

# TORQUE ENERGY INC.

## INFORMATION CIRCULAR

(As at April 10, 2008 and in Canadian dollars except where indicated)

### PERSONS MAKING THIS SOLICITATION OF PROXIES

This Information Circular ("Circular") is furnished in connection with the solicitation of Proxies (which term includes any 'VIFs', as that term is defined below under 'Completion and Voting of Proxies – Unregistered Shareholders', unless otherwise noted) by the management of Torque Energy Inc. (the "Company") for use at the Annual General Meeting of the shareholders of the Company (the "Meeting") to be held at the time and place and for the purposes set forth in the accompanying Notice of Meeting and at any adjournment thereof. It is expected the solicitation will be primarily by mail. Proxies may also be solicited personally by employees of the Company. The cost of solicitation will be borne by the Company.

### COMPLETION AND VOTING OF PROXIES

#### Voting

Voting at the Meeting will be by a show of hands, each registered shareholder and each Proxyholder (representing a registered or unregistered shareholder) having one vote, unless a poll is required (if the number of shares represented by Proxies that are to be voted against a motion are greater than 5% of the votes that could be cast at the Meeting) or requested, whereupon each such shareholder and Proxyholder is entitled to one vote for each share held or represented, respectively. To approve a motion proposed at the Meeting a majority of greater than 50% of the votes cast will be required (an 'ordinary resolution') unless the motion requires a 'special resolution' in which case a majority of 66-2/3% of the votes cast will be required.

#### Appointment of Proxyholders

The persons named in the accompanying Proxy as Proxyholders are directors or officers of the Company. **A shareholder has the right to appoint a person (who need not be a shareholder) to attend and act on the shareholder's behalf at the Meeting other than the persons named in the Proxy as Proxyholders. To exercise this right, the shareholder must strike out the names of the persons named in the Proxy as Proxyholders and insert the name of the shareholder's nominee in the space provided or complete another Proxy.**

A shareholder completing the enclosed Proxy may indicate the manner in which the persons named in the Proxy are to vote with respect to any matter by marking an 'X' in the appropriate space. On any poll required (for the reason described above) or requested, those persons will vote or withhold from voting the shares in respect of which they are appointed in accordance with the directions, if any, given in the Proxy provided such directions are certain.

If a shareholder wishes to confer a discretionary authority with respect to any matter, then the space should be left blank. **In such instance, the Proxyholder, if nominated by management, intends to vote the shares represented by the Proxy in favour of the motion.**

**The enclosed Proxy, when properly signed, confers discretionary authority with respect to amendments or variations to the matters identified in the Notice of Meeting and with respect to other matters which may be properly brought before the Meeting.** At the time of printing this Circular, the management of the Company is not aware that any such amendments, variations or other matters are to be presented for action at the Meeting. If, however, other matters which are not now known to the management should properly come before the Meeting, the Proxies hereby solicited will be exercised on such matters in accordance with the best judgement of the nominees.

The Proxy must be dated and signed by the shareholder or the shareholder's attorney authorized in writing. In the case of a corporation, the Proxy must be dated and executed under its corporate seal or signed by a duly authorized officer or attorney for the corporation.

**The completed Proxy, together with the power of attorney or other authority, if any, under which it was signed or a notarially certified copy thereof, must be deposited with the Company's transfer agent in accordance with the instructions and before the time set out in the Proxy. Proxies received after such time may be accepted or rejected by the Chair of the Meeting in the Chair's discretion. Unregistered shareholders must deliver their completed Proxies in accordance with the instructions given by their financial institution or other intermediary that forwarded the Proxy to them.**

### **Registered Shareholders**

Only shareholders registered as shareholders in the Company's shareholder registry maintained by the Company's registrar and transfer agent or duly appointed Proxyholders will be recognized, make motions or vote at the Meeting.

### **Unregistered Shareholders**

Shareholders holding their shares of the Company through stockbrokers, intermediaries, trustees or other persons will not be recognized, make motions nor vote at the Meeting.

If shares of the Company are listed in an account statement provided to a shareholder by a stockbroker, those shares, in all likelihood, will not be registered in the shareholder's name. Such shares will more likely be registered in the name of the stockbroker or a nominee or agent of that stockbroker and can only be voted through a duly completed Proxy given by the shareholder. Without specific instructions, stockbrokers and their agents and nominees are prohibited from voting shares for the stockbroker's clients. **Therefore, each unregistered shareholder should ensure that voting instructions are communicated to the appropriate party well in advance of the Meeting.**

National Instrument 54-101 *Communication with Beneficial Owners of Securities of a Reporting Issuer* of the Canadian securities administrators require stockbrokers and other intermediaries to seek voting instructions from unregistered shareholders in advance of shareholder meetings. Stockbrokers and other intermediaries have their own mailing procedures and provide their own return instructions to clients, which should be carefully followed by unregistered shareholders to ensure their shares are voted at the Meeting. The form requesting such voting instructions (a "VIF") supplied to the unregistered shareholder by its stockbroker (or agent) is substantially similar to the Proxy provided directly to the registered shareholders by the Company, however, it is limited to instructing the registered shareholder (that is, the stockbroker or its nominee or agent) how to vote on behalf of the unregistered shareholder.

Most stockbrokers in Canada and the United States of America delegate responsibility for obtaining instructions from clients to a third party company (or, if the shareholder has so consented, allows the Company or its transfer agent to do so directly) which sends a machine-readable VIF to unregistered shareholders and asks the shareholders to return the VIFs to them or provide instructions to them through

the Internet or by telephone. The third party company (or the Company or its agent, if it has sent the VIF to the shareholder directly) then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares to be represented at the Meeting.

