option Plan shall not exceed 2,423,200 Shares. The maximum number of Shares that may be reserved for issuance to any one person under the Option Plan is 5% of the Shares outstanding at the time of grant. Any options granted pursuant to the Option Plan will terminate upon the date which is 30 days from the termination of an optionee's employment or, from the date such optionee ceased to be a director or consultant of the Corporation, unless the Board of Directors of the Corporation otherwise determines, or provided the optionee has died and was an employee or director for at least one year following the grant of the Options, shall terminate six months following the death of the optionee. All option vesting is set by the Compensation and Governance Committee of the Board of Directors of the Corporation at the time of the award. A copy of the Option Plan has been attached as Schedule A to this Information Circular.

At the Meeting, the Shareholders will be asked to consider and, if deemed advisable, approve the following resolutions to approve the Option Plan:

**RESOLVED AS AN ORDINARY RESOLUTION THAT:**

- 1. The Option Plan (the “Option Plan”) of Sahara Energy Ltd. (the “Corporation”) in the form of the Option Plan attached as Schedule A to the Information Circular be and is hereby approved with such modifications as may be required by the TSX Venture Exchange; and**
- 2. Any two officers or directors of the Corporation are hereby authorized to do all such acts and execute and file all instruments and documents necessary or desirable to carry out these resolutions, with regulatory authorities and TSX Venture Exchange.**

In accordance with the policies of the TSX Venture Exchange, the Option Plan must be approved by the majority of votes cast at the Meeting on the resolution. **It is the intention of the persons named in the enclosed Proxy, in the absence of instructions to the contrary, to vote the Proxy in favor of the ordinary resolution approving the Option Plan.**

**EXECUTIVE COMPENSATION**

**1. Report on Executive Compensation**

The Corporation currently has two Named Executive Officers, Peter J. Boswell, President and Chief Executive Officer of the Corporation and Murray S. MacLean, the Chief Financial Officer of the Corporation. “Named Executive Officer” means the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) of the Corporation and each of the Corporation’s four most highly compensated executive officers other than the CEO and CFO, who were serving as executive officers at the end of the most recently completed financial year and whose total salary and bonus exceeded \$150,000. The aggregate cash compensation paid to the Named Executive Officers in the financial year ended December 31, 2005 was \$25,000. The Corporation has not paid any director fees since incorporation. The Corporation does not have a bonus, pension or retirement plan.

**2. Summary Compensation Table**

The following table provides a summary of the compensation earned by the Named Executive Officers for the Corporation’s fiscal year ended December 31, 2005.

Name and Principal Position	Year	Annual Compensation			Longer Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Securities Under Options Granted (#)	Restricted Share Units (#)	LTIP <sup>(3)</sup> Payouts (\$)	
Peter J. Boswell <sup>(1)</sup> President and CEO	2005	20,000	NIL	NIL	900,000	NIL	NIL	NIL
Murray S. MacLean <sup>(2)</sup> Chief Financial Officer	2005	5,000	NIL	NIL	100,000	NIL	NIL	NIL

**Notes:**

- (1) Peter J. Boswell commenced employment on October 11, 2005.
- (2) Murray S. MacLean commenced employment on November 1, 2005.
- (3) “LTIP” means long-term incentive plan.

**3. Option Grants**

The following table sets forth the number of options granted to the Named Executive Officers during the Corporation’s most recently completed financial year ended December 31, 2005.

<b>Name and Principal Position</b>	<b>Securities Under Options Granted (#)</b>	<b>Percent of Total Options Granted in Financial Year (%)</b>	<b>Exercise Price (\$/Option)</b>	<b>Market Value of Securities Underlying Options on the Date of Grant (\$/Option)</b>	<b>Expiration Date</b>
Peter J. Boswell President, CEO and Director	900,000	41%	\$0.40	\$0.50	November 29, 2010
Murray S. MacLean Chief Financial Officer	100,000	0.05%	\$0.40	\$0.50	November 19, 2010

#### **4. Share Option Exercises**

There were no options exercised by the Named Executive Officers during the fiscal year ended December 31, 2005.

#### **5. Options Repriced During the Most Recently Completed Financial Year**

During the financial year ended December 31, 2005, no stock options previously granted to the Named Executive Officers were repriced.

#### **6. Long Term Incentive Plans**

Other than the Option Plan of the Corporation, the Corporation does not have any plans or arrangements which provide compensation intended to serve as incentive to directors or officers for performance for a period longer than one year. There were no long-term incentive awards made to the Named Executive Officers for the financial year ended December 31, 2005.