Although an unregistered shareholder may not be recognized directly at the Meeting for the purposes of voting shares registered in the name of their stockbroker, the unregistered shareholder may attend the Meeting as Proxyholder for the stockbroker and vote the shares in that capacity. **Unregistered shareholders wishing to attend the Meeting and indirectly vote their shares as their own Proxyholder, should enter their own names in the blank space on the VIF provided to them and return the VIF in accordance with the instructions provided on it. If an unregistered shareholder receives a VIF and does not wish to attend the Meeting as a Proxyholder, the VIF must be returned, or instructions respecting the voting of shares must be communicated, to the third party company (or the Company or its transfer agent) in advance of the Meeting to have the shares voted in accordance with the instructions on that VIF.**

Shareholders with questions respecting the voting of shares held through a stockbroker or other financial intermediary should contact that stockbroker or other intermediary for assistance.

### **REVOCAION OF PROXIES**

Shareholders have the power to revoke Proxies previously given by them. Revocation can be effected by an instrument in writing (which includes a Proxy bearing a later date) signed by a shareholder or the shareholder's attorney authorized in writing and in the case of a corporation, executed under its corporate seal or signed by a duly authorized officer or attorney for the corporation, and either delivered to the registered office of the Company at Northwest Law Group (attn: Michael F. Provenzano), Suite 950, Scotia Tower, 650 West Georgia Street, Box 11587, Vancouver, BC V6B 4N8, Canada any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, or deposited with the Chair of the Meeting prior to the hour of commencement on the day of the Meeting.

### **INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON**

None of the directors or executive officers of the Company, any person who has held such a position since the beginning of the last completed financial year of the Company, any proposed nominee for election as a director of the Company nor any associate or affiliate of the foregoing persons, has any substantial or material interest, directly or indirectly, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the Meeting (other than the election of directors) except for the current and future directors and executive officers of the Company and any subsidiaries, inasmuch as in the following year they may be granted options to purchase shares of the Company pursuant to its Stock Option Plan, ratification of which will be sought at the Meeting.

### **VOTING SHARES AND PRINCIPAL HOLDERS THEREOF**

The Company has only one class of shares entitled to be voted at the Meeting, namely, common shares without par value. All issued shares are entitled to be voted at the Meeting and each has one non-cumulative vote. Only those common shareholders of record on April 14, 2008 will be entitled to vote at the Meeting or any adjournment thereof. There were 13,837,698 common shares issued and outstanding as of that date.

To the knowledge of the directors and executive officers of the Company, only the following beneficially own, directly or indirectly, or exercise control or direction over shares carrying more than 10% of the voting rights attached to all outstanding shares of the Company which have the right to vote in all circumstances:

Name	Number of Shares	Percentage of Outstanding Shares
Dundee Corporation <sup>(1)</sup>	2,588,147 <sup>(2)</sup>	18.7%

(1) Dundee Corporation is a public company, the subordinate voting shares of which are listed on the Toronto Stock Exchange. Garth A. C. MacRae, a director of the Company, is a director of Dundee.

## ELECTION OF DIRECTORS

The Board of Directors of the Company presently consists of five directors. It is proposed to fix the number of directors for the following year at the same number. This requires the approval of the shareholders of the Company by an ordinary resolution, which approval will be sought at the Meeting.

The Company's management proposes to nominate the persons named in the following table for election as directors of the Company to fill such positions. Each director elected will hold office until the next Annual General Meeting or until the director's successor is duly elected or appointed, unless the director's office is earlier vacated in accordance with the Company's Articles or the director becomes disqualified to act as a director.

The following information concerning the proposed nominees has been furnished by each of them.

Name, Province or State & Country of Residence & Present Position with the Company	Present Principal Occupation <sup>(1)</sup>	Director Since	Number of Shares <sup>(2)</sup>
<b>BAYLEY, Brian E.</b> <sup>(5)</sup> British Columbia, Canada President, CEO and Director	Co-Chair, Quest Capital Corp. (publicly traded (TSX, AMEX & AIM) mortgage investment company); President, Ionic Management Corp. (management company) and Ionic Capital Corp. (investment company)	November 18, 1993	37,500
<b>COWAN, John F.</b> <sup>(3) (4) (6)</sup> Ontario, Canada Director	Professional Geologist; President, Xtivity Inc. (private corporate governance software licensing company)	May 17, 2001	50,000
<b>HARRIS, Gordon D.</b> <sup>(6)</sup> Alberta, Canada Director	Professional Engineer; Senior Vice-President, Buffalo Resources Corp. (publicly traded (TSX-V) oil and gas exploration company)	August 10, 2006	0
<b>MacRAE, Garth A. C.</b> <sup>(3) (4) (6)</sup> Ontario, Canada Director	Chartered Accountant; Chairman, Breakwater Resources Ltd. (publicly traded (TSX) zinc mining company)	May 17, 2001	0
<b>VANDENBOSCH, Paul W.</b> <sup>(3) (4)</sup> Ontario, Canada Director	Barrister & Solicitor; Partner, Cram & Associates (law firm)	January 24, 2001	145,243

(1) Includes occupations for preceding five years unless the director was elected at the previous Annual General Meeting and was shown as a nominee for election as a director in the Circular for that meeting.

- (2) The approximate number of shares of the Company carrying the right to vote in all circumstances beneficially owned, directly or indirectly, or over which control or direction is exercised by each proposed nominee although Dundee Corporation, of which Garth A. C. MacRae is a director, does control more than 10% of the Company's shares. See 'Voting Shares and Principal Holders Thereof'.
- (3) Member of Audit Committee.
- (4) Member of Compensation Committee.
- (5) Member of Disclosure Committee. The other member is John K. Thomson, the Company's General Manager, who sits as an *ex officio* member of the Committee.
- (6) Member of Reserves Committee.
- (7) None of the proposed directors is to be elected under any arrangement or understanding between the proposed director and a third party (other than the directors and executive officers of the Company acting in that capacity).

Pursuant to the provisions of the Company's governing corporate legislation the Company is required to have an Audit Committee whose members are indicated above. The Company does not have an Executive Committee.

No proposed director:

- (a) is, as at the date of this Circular, or has been, within 10 years before the date of this Circular, a director, chief executive officer or chief financial officer of any corporation (including the Company) that was subject to a 'cease trading' or similar order (including a voluntary or involuntary management Cease Trading Order applying to some or all of the management of a corporation) or an order that denied the relevant corporation access to any exemption under securities legislation, for a period of more than 30 consecutive days that was issued
  - (i) while the proposed director was acting as a director, chief executive officer or chief financial officer of that corporation, or
  - (ii) after the proposed director ceased to be a director, chief executive officer or chief financial officer of that corporation but resulted from an event that occurred while acting in such capacity;
- (b) is, as at the date of this Circular, or has been, within 10 years before the date of this Circular, a director or executive officer of any corporation (including the Company) that while acting in that capacity or within a year of ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (c) has, within the 10 years before the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold their assets;
- (d) has entered into, at any time, a settlement agreement with a securities regulatory authority; or
- (e) has been subject to, at any time, any penalties or sanctions imposed by
  - (i) a court relating to securities legislation or a securities regulatory authority, or

- (ii) a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director,

other than as described below:

1. **PetroFalcon Corporation (TSX listed; Brian E. Bayley – director from November 28, 2001 to present) and Quest Ventures Ltd. (private company; Brian E. Bayley – director and officer from January 1997 to January 2005):** On February 27, 2002, the British Columbia Securities Commission issued an order in response to a private placement by PetroFalcon of its securities to Quest which prevented the further use of certain exemptions under the *Securities Act* (British Columbia) by PetroFalcon and Quest until PetroFalcon's shareholders approved the private placement. Approval of PetroFalcon's shareholders was received on May 23, 2002 and the Commission reinstated the availability of the exemptions for both PetroFalcon and Quest shortly thereafter.
2. **Esperanza Silver Corp. (TSX Venture listed; Brian E. Bayley – director from December 14, 1999 to present):** Esperanza became aware in early 2003 that it was subject to outstanding Cease Trading Orders in Alberta (issued on September 17, 1998) and Québec (issued on August 12, 1997) from its failure (when neither Mr. Bayley nor any of the other current directors and officers of Esperanza were directors or officers of Esperanza) to file financial statements and pay filing fees within their prescribed times. Esperanza subsequently filed the financial statements and paid the filing fees and the Québec order was rescinded on May 16, 2003 and the Alberta order rescinded on August 1, 2003.
3. **American Natural Energy Corp. (TSX Venture listed; Brian E. Bayley – director from June 15, 2001 to present):** American Natural was issued Cease Trading Orders by the:
  - (a) British Columbia, Québec (Autorité des marchés financiers) and Manitoba Securities Commissions in June 2003 for failing to file financial statements and pay filing fees within prescribed time periods, and the orders were rescinded in August 2003 when it filed the financial statements and paid the filing fees; and
  - (b) British Columbia Securities Commission in July 2007, Québec (Autorité des marchés financiers) and Ontario Securities Commissions in August, 2007, and Manitoba Securities Commission in March 2008, for failing to file financial statements and Management's Discussion & Analysis within prescribed time periods. The orders have not yet been rescinded.

## CORPORATE GOVERNANCE

National Instrument 58-101 *Disclosure of Corporate Governance Practices* of the Canadian securities administrators requires the Company to annually disclose certain information regarding its corporate governance practices. That information is disclosed below.

### **Mandate of the Board of Directors**

The Board of Directors of the Company has responsibility for the stewardship of the Company. That stewardship includes responsibility for strategic planning, identification of the principal risks of the Company's business and implementation of appropriate systems to manage these risks, succession planning (including appointing, training and monitoring senior management), communications with investors and the

financial community and the integrity of the Company's internal control and management information systems.

### Independence of the Directors

A director is 'independent' if the director is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with the best interests of the Company, other than interests and relationships arising from shareholding.

The following table describes whether the directors are independent and, if not independent, sets out the reasons:

Director	Independent	Reason why the Director is not Independent
BAYLEY, Brian E.	No	Is the President of the Company
COWAN, John F.	Yes	–
HARRIS, Gordon D.	Yes	–
MacRAE, Garth A. C.	No	Is an officer and director of the Company's major shareholder
VANDENBOSCH, Paul W.	Yes	–

The Board of Directors of the Company facilitates its exercise of independent supervision over the Company's management through regular meetings of the Board. The meetings are held both with and without members of the Company's management (including members of management that are also directors) being in attendance. When the matter considered involves a member of management or a director, that member or director, as the case may be, recuses themselves from the meeting and consideration of the matter. As well, the Board ensures that one director follows up with the Company's management to ensure decisions of the Board are fully and properly implemented by management.

### Other Directorships

The directors and nominees for election as directors of the Company are presently directors of other reporting issuers (public corporations), as follows:

Director or Nominee	Reporting Issuers
BAYLEY, Brian E.	American Natural Energy Corporation, Arapaho Capital Corp., Colombian Mines Corporation, Cypress Hills Resource Corp., Esperanza Silver Corporation, Eurasian Minerals Inc., Gleichen Resources Ltd., Greystar Resources Ltd., Kirkland Lake Gold Inc., Midway Gold Corp., PetroFalcon Corporation, Pretium Capital Corp., Quest Capital Corp., Rocky Mountain Resources Corp., Sanu Resources Ltd. and Transatlantic Petroleum Corp.
COWAN, John F.	Oilexco Incorporated
HARRIS, Gordon D.	Blue Parrot Energy Inc., Buffalo Resources Corp., Caspian Energy Inc., Pan-Global Energy Ltd., Pearl Exploration and Production Ltd., Primera Energy Resources Ltd.