#### **7. Employment Contracts and Change of Control**

The Corporation has no employment contracts with senior management of the Corporation.

#### **8. Compensation of Directors**

The Corporation did not pay any of its directors not actively involved in the day-to-day operations of the Corporation any cash compensation for the year ended December 31, 2005. Consideration will be given to such payments if the financial position of the Corporation so permits. Directors are granted options pursuant to the Corporation's Option Plan described below under "Option Plan". For the year ended

#### **9. Option Plan**

The Corporation has an Option Plan for its directors, officers, employees and consultants that was approved at the last Annual and Special Meeting of Shareholders held on November 14, 2005. Under the Option Plan, the Corporation has reserved for issuance a total of 20% of the issued and outstanding Shares of the Corporation, being 2,423,200 Shares as of the Record Date. The criteria used to determine eligibility for granting of options, the number of Shares covered by each option and the term of each option is at the discretion of the Board of Directors and the exercise price is determined by the directors based on the market price of the Shares on the date of the grant. The exercise price may not be less than the discounted exercise price prescribed by the policies of the TSX Venture Exchange. The term of an option may not be for more than five years from the date on which it was granted. All options are non-transferable. Vesting provisions are determined by the Board of Directors at the time of grant, however, generally options granted vest as to one-third immediately, and after each of the first, and second years of service. The maximum number of Shares reserved for issuance to any one individual is not to exceed (five) per cent (5%) of the issued and outstanding Shares without disinterested shareholder approval. The officers, directors, employees and consultants of the Corporation currently hold 2,200,000 Options at the date of mailing of this Information Circular.

## 10. Other Compensation Issues

The Corporation currently has no formal long-term incentive plans or similar plans for remunerating directors or officers other than the aforementioned Option Plan.

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by the securityholders	2,200,000	\$0.38	223,200
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
Total	2,200,000	\$0.38	223,200

**Note:** The Corporation's Option Plan permits the granting of options to purchase up to a maximum of 20% of the Corporation's issued and outstanding Shares.

### INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

As at the date hereof no director, executive officer, employee or former director, executive officer or employee or any associate or affiliate of any such director, officer or employee, owe any indebtedness to the Corporation or owe any indebtedness to any other entity which is, or at any time has been, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries.

### INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the best of the Corporation's knowledge, having made reasonable inquiry, the directors and senior officers of the Corporation and other insiders of the Corporation and associates and affiliates thereof (as defined in the *Securities Act* (Alberta)), have no direct or indirect material interest in any transaction or proposed transaction that has materially affected or will materially affect the Corporation other than Ross O. Drysdale, a director of the Corporation is Counsel with Burstall Winger LLP, a law firm that provides legal services to the Corporation.

### CORPORATE GOVERNANCE

#### Board of Directors

The Corporation's Board of Directors is currently comprised of five directors, Peter J. Boswell, Michael Williamson, Ross O. Drysdale, William H. Petrie Sr. and Michael S. Vandale. of which four members are independent as defined pursuant to National Instrument 58-101 and 52-110. Neither Peter J. Boswell nor Michael Williamson are independent by virtue of being executive officers of the Corporation as defined in National Instrument 52-110.

## **Directorships**

The following directors of the Corporation are presently directors of other issuers that are reporting issuers (or the equivalent) in any jurisdiction including foreign jurisdictions:

<u>Director</u>	<u>Other Reporting Issuers</u>
Ross O. Drysdale	Arrowhead Water Products Ltd. Magnus Energy Inc.
William H. Petrie Sr.	Global Energy Services

## **Orientation and Continuing Education**

The Corporation does not have a formal orientation and continuing education program. However, the Corporation ensures that new board members are properly trained and oriented, as part of the board of Directors' overall stewardship responsibility. The role of the directors is to oversee the conduct of the Corporation's business and to direct and supervise management in the day-to-day conduct of the business. The directors discharge the following responsibilities as part of their overall stewardship responsibility:

- a) Adoption of a strategic planning process;
- b) The identification of the principal risks of the Corporation's business and the employment of appropriate systems to manage the risks;
- c) Succession planning, including appointing, training and monitoring senior management;
- d) Oversee the Corporation's public communications policies and their implementation, including disclosure of material information, investor relations and shareholder communications; and
- e) Monitor and assess the scope, implementation and integrity of the Corporation's internal information, audit and control systems.

## **Ethical Business Conduct**

The directors encourage and promote a culture of ethical business conduct through communication and supervision as part of their overall stewardship responsibility. In addition, the Corporation has a Whistleblower Policy which addresses the Corporation's continuing commitment to integrity and ethical behavior. The Whistleblower Policy establishes procedures that allow employees of the Corporation to confidentially and anonymously submit their concerns to the Chair of the Audit Committee of the Corporation's Board of Directors regarding questionable ethical, moral, accounting, internal accounting controls, or auditing matters, without fear of retaliation. A copy of the Whistleblower Policy is available to review at the head office of the Corporation during business hours.

## **Nomination of Directors**

There is no formal procedure for the nomination of directors of the Corporation, however, the Board of Directors considers potential future members as part of its succession planning.

## **Compensation and Governance Committee**

The Corporation currently has a Compensation and Governance Committee which is responsible for setting compensation paid to directors and executive officers, establishing and reviewing incentive plans for the directors, officers and employees and providing guidance to the Corporation on corporate governance matters. The Compensation and Governance Committee is composed of three (3) directors. The current members are Ross O. Drysdale (Chairman), Peter J. Boswell, and William H. Petrie Sr. The process of determining compensation for directors and officers includes

reviewing and approving appropriate practices for determining and establishing compensation for the directors of the Corporation to ensure it reflects the responsibilities and risks of being a director of a public company.

The Compensation and Governance Committee's mandate includes developing appropriate compensation policies for the senior management and directors of the Corporation, including the Corporation's incentive stock option plan, and evaluating senior management. These responsibilities include reporting and making recommendations to the Board of Directors for its consideration and approval. The Compensation Committee meets at least annually to fulfill its mandate.

### **Board Committees**

The Board of Directors has formally appointed two (2) committees: the Audit and Reserves Committee and the Compensation and Governance Committee. The Board of Directors does not have any other committees in place at this time. The Board of Directors had developed the mandate of each committee and reviews such mandates annually. The Board of Directors reviews the recommendations of all its committees, and decides on whether and how to implement such recommendations.

### **Assessment of Directors, the Board of Directors and Board Committees**

The Directors conduct an annual evaluation of the performance and effectiveness of each Board member and of the Board and each of its committees as a whole. These evaluations are overseen by the Chairman of the Board of Directors.

## **AUDIT COMMITTEE**

### **Audit Committee Charter**

The Audit Committee of the Board of Directors of the Corporation operates under a written charter that sets out its responsibilities and composition requirements. The text of the Audit Committee charter is attached to this Circular as Schedule B.

### **Composition of the Audit Committee**

As of the date hereof, the members of the Audit Committee are Ross O. Drysdale, Chairman, William H. Petrie Sr. and Michael S. Vandale. Two members of the Audit Committee are independent for the purposes of MI52-110. All of the members of the Audit Committee are financially literate (as such term is defined in Multilateral Instrument 52-110 – *Audit Committees*).

### **Audit Committee Oversight**

At no time since the commencement of the Corporation's most recently completed financial year was a recommendation of the Committee to nominate or compensate an external auditor (currently Mackay LLP) not adopted by the Board Reliance on Certain Exemptions

Since the effective date of MI 52-110, the Corporation has not relied on the exemptions contained in sections 2.4 or 8 of MI 52-110. Section 2.4 provides an exemption from the requirement that the audit committee must pre-approve all non-audit services to be provided by the auditor, where the total amount of fees related to the non-audit services are not expected to exceed 5% of the total fees payable to the auditor in the fiscal year in which the non-audit services were provided. Section 8 permits a company to apply to a securities regulatory authority for an exemption from the requirements of MI 52-110, in whole or in part.

### **Pre-Approval Policies and Procedures**

Formal policies and procedures for the engagement of non-audit services have yet to be formulated and adopted. Subject to the requirements of the instrument, the engagement of non-audit services is considered by the Board, and where applicable by the audit committee, on a case by case basis.

## External Auditors' Fees

KPMG LLP has served as the Corporation's auditor since incorporation and MacKay LLP has been the Corporation's auditors since March 15, 2006. Fees payable to Mackay LLP for the year ended December 31, 2005 were \$15,000, as detailed below.

	<b>Year ended December 31, 2005</b>
Audit fees	\$15,000
Audit-related fees	Nil
Tax fees	Nil
All other fees	Nil
Total	\$15,000

## Exemption

The Corporation is relying upon the exemption in section 6.1 of Multilateral Instrument 52-110 – Audit Committees with respect to compliance with the requirements of Part 3 (Composition of the Audit Committee) and Part 5 (Reporting Obligations) of MI 52-110.

## INTERESTS OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

Except as described in this Information Circular, no director or senior officer of the Corporation or any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of the foregoing persons has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in matters to be acted upon at the Meeting other than the election of directors and the approval of the Corporation's Option Plan (to the extent that they are granted options under the Option Plan).