Director or Nominee	Reporting Issuers
MacRAE, Garth A. C.	Breakwater Resources Ltd., GeneNews Limited, Dundee Corporation, Dundee Precious Metals Inc., Dundee Wealth Management Inc., Eurogas Corporation, Great Plains Exploration Inc., Nuvo Research Inc. and Uranium Participation Corporation
VANDENBOSCH, Paul W.	–

### **Orientation and Continuing Education**

The Board of Directors of the Company takes the following steps to ensure that all new directors receive orientation regarding the role of the Board, its committees and its directors, and the nature and operation of the Company.

The first step is to assess a new director’s set of skills and professional background. This allows the orientation to be customized to that director’s needs since different information regarding the nature and operations of the Company’s business will be necessary and relevant to each new director.

Once assessed, the second step is taken by one or more existing directors, who may be assisted by the Company’s management, to provide the new director with the appropriate orientation through meetings, telephone calls and correspondence.

To ensure the Board of Directors provides continuing information for its directors so they maintain the skill and knowledge necessary for them to meet their obligations as directors of the Company, there are technical presentations made as required at meetings of the Board. The presentations can range from a review of the Company’s financial statements to various aspects of the Company’s business. The Board believes the discussion among the directors, management and outside experts at these meetings provides a valuable learning resource for directors without expertise in the subject matter being presented.

### **Ethical Business Conduct**

As part of its responsibility for the stewardship of the Company, the Board of Directors seeks to foster a culture of ethical conduct by striving to ensure the Company carries out its business in line with high business and moral standards and applicable legal and financial requirements. In that regard, the Board

- has adopted a Code of Conduct setting out the guidelines for the conduct expected from directors, officers and employees of the Company. A copy of the Code has been filed on SEDAR (see ‘Additional Information’ at the end of this Circular). Compliance with the Code is achieved as follows. Each director is responsible for ensuring that they individually comply with the terms of the Code, while the Board is responsible for ensuring that the directors, as a group, and all officers comply with the Code and the executive officers of the Company are responsible for ensuring compliance with the Code by employees. Since the beginning of the Company’s last financial year, it has not filed a Material Change Report relating to any conduct of a director or executive officer that constitutes a departure from the Code.
- has established a written ‘Whistleblower Policy’ which details complaint procedures for financial concerns as further described below in ‘Audit Committee – Complaints’.
- has created an Insider Trading Policy which details when directors, officers and employees should and not engage in trading in the Company’s securities.

- has adopted a Disclosure Policy to ensure fair, accurate and timely disclosure of material information regarding the Company and its business.
- encourages management to consult with legal and financial advisors to ensure the Company is meeting those requirements.
- is cognizant of the Company's timely disclosure obligations and reviews material disclosure documents such as financial statements, Management's Discussion & Analysis (MD&A) and press releases prior to distribution.
- relies on its Audit Committee to annually review the systems of internal financial control and discuss such matters with the Company's external auditor.
- actively monitors the Company's compliance with the Board's directives and ensures that all material transactions are thoroughly reviewed and authorized by the Board before being undertaken by management.

In addition, the Board must comply with the conflict of interest provisions of its governing corporate legislation and relevant securities regulatory instruments and stock exchange policies (which require that interested directors recuse themselves from the consideration of, and voting on, such matters), to ensure its directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest.

### **Nomination of Directors**

The Board of Directors of the Company does not feel it is necessary to increase the number of directors on the Board at this time. When the Board considers it necessary to increase its size, it can also consider whether a Nominating Committee of directors, some or all of whom will be independent directors, needs to be formed to recommend appointees and assess directors on an ongoing basis.

Any new appointees or nominees to the Board of Directors must have a favourable track record in general business management, special expertise in areas of strategic interest to the Company, the ability to devote the time required and a willingness to serve as a director.

### **Compensation**

To assist the Board of Directors of the Company in determining the appropriate level of compensation to pay the Chair of the Board, directors, CEO, CFO and executive officers, the Board has established a Compensation Committee as described below under 'Other Board Committees'. The Compensation Committee recommends to the Board what it feels is the appropriate compensation based primarily on a comparison of the remuneration paid by the Company with the remuneration paid by other public companies that the Committee feels are similarly placed within the same business.

In addition, the Chair of the Board, directors, CEO, CFO and executive officers are granted stock options under the Company's Stock Option Plan. The Compensation Committee determines the terms of each stock option within the parameters set out in the Company's Stock Option Plan and applicable stock exchange rules and policies.

Since the beginning of the Company's last financial year, no compensation consultant or advisor was retained to assist in determining compensation for any of the Company's directors and officers.

## Other Board Committees

In addition to the Audit Committee, as described in the next section, the Board has established the following committees:

*Compensation Committee:* The Compensation Committee is responsible for reviewing all compensation (including stock options) paid by the Company to the Board of Directors and senior management of the Company and any subsidiaries, reporting to the Board of Directors on the results of those reviews and making recommendations to the Board for adjustments to such compensation.

The policy used by the Committee in determining compensation is that the compensation should

- reflect the Company's current state of development,
- reflect the Company's performance,
- reflect individual performance,
- in respect of the executives, align their interests with those of the shareholders, and
- assist the Company in retaining key individuals.

The main components of the executive compensation consist of base remuneration and incentive stock options which rewards to executives for delivering value to the Company's shareholders through measurable increases in the value of the Company's common shares or asset base.

The Compensation Committee consists of three directors, two of whom are independent (outside, non-management) directors (John F. Cowan (Committee Chair) and Paul W. Vandenbosch) and one of whom is not an independent director (Garth A. C. MacRae).

*Disclosure Committee:* The Disclosure Committee is responsible for ensuring the Company complies with all disclosure requirements. The Committee reviews and approves all news releases and material change reports and core disclosure documents (a prospectus, a rights offering circular, an offering memorandum, a take-over bid circular, an issuer bid circular, a directors' circular, MD&A, an annual information form, an information circular and annual and interim financial statements) prior to their release or filing. Such core disclosure documents must also be approved by the Company's Board of Directors prior to release or filing.

The Disclosure Committee consists of one non-independent director (Brian E. Bayley (Committee Chair)) and one *ex officio* member, who is not a director (John K. Thomson, the Company's General Manager).

*Reserves Committee:* The Reserves Committee is responsible for the Company's compliance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* of the Canadian securities administrators, including:

- reviewing, with reasonable frequency, the Company's procedures relating to the disclosure of information with respect to its oil and gas activities, including its procedures for complying with the disclosure requirements and restrictions of the Instrument.
- reviewing each appointment of an independent qualified reserves evaluator or auditor and, in the case of any proposed change in such appointment, determining the reasons for the proposal and whether there have been disputes between the appointed qualified reserves evaluator or auditor and management of the Company.

- reviewing, with reasonable frequency, the Company’s procedures for providing information to the qualified reserves evaluators or auditors who report on reserves data for the purposes of the Instrument.
- meeting, before approving the filing of reserves data and the report of the qualified reserves evaluators or auditors thereon as required by the Instrument, with management and each qualified reserves evaluator or auditor to (i) determine whether any restrictions affect the ability of the qualified reserves evaluator or auditor to report on reserves data without reservation; and (ii) review the reserves data and the report of the qualified reserves evaluator or auditor thereon.
- reviewing and approving all filings made under the Instrument.

The Reserves Committee consists of three directors, two of whom are independent (outside, non-management) directors (John F. Cowan (Committee Chair) and Gordon D. Harris) and one of whom is not an independent director (Garth A. C. MacRae).

### **Assessments**

The Board of Directors of the Company has not established any formal procedures for regularly assessing the performance of the Board, its committees and individual directors. Nevertheless, their effectiveness is subjectively measured on an ongoing basis by each director based on their assessment of the performance of the Board, its committees or the individual directors compared to their expectations. In doing so, the contributions of an individual director are informally monitored by the other Board members, bearing in mind the business strengths of the individual and the purpose of originally nominating the individual to the Board.

## **AUDIT COMMITTEE**

Multilateral Instrument 52-110 *Audit Committees* (“**MI 52-110**”) of the Canadian securities administrators (other than of British Columbia in which MI 52-110 is not applicable) requires the Company’s Audit Committee to meet certain requirements. It also requires the Company to disclose in this Circular certain information regarding the Audit Committee. That information is disclosed below.

### **Overview**

The Audit Committee of the Company’s Board of Directors is responsible for:

- recommending to the Company’s Board of Directors the external auditor to be nominated for election by the Company’s shareholders at each Annual General Meeting and the compensation of such external auditor;
- overseeing the work of the external auditor, including the resolution of disagreements between the auditor and management regarding the Company’s financial reporting;
- pre-approving all non-audit services to be provided to the Company and its subsidiaries, if any, by the auditor;
- reviewing the Company’s annual and interim financial statements, Management’s Discussion & Analysis (MD&A) and press releases regarding earnings before they are submitted for review and approval by the Board of Directors and publicly disseminated by the Company;

- confirming adequate procedures are in place for the review of the Company’s public disclosure of financial information extracted or derived from its financial statements, other than disclosure described in the previous paragraph, and periodically assessing the adequacy of those procedures; and
- reviewing and approving the Company’s hiring policies regarding current and former partners and employees of the Company’s current and former auditors.

The Company’s auditor reports directly to the Audit Committee.

### **The Audit Committee’s Charter**

The Company’s Board of Directors has adopted a Charter for the Audit Committee which sets out the Committee’s mandate, organization, powers and responsibilities. The complete Charter is attached as a schedule to this Circular.

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

The Audit Committee consists of three directors. Unless it is a ‘Venture Issuer’ (an issuer the securities of which are not listed or quoted on any of the Toronto Stock Exchange, a market in the United States of America other than the over-the-counter market, or a market outside of Canada and the U.S.A.) as of the end of its last financial year, MI 52-110 requires each of the members of the Committee to be independent and financially literate. Since the Company is a ‘Venture Issuer’ (its securities are listed on the TSX Venture Exchange, but are not listed or quoted on any other exchange or market) it is exempt from this requirement. In addition, the Company’s governing corporate legislation requires the Company to have an Audit Committee composed of a minimum of three directors, a majority of whom are not officers or employees of the Company. The Audit Committee complies with this requirement.

The following table sets out the names of the members of the Audit Committee and whether they are officers or employees, ‘independent’ or ‘financially literate’.

<b>Name of Member</b>	<b>Officer or Employee</b>	<b>Independent <sup>(1)</sup></b>	<b>Financially Literate <sup>(2)</sup></b>
COWAN, John F. (Chair)	No	Yes	Yes
MacRAE, Garth A. C.	No	No	Yes
VANDENBOSCH, Paul W.	No	Yes	Yes

(1) To be considered to be independent, a member of the Committee must not have any direct or indirect ‘material relationship’ with the Company. A material relationship is a relationship which could, in the view of the Board of Directors of the Company, reasonably interfere with the exercise of a member’s independent judgement.