## AUDITORS

Subject to the approval of the Shareholders, Mackay LLP, Calgary, Alberta are the auditors of the Corporation. Mackay LLP were appointed as auditors of the Corporation by the board of directors of the Corporation of March 15, 2006, subject to shareholder approval at the Special Meeting of Shareholders on January 17, 2006.

## REGISTRAR AND TRANSFER AGENT

Olympia Trust Company, 2300, 125 - 9 Avenue S.E., Calgary, Alberta T2G 0P6, is the Registrar and Transfer Agent for the Corporation.

## ADDITIONAL INFORMATION

The Corporation will provide any person or company, upon request to the Chief Financial Officer, with a copy of this Information Circular, the annual report together with the financial statements of the Corporation for the fiscal year ended December 31, 2005. Additional information relating to the Corporation is available on SEDAR @ [www.sedar.com](http://www.sedar.com). Financial information relating to the Corporation is provided in the Corporation's comparative ("MD&A") for the fiscal year ended December 31, 2005.

## OTHER BUSINESS

As of the date of this Information Circular, the Board of Directors does not know of any other matters to be brought to the Meeting, other than those set forth in the Notice of Meeting. If other matters are properly brought before the Meeting, the persons named in the enclosed proxy will vote the proxy on such matters in accordance with their best judgement.

## **DIRECTORS' APPROVAL**

The contents and sending of this Information Circular have been approved by the directors of the Corporation.

## **CERTIFICATE**

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made, and constitutes full, true and plain disclosure of all material facts relating to the particular matters to be acted upon by the shareholders.

Sahara Energy Ltd.  
By Order of the Board of Directors  
Dated May 17, 2006

signed "*Peter J. Boswell*"  
Peter J. Boswell  
Director, President and Chief Executive Officer

signed "*Murray S. MacLean*"  
Murray S. MacLean  
Chief Financial Officer

**SCHEDULE A  
SAHARA ENERGY LTD.  
OPTION PLAN**

**May 15, 2006**

**1. Purpose**

The purpose of the Option Plan (the “**Plan**”) of Sahara Energy Ltd., a corporation incorporated under the *Business Corporations Act* (Alberta) (the “**Corporation**”), is to advance the interests of the Corporation by encouraging the directors, officers, employees and consultants of the Corporation, and of its subsidiaries and affiliates, if any, to acquire common shares in the share capital of the Corporation (the “**Shares**”), thereby increasing their proprietary interest in the Corporation, encouraging them to remain associated with the Corporation and furnishing them with additional incentive in their efforts on behalf of the Corporation in the conduct of its affairs.

**2. Administration**

The Plan shall be administered by the Board of Directors of the Corporation or by a special committee of the directors appointed from time to time by the Board of Directors of the Corporation pursuant to rules of procedure fixed by the Board of Directors (such committee or, if no such committee is appointed, the Board of Directors of the Corporation is hereinafter referred to as the “**Board**”). A majority of the Board shall constitute a quorum, and the acts of a majority of the directors present at any meeting at which a quorum is present, or acts unanimously approved in writing, shall be the acts of the directors.

Subject to the provisions of the Plan, the Board shall have authority to construe and interpret the Plan and all option agreements entered into thereunder, to define the terms used in the Plan and in all option agreements entered into thereunder, to prescribe, amend and rescind rules and regulations relating to the Plan and to make all other determinations necessary or advisable for the administration of the Plan. All determinations and interpretations made by the Board shall be binding and conclusive on all participants in the Plan and on their legal personal representatives and beneficiaries.

Each option granted hereunder may be evidenced by an agreement in writing, signed on behalf of the Corporation and by the optionee, in such form as the Board shall approve. Each such agreement shall recite that it is subject to the provisions of this Plan.

**3. Stock Exchange Rules**

All options granted pursuant to this Plan shall be subject to rules and policies of any stock exchange or exchanges on which the common shares of the Corporation are then listed and any other regulatory body having jurisdiction hereinafter (collectively referred to as, the “**Exchange**”).

#### **4. Shares Subject to Plan**

Subject to adjustment as provided in Section 15 hereof, the Shares to be offered under the Plan shall consist of shares of the Corporation's authorized but unissued common shares. The aggregate number of Shares issuable upon the exercise of all options granted under the Plan shall not exceed 2,423,200. If any option granted hereunder shall expire or terminate for any reason in accordance with the terms of the Plan without being exercised, the unpurchased Shares subject thereto shall again be available for the purpose of this Plan.