(2) To be considered financially literate, a member of the Committee must have 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 Company’s financial statements.

### **Relevant Education and Experience**

The education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as an Audit Committee member and, in particular, any education or experience that would provide the member with:

- an understanding of the accounting principles used by the Company to prepare its financial statements;
- the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves;
- experience preparing, auditing, analysing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more persons engaged in such activities; and
- an understanding of internal controls and procedures for financial reporting,

are as follows:

Name of Member	Education	Experience
COWAN, John F. (Chair)	Professional Geologist B.A. (Geology & Business) (1977; University of Western Ontario)	Current or former director and officer of several, and investor in numerous, publicly traded companies (in respect of one of which, that trades on the Toronto Stock Exchange, is a member of its Audit Committee) as a result of which and during the course of such appointments and investments has reviewed and analysed numerous financial statements.
MacRAE, Garth A. C.	Chartered Accountant	Over 16 years of public accounting experience. Has held executive positions (including being the chief financial officer) with and been an investor in numerous, senior publicly traded companies and as a part of the foregoing and during the course of such appointments and investments has overseen the preparation of and reviewed and analysed numerous financial statements.
VANDENBOSCH, Paul W.	Barrister & Solicitor LL. B. (1982; Osgoode Hall)	Over 20 years of experience in practising real estate, corporate, commercial, wills, estates and trust law. Has held executive positions with various organizations. As part of the foregoing, has overseen the preparation and analysed numerous financial statements.

### **Audit Committee Oversight**

Since the commencement of the Company's most recently completed financial year, there has not been a recommendation of the Audit Committee to nominate or compensate an external auditor which was not adopted by the Company's Board of Directors.

### **Reliance on Exemptions in MI 52-110 regarding *De Minimis* Non-audit Services or on a Regulatory Order Generally**

Since the commencement of the Company's most recently completed financial year, the Company has not relied on:

1. the exemption in section 2.4 (*De Minimis Non-audit Services*) of MI 52-110 (which exempts all non-audit services provided by the Company's auditor from the requirement to be pre-approved by the

Audit Committee if such services are less than 5% of the auditor’s annual fees charged to the Company, are not recognized as non-audit services at the time of the engagement of the auditor to perform them and are subsequently approved by the Audit Committee prior to the completion of that year’s audit); or

2. an exemption from the requirements of MI 52-110, in whole or in part, granted by a securities regulator under Part 8 (*Exemptions*) of MI 52-110.

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

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services as described in section III.B ‘Powers and Responsibilities – Performance & Completion by Auditor of its Work’ of the Charter.

### **External Auditor Service Fees (By Category)**

The following table discloses the fees billed to the Company by its external auditor during the last two financial years.

<b>Financial Year Ending November 30<sup>th</sup></b>	<b>Audit Fees <sup>(1)</sup></b>	<b>Audit Related Fees <sup>(2)</sup></b>	<b>Tax Fees <sup>(3)</sup></b>	<b>All Other Fees <sup>(4)</sup></b>
2007	\$63,877	\$0	\$2,580	\$5,173
2006	\$26,100	\$0	\$0	\$7,250

- (1) The aggregate fees billed for audit services.
- (2) The aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company’s financial statements and are not disclosed in the ‘Audit Fees’ column.
- (3) The aggregate fees billed for tax compliance, tax advice, and tax planning services. These services involved the preparation and filing of annual tax returns.
- (4) The aggregate fees billed for professional services other than those listed in the other three columns. These services involved the review of quarterly financial statements prepared by the Company, preparation of financial statements and tax returns and preparation and filing of tax returns for the Company and its subsidiaries..

### **Reliance on Exemptions in MI 52-110 regarding Audit Committee Composition & Reporting Obligations**

Since the Company is a Venture Issuer it is relying on the exemption contained in section 6.1 of MI 52-110 from the requirements of Part 3 *Composition of the Audit Committee* (as described in ‘Composition of the Audit Committee’ above) and Part 5 *Reporting Obligations* of MI 52-110 (which requires certain prescribed disclosure about the Audit Committee in the Company’s Annual Information Form, if any, and this Circular).

### **Complaints**

The Audit Committee has established a written ‘Whistleblower Policy’ which creates procedures for the confidential and anonymous submission by employees of complaints and concerns regarding the Company’s accounting, auditing and financial reporting procedures and obligations, without fear of retaliation of any kind.

The Policy provides that if an employee has any information, complaints or concerns regarding such matters being questionable, incorrect, misleading or fraudulent they are urged under the Policy to present such information, complaints or concerns to the Audit Committee, without regard to the position of the persons

responsible for the subject matter of the information, complaint or concern. Promptly following the receipt of any information, complaints and concerns submitted to it, the Audit Committee will investigate each matter and take appropriate corrective actions.

The Audit Committee will retain as part of its records, any information, complaints or concerns received. Furthermore, it will keep a written record of all such reports or inquiries and make quarterly reports on any ongoing investigation which will include steps taken to satisfactorily address each complaint.

## **EXECUTIVE COMPENSATION**

Unless otherwise noted the following information is for the Company's last completed financial year (which ended November 30, 2007) and, since the Company had one or more subsidiaries during that year, is disclosed on a consolidated basis.

### **Employment Contracts**

The Company's employment and consulting contracts with its chief executive officer ("CEO"), chief financial officer ("CFO") and three highest paid executive officers that earned more than \$150,000 per year in the last financial year, if any, are verbal. These agreements provide for the remuneration of such officers, if applicable, as summarized below in the Compensation Summary. The agreements may be terminated at the election of such officers or the Company on reasonable notice.

In addition to the remuneration payable under the contracts, bonuses and stock options may be paid or granted to such officers in the discretion of the Board of Directors.

On December 31, 2007, the Company entered into an Employment Agreement with its General Manager (and *de facto* chief financial officer), John K. Thomson, providing for his continued employment from and after January 1, 2008. The Agreement provides for an salary of \$135,000 per year, a bonus payable in the discretion of the Company's Board of Directors and health, dental and disability benefits in accordance with the Company's current benefit plans. The Agreement further provides for a payment equal to six months salary and benefits if Mr. Thomson resigns his position within six months of a change of control of the Company. The Agreement may be terminated by the Company, without cause, upon payment of salary and benefits equal to that payable in (i) 12 months, if terminated before December 31, 2012, (ii) 18 months, if terminated thereafter and before December 31, 2013, and (iii) 24 months if terminated thereafter.

Except as described above, the Company has not established or entered into any compensatory plans, contracts or arrangements where any of the foregoing officers are entitled to receive more than \$100,000 from the Company in the event of their resignation, retirement or other termination of their employment, a change of control of the Company or a change in any of their responsibilities following a change of control.

### **Pension Plans**

The Company does not have any pension plans.

### **Compensation of Directors**

Other than stock options to purchase shares of the Company which are granted to the Company's directors from time to time, the Company does not have any arrangements pursuant to which directors are remunerated by the Company or any of its subsidiaries for their services in their capacities as directors, consultants or experts.

Directors are reimbursed for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of the Board of Directors.

### Other Remuneration

During the last financial year there was not any other remuneration paid or payable, directly or indirectly, by the Company and any of its subsidiaries pursuant to any existing plan or arrangement to its directors and three highest paid executive officers that earned more than \$150,000 per year in the last financial year, if any.

### Compensation Summary

The following table discloses the compensation paid by the Company during the previous three financial years to its CEO, CFO and three highest paid executive officers, if any, that earned more than \$150,000 during the last financial year, if the CEO, CFO and such executive officers held such position at any time during or at the end of the last financial year:

**Summary Compensation Table**

Name & Principal Position	Year (ending Nov 30 <sup>th</sup> )	Annual Compensation			Long Term Compensation			
		Salary (\$)	Bonus (\$)	Other Annual Comp'n (\$)	Awards		Payouts	All Other Comp'n (\$)
					Securities Under Options & SARs <sup>(1)</sup> Granted (#)	Restricted Shares or Restricted Share Units (#)		
BAYLEY, Brian E. CEO	2007	0	0	0	0	0	0	0
	2006	0	0	0	150,000	0	0	0
	2005	0	0	0	0	0	0	0
THOMSON, John K. General Mgr. <sup>(3)</sup>	2007	133,750	0	0	0	0	0	0
	2006	113,750	20,000	0	300,000	0	0	0
	2005	114,000	0	0	0	0	0	0

(1) SAR (stock appreciation right) means a right, granted by the Company or any of its subsidiaries as compensation for services rendered or in connection with an office or employment, entitling the holder to receive a payment of cash or an issue or transfer of securities based wholly or partly on changes in the trading price of publicly traded shares. The Company has not granted any SARs. Amounts shown are in respect of stock options only.

(2) LTIP (long-term incentive plan) means any plan providing compensation intended to serve as incentive for performance to occur over a period longer than one financial year, whether the performance is measured by reference to financial performance of the Company or an affiliate of the Company, the price for the Company's securities or any other measure, but does not include stock option or SAR plans or plans for compensation through restricted shares or restricted share units. The Company does not have any LTIPs.

(3) As the General Manager, John K. Thomson performs duties for the Company similar to those rendered by a CFO.

(4) Amounts shown are for the entire financial year.

### Stock Option Plan

The Board of Directors of the Company has established an incentive stock option plan (the "Plan") in accordance with the policies of the TSX Venture Exchange (the "TSX-V"). The purpose of the Plan is to attract and motivate the directors, officers and employees of the Company (and any of its subsidiaries), employees of any management corporation and consultants to the Company (collectively the "Optionees")

and thereby advance the Company's interests by providing them an opportunity to acquire an equity interest in the Company through the exercise of stock options granted to them under the Plan.

Pursuant to the Plan, the Board of Directors of the Company (or the Compensation Committee, if any) may grant stock options to Optionees in consideration of them providing their services to the Company or a subsidiary. The number of shares subject to each option is determined by the Board or Committee within the guidelines established by the Plan. The options enable such persons to purchase common shares of the Company at a price fixed pursuant to such guidelines. The options are exercisable by the Optionee giving the Company notice and payment of the exercise price for the number of shares to be acquired.

The Plan authorizes stock options to be granted to the Optionees on the following terms:

1. The number of shares reserved for issuance pursuant to outstanding options, in the aggregate, cannot exceed 10% of the Company's issued shares.
2. The number of shares subject to issuance upon the exercise of options granted under the Plan by one Optionee or all Optionees providing investor relations services is subject to the following limitations
  - (a) no Optionee can be granted options during a 12 month period to purchase more than
    - (i) 5% of the issued shares of the Company unless disinterested shareholder approval has been obtained (such approval has not been sought), or
    - (ii) 2% of the issued shares of the Company, if the Optionee is a consultant, and
  - (b) the aggregate number of shares subject to options held by all Optionees providing investor relations services does not exceed 2% in the aggregate.
3. Unless the Plan has been approved by disinterested shareholders (such approval has not been sought), options granted under the Plan, together with all of the Company's previously established and outstanding stock options, stock option plans, employee stock purchase plans or any other compensation or incentive mechanisms involving the issuance or potential issuance of its shares, shall not result, at any time, in
  - (a) the number of shares reserved for issuance pursuant to stock options granted to insiders exceeding 10% of the shares outstanding at the time of granting,
  - (b) the grant to insiders, within a one year period, of options to purchase that number of shares exceeding 10% of the outstanding shares, or
  - (c) the issuance to any one insider and such insider's associates, within a one year period, of shares totalling in excess of 5% of the outstanding shares.
4. The exercise price of the options cannot be set at less than the greater of \$0.10 per share and the closing trading price of the Company's shares on the day before the granting of the stock options. If the Optionee is subject to the tax laws of the United States of America and owns (determined in accordance with such laws) greater than 10% of the Company's shares, the exercise price shall be at least 110% of the price established as aforesaid.
5. The options may be exercisable for up to five years.