#### **5. Maintenance of Sufficient Capital**

The Corporation shall at all times during the term of the Plan reserve and keep available such numbers of Shares as will be sufficient to satisfy the requirements of the Plan.

#### **6. Eligibility and Participation**

Directors, officers, consultants, and employees of the Corporation or its subsidiaries, and employees of a person or company which provides management services (excluding investor relations services) to the Corporation or its subsidiaries ("**Management Company Employees**") shall be eligible for selection to participate in the Plan (such persons hereinafter collectively referred to as "Participants"). Subject to compliance with applicable requirements of the Exchange, Participants may elect to hold options granted to them in an incorporated entity wholly owned by them and such entity shall be bound by the Plan in the same manner as if the options were held by the Participant.

Subject to the terms hereof, the Board shall determine to whom options shall be granted, the terms and provisions of the respective option agreements, the time or times at which such options shall be granted and vested, and the number of Shares to be subject to each option. In the case of employees or consultants of the Corporation or Management Company Employees, the option agreements to which they are party must contain a representation of the Corporation that such employee, consultant or Management Company Employee, as the case may be, is a bona fide employee, consultant or Management Company Employee of the Corporation or its subsidiaries.

A Participant who has been granted an option may, if such Participant is otherwise eligible, and if permitted under the policies of the Exchange, be granted an additional option or options if the Board shall so determine.

#### **7. Exercise Price**

- (a) The exercise price of the Shares subject to each option shall be determined by the Board, subject to applicable Exchange approval, if required by Exchange policies, at the time any option is granted. In no event shall such exercise price be lower than the exercise price permitted by the Exchange.
- (b) Once the exercise price has been determined by the Board, accepted by the

Exchange and the option has been granted, the exercise price of an option may only be reduced in the case of options held by insiders of the Corporation (as defined in the policies of the Exchange), if disinterested shareholder approval is obtained at a meeting of the Shareholders of the Corporation and Exchange approval is obtained.

## **8. Number of Optioned Shares**

- (a) The number of Shares subject to an option granted to any one Participant shall be determined by the Board, but no one Participant shall be granted an option which exceeds the maximum number permitted by the Exchange.
- (b) No single Participant may be granted options to purchase a number of Shares equaling more than 5% of the issued shares of the Corporation in any twelve month period unless the Corporation has obtained disinterested shareholder approval in respect of such grant and meets applicable Exchange requirements.
- (c) Options shall not be granted if the exercise thereof would result in the issuance of more than 2% of the issued shares of the Corporation in any one twelve month period to any one consultant of the Corporation (or any of its subsidiaries or affiliates).
- (d) Options shall not be granted if the exercise thereof would result in the issuance of more than 2% of the issued shares of the Corporation in any one twelve month period to persons employed to provide investor relation activities.
- (e) No single Participant who is an insider (as such term is defined in the policies of the Exchange) of the Corporation may be granted options to purchase a number of shares equal to more than 10% of the issued shares of the Corporation in any twelve month period unless the Corporation has obtained disinterested Shareholder approval in respect of such grant and meets applicable Exchange requirements.

## **9. Duration of Option**

Each option and all rights thereunder shall be expressed to expire on the date set out in the option agreement and shall be subject to earlier termination as provided in Sections 11 and 12, provided that in no circumstances shall the duration of an option exceed the maximum term permitted by the Exchange.

## **10. Option Period, Consideration and Payment**

- (a) The option period shall be a period of time fixed by the Board not to exceed the maximum period of time permitted by the Exchange, provided that the option period shall be reduced with respect to any option as provided in Sections 11 and 12 covering cessation as a director, officer, consultant, employee or Management

Company Employee of the Corporation or its subsidiaries, or death of the Participant.

- (b) Subject to the policies of the Exchange, an option shall vest and may be exercised (in each case to the nearest full Share) during the option period:
  - (i) in the circumstance where the number of shares reserved for issuance by the Board pursuant to the exercise of options granted is less than or equal to 10% of the number of issued and outstanding shares of the Corporation, in such manner as the Board may determine;
  - (ii) in the circumstance where the Corporation is a Tier 2 Issuer as defined in the policies of the Exchange, and the number of shares reserved for issuance by the Board pursuant to the exercise of options granted is greater than 10% of the issued and outstanding shares of the Corporation, in accordance with a vesting schedule which shall be established by the Board and which shall be acceptable to the Exchange.
- (c) Options which have vested may be exercised in whole or in part at any time and from time to time during the option period. To the extent required by the Exchange, no options may be exercised under this Plan until this Plan has been approved by a resolution duly passed by the shareholders of the Corporation.
- (d) Except as set forth in Sections 11 and 12, no option may be exercised unless the Participant is at the time of such exercise a director, officer, consultant, or employee of the Corporation or any of its subsidiaries, or a Management Company Employee of the Corporation or any of its subsidiaries.
- (e) The exercise of any option will be contingent upon receipt by the Corporation at its head office of a written notice of exercise, specifying the number of Shares with respect to which the option is being exercised, accompanied by cash payment, certified cheque or bank draft for the full purchase price of such Shares with respect to which the option is exercised. No Participant or his legal representatives, legatees or distributees will be, or will be deemed to be, a holder of any shares of the Corporation subject to an option under this Plan, unless and until the certificates for such Shares are issued to him or them under the terms of the Plan.

## **11. Ceasing To Be a Director, Officer, Consultant or Employee**

If a Participant shall cease to be a director, officer, consultant, employee of the Corporation or its subsidiaries, or ceases to be a Management Company Employee for any reason (other than death), such Participant may exercise his option to the extent that the Participant was entitled to exercise it at the date of such cessation, but provided that such exercise must occur within 90 days after the Participant ceases to be a director, officer, consultant, employee or a Management Company Employee, unless such Participant was

engaged in investor relations activities in which case, such exercise must occur within 30 days after the cessation of the Participant's services to the Corporation.

Nothing contained in the Plan, nor in any option granted pursuant to the Plan, shall as such confer upon any Participant any right with respect to continuance as a director, officer, consultant, employee or Management Company Employee of the Corporation or of any of its subsidiaries or affiliates.

## **12. Death of Participant**

In the event of the death of a Participant, the option previously granted to him shall be exercisable only within the one (1) year after such death and then only:

- (a) by the person or persons to whom the Participant's rights under the option shall pass by the Participant's will or the laws of descent and distribution; and
- (b) if and to the extent that such Participant was entitled to exercise the Option at the date of his death.

## **13. Rights of Optionee**

No person entitled to exercise any option granted under the Plan shall have any of the rights or privileges of a shareholder of the Corporation in respect of any Shares issuable upon exercise of such option until certificates representing such Shares shall have been issued and delivered.

## **14. Proceeds from Sale of Shares**

The proceeds from the sale of Shares issued upon the exercise of options shall be added to the general funds of the Corporation and shall thereafter be used from time to time for such corporate purposes as the Board may determine.

## **15. Adjustments**

If the outstanding shares of the Corporation are increased, decreased, changed into or exchanged for a different number or kind of shares or securities of the Corporation or another Corporation or entity through re-organization, merger, re-capitalization, re-classification, stock dividend, subdivision or consolidation, an appropriate and proportionate adjustment shall be made by the Board in its discretion in the number or kind of shares optioned and the exercise price per share, as regards previously granted and unexercised options or portions thereof, and as regards options which may be granted subsequent to any such change in the Corporation's capital.

Upon the liquidation or dissolution of the Corporation or upon a re-organization, merger or consolidation of the Corporation with one or more corporations as a result of which the Corporation is not the surviving corporation, or upon the sale of substantially all of the property

or more than eighty (80%) percent of the then outstanding shares of the Corporation to another corporation, the Plan shall terminate, and any options theretofore granted hereunder shall terminate unless provision is made in writing in connection with such transaction for the continuance of the Plan and for the assumption of options theretofore granted, or the substitution for such options of new options covering the shares of a successor employer corporation, or a parent or subsidiary thereof, with appropriate adjustments as to number and kind of shares and exercise prices, in which event the Plan and options theretofore granted shall continue in the manner and upon the terms so provided. If the Plan and unexercised options shall terminate pursuant to the foregoing sentence, the shares subject to all options granted shall, subject to prior Exchange acceptance, immediately vest and all Participants then entitled to exercise an unexercised portion of options then outstanding shall have the right at such time immediately prior to consummation of the event which results in the termination of the Plan as the Corporation shall designate, to exercise their options to the full extent not theretofore exercised.

Adjustments under this Section shall be made by the Board whose determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. No fractional share shall be required to be issued under the Plan on any such adjustment.

#### **16. Transferability**

All benefits, rights and options accruing to any Participant in accordance with the terms and conditions of the Plan shall not be transferable or assignable unless specifically provided herein or the extent, if any, permitted by the Exchange. During the lifetime of a Participant any benefits, rights and options may only be exercised by the Participant.

#### **17. Amendment and Termination of Plan**

Subject to applicable approval of the Exchange, the Board may, at any time, suspend or terminate the Plan. Subject to applicable approval of the Exchange, the Board may also at any time amend or revise the terms of the Plan, provided that no such amendment or revision shall result in a material adverse change to the terms of any options theretofore granted under the Plan unless shareholder approval, or disinterested shareholder approval, as the case may be, is obtained for such amendment or revision.

#### **18. Necessary Approvals**

The ability of a Participant to exercise options and the obligation of the Corporation to issue and deliver Shares in accordance with the Plan is subject to any approvals which may be required from shareholders of the Corporation and any regulatory authority or stock exchange having jurisdiction over the securities of the Corporation. If any Shares cannot be issued to any Participant for whatever reason, the obligation of the Corporation to issue such Shares shall terminate and any option exercise price paid to the Corporation will be returned to the Participant.

**19. Effective Date of Plan**

The Plan has been adopted by the Board of the Corporation subject to the approval of the Exchange and, if so approved, the Plan shall become effective upon such approvals being obtained.

**20. Interpretation**

The Plan will be governed by and construed in accordance with the laws of the Province of Alberta.

MADE by the Board of Directors of the Corporation as evidenced by the signature of the following director duly authorized in that behalf effective May 15, 2006 and approved by the shareholders of the Corporation on June 14, 2006.

**SAHARA ENERGY LTD.**

Signed: "Peter J. Boswell"  
President and CEO

**SCHEDULE B**  
**SAHARA ENERGY LTD.**

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**THE AUDIT AND RESERVES COMMITTEE'S CHARTER (the "Charter")**

**PURPOSE**

The overall purpose of the Audit and Reserves Committee (the "Committee") of Sahara Energy Ltd. (the "Corporation") is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to:

- i. the quality, integrity and appropriateness of the Corporation's systems of internal controls regarding finance, accounting and ethics;
- ii. the quality, integrity and appropriateness of the Corporation's financial reporting;
- iii. the quality, integrity and appropriateness of the Corporation's external auditors;
- iv. the Corporation's compliance with legal and regulatory requirements; and
- v. assist the Board in fulfilling its responsibilities in respect of the Corporation's reserve evaluation and reporting, and the health safety and environmental practices of the Corporation.

It is the intention of the Corporation's board of directors (the "Board") that through the involvement of the Committee, the external audit and independent reserves evaluation will be conducted independently of the Corporation's management to ensure that the independent auditors and independent reserves evaluators serve the interests of shareholders rather than the interests of management of the Corporation. The Committee will act as a liaison to provide better communication between the Board and the external auditors and the external reserves evaluators. The Committee will monitor the independence and performance of the Corporation's independent auditors and independent reserves evaluators.

**COMPOSITION, PROCEDURES AND ORGANIZATION**

- (1) The Committee shall consist of at least three members of the Board.
- (2) At least two (2) members of the Committee shall be independent and the Committee shall endeavour to appoint a majority of independent directors to the Committee, who in the opinion of the Board, would be free from a relationship which would interfere with the exercise of the Committee members' independent judgment. At least one (1) member of the Committee shall have accounting or related financial management expertise. All members of the Committee that are not financially literate will work towards becoming financially literate to obtain a working familiarity with basic finance and accounting practices applicable to the Corporation. For the purposes of this Charter, 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.
- (3) The Board, at its organizational meeting held in conjunction with each annual general meeting of the shareholders, shall appoint the members of the Committee for the ensuing year. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee.
- (4) Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair and a secretary from among their number.

- (5) The quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and to hear each other.
- (6) The Committee shall have access to such officers and employees of the Corporation and to the Corporation's external auditors and external reserves evaluators, and to such information respecting the Corporation, as it considers to be necessary or advisable in order to perform its duties and responsibilities.
- (7) Meetings of the Committee shall be conducted as follows:
  - (a) the Committee shall meet at least two times annually at such times and at such locations as may be requested by the chair of the Committee. The external auditors or any member of the Committee may request a meeting of the Committee;
  - (b) the external auditors shall receive notice of and have the right to attend all meetings of the Committee; and
  - (c) management representatives may be invited to attend all meetings except private sessions with the external auditors and external reserves evaluators.
- (8) The internal auditors, external auditors and external reserves evaluators shall have a direct line of communication to the Committee through its chair and may bypass management if deemed necessary. The Committee, through its chair, may contact directly any employee in the Corporation as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper financial practices or transactions.

## **ROLES AND RESPONSIBILITIES**

- (1) The overall duties and responsibilities of the Committee shall be as follows:
  - (a) to assist the Board in the discharge of its responsibilities relating to the Corporation's accounting principles, reporting practices and internal controls and its approval of the Corporation's annual and quarterly consolidated financial statements and related financial disclosure;
  - (b) to establish and maintain a direct line of communication with the Corporation's internal and external auditors and assess their performance;
  - (c) to ensure that the management of the Corporation has designed, implemented and is maintaining an effective system of internal financial controls; and
  - (d) to report regularly to the Board on the fulfilment of its duties and responsibilities.
- (2) The duties and responsibilities of the Committee as they relate to the external auditors shall be as follows:
  - (a) to recommend to the Board a firm of external auditors to be engaged by the Corporation, and to verify the independence of such external auditors;
  - (b) to review and approve the fee, scope and timing of the audit and other related services rendered by the external auditors;
  - (c) review the audit plan of the external auditors prior to the commencement of the audit;
  - (d) to review with the external auditors, upon completion of their audit:
    - i. contents of their report;
    - ii. scope and quality of the audit work performed;
    - iii. adequacy of the Corporation's financial and auditing personnel;
    - iv. co-operation received from the Corporation's personnel during the audit;

- v. internal resources used;
  - vi. significant transactions outside of the normal business of the Corporation;
  - vii. significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems; and
  - viii. the non-audit services provided by the external auditors;
- (e) to discuss with the external auditors the quality and not just the acceptability of the Corporation's accounting principles; and
  - (f) to implement structures and procedures to ensure that the Committee meets the external auditors on a regular basis in the absence of management.
- (3) The duties and responsibilities of the Committee as they relate to the internal control procedures of the Corporation are to:
- (a) review the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those relating to internal auditing, insurance, accounting, information services and systems and financial controls, management reporting and risk management;
  - (b) review compliance under the Corporation's business conduct and ethics policies and to periodically review these policies and recommend to the Board changes which the Committee may deem appropriate;
  - (c) review any unresolved issues between management and the external auditors that could affect the financial reporting or internal controls of the Corporation; and
  - (d) periodically review the Corporation's financial and auditing procedures and the extent to which recommendations made by the internal audit staff or by the external auditors have been implemented.
- (4) The Committee is also charged with the responsibility to:
- (a) review the Corporation's quarterly statements of earnings, including the impact of unusual items and changes in accounting principles and estimates and report to the Board with respect thereto;
  - (b) review and approve the financial sections of:
    - i. the annual report to shareholders;
    - ii. the annual information form, if required;
    - iii. annual and interim management's discussion and analysis;
    - iv. prospectuses;
    - v. news releases discussing financial results of the Corporation; and
    - vi. other public reports of a financial nature requiring approval by the Board, and report to the Board with respect thereto;
  - (c) review regulatory filings and decisions as they relate to the Corporation's consolidated financial statements;
  - (d) review the appropriateness of the policies and procedures used in the preparation of the Corporation's consolidated financial statements and other required disclosure documents, and consider recommendations for any material change to such policies;
  - (e) review and report on the integrity of the Corporation's consolidated financial statements;
  - (f) review the minutes of any audit committee meeting of subsidiary companies;

- (g) review with management, the external auditors and, if necessary, with legal counsel, any litigation, claim or other contingency, including tax assessments that could have a material effect upon the financial position or operating results of the Corporation and the manner in which such matters have been disclosed in the consolidated financial statements;
  - (h) review the Corporation's compliance with regulatory and statutory requirements as they relate to financial statements, tax matters and disclosure of financial information; and
  - (i) develop a calendar of activities to be undertaken by the Committee for each ensuing year and to submit the calendar in the appropriate format to the Board following each annual general meeting of shareholders.
- (5) The duties and responsibilities of the Committee as they relate to the external reserve evaluators are as follows;
- (a) reviewing management's recommendations for the appointment of the independent qualified evaluations engineers.
  - (b) reviewing the terms of the independent qualified evaluations engineers' engagement and the appropriateness and reasonableness of the proposed fees.
  - (c) reviewing the scope and methodology of the independent qualified evaluations engineers' evaluation.
  - (d) reviewing any significant new discoveries, additions, revisions and acquisitions.
  - (e) reviewing assumptions and consistency with prior years.
  - (f) reviewing any problems experienced by the independent qualified evaluations engineers in preparing the reserves report, including restrictions imposed by management or significant issues on which there was a disagreement with management.
  - (g) reviewing all public disclosure documents containing reserves information prior to its release, including the annual report and management's discussion and analysis.
- (6) The Committee shall have the authority:
- (a) to engage independent counsel and other advisors as it determines necessary to carry out its duties.
  - (b) to set and pay the compensation for any advisors employed by the Committee; and
  - (c) to communicate directly with the internal and external auditors.