6. There are not any vesting requirements unless the Optionee is providing investor relations services to the Company in which case the options must vest over at least 12 months with no more than one-quarter vesting in any three month period. However, the Board (or the Compensation Committee, if any) may impose additional vesting requirements and, subject to obtaining any required approval from the TSX-V, may authorize all non-vested options to vest immediately. If there is a 'change of control' of the Company due to a take-over bid being made for the Company or similar events, all non-vested options, subject to obtaining any required approval from the TSX-V, shall vest immediately.
7. The options can only be exercised by the Optionee (to the extent they have already vested) for so long as the Optionee is a director, officer or employee of, or consultant to, the Company or any subsidiary or is an employee of the Company's management corporation and within a period thereafter not exceeding the earlier of:
  - (a) the original expiry date;
  - (b) 90 days (30 days, if the Optionee is providing investor relations services) after ceasing to be a director, officer or employee of, or consultant to, the Company at the request of the Board of Directors or for the benefit of another director or officer unless the Optionee is subject to the tax laws of the United States of America, in which case the option will terminate on the earlier of the 90<sup>th</sup> day and the third month after the Optionee ceased to be an officer or employee; or
  - (c) if the Optionee dies, within one year from the Optionee's death.

If the Optionee is terminated 'for cause', involuntarily removed or resigns (other than at the request of the Board of Directors or for the benefit of another director or officer) from any of such positions the option will terminate concurrently.

8. The options are not assignable except to a wholly-owned holding company. If the option qualifies as an 'incentive stock option' under the United States Internal Revenue Code, the option is not assignable to a holding company.
9. No financial assistance is available to Optionees under the Plan.
10. Disinterested shareholder approval must be obtained prior to the reduction of the exercise price of options granted to insiders of the Company.
11. Shares issued on the exercise of an option within four months of granting will be subject to restrictions on resale under the TSX-V's policies for the balance of such four month period.

Any amendments to the Plan or outstanding stock options are subject to the approval of the TSX-V and, if required by the TSX-V, of the shareholders of the Company, possibly with only 'disinterested shareholders' being entitled to vote. The amendment to an outstanding stock option will also require the consent of the Optionee.

No options have been granted under the Plan which are subject to shareholder approval.

The Plan does not permit stock options to be transformed into stock appreciation rights.

## Stock Option Grants

The following table discloses the particulars of options to purchase common shares or SARs granted by the Company during the last financial year to its CEO, CFO and three highest paid executive officers, if any, that earned more than \$150,000 during the last financial year, if the CEO, CFO and such executive officers held such position at any time during or at the end of the last financial year:

### Option and SAR Grants During the Most Recently Completed Financial Year

Name & Position	Securities Under Options & SARs <sup>(1)</sup> Granted (#)	Percentage of Total Options & SARs <sup>(1)</sup> Granted to Employees in Financial Year	Exercise or Base Price (\$/Security)	Market Value of Securities Underlying Options & SARs <sup>(1)</sup> on the Date of Grant (\$/Security)	Expiration Date
BAYLEY, Brian E. CEO	0	—	—	—	—
THOMSON, John K. General Mgr. <sup>(2)</sup>	0	—	—	—	—

(1) The Company has not granted any SARs. Amounts shown are in respect of stock options only.

(2) As the General Manager, John K. Thomson performs duties for the Company similar to those rendered by a CFO.

(3) Amounts shown are for the entire financial year. None of the foregoing options result from the effective repricing of an existing stock option through the termination of a former option and regranting of a new option at a lower price.

## Stock Option Exercises

The following table discloses the particulars of stock options exercised during the last financial year by the CEO, CFO and three highest paid executive officers of the Company, if any, that earned more than \$150,000 during the last financial year, if the CEO, CFO and such executive officers held such position at any time during or at the end of the last financial year:

**Aggregated Option and SAR Exercises  
During the Most Recently Completed Financial Year  
and Financial Year End Option and SAR Values**

Name & Position	Securities Acquired on Exercise (#)	Aggregate Value <sup>(1)</sup> Realized (\$)	Unexercised Options & SARs <sup>(2)</sup> at Financial Year End Exercisable / Unexercisable (#)	Value <sup>(1)</sup> of Unexercised 'in the Money' <sup>(3)</sup> Options & SARs <sup>(2)</sup> at Financial Year End Exercisable / Unexercisable (\$)
BAYLEY, Brian E. CEO	0	–	150,000 / 0	7,500 / –
THOMSON, John K. General Mgr. <sup>(4)</sup>	0	–	300,000 / 0	15,000 / –

- (1) Value is the product of the number of shares multiplied by the difference between the exercise price and the closing market price on the date of exercise, if the option has been exercised, or on the financial year end, if the option has not been exercised.
- (2) The Company has not granted any SARs. Amounts shown are in respect of stock options only.
- (3) Options are 'in the money' if the market price of the Company's shares is greater than the exercise price of the options.
- (4) As the General Manager, John K. Thomson performs duties for the Company similar to those rendered by a CFO.
- (5) Amounts shown are for the entire financial year.

**SECURITIES AUTHORIZED FOR ISSUANCE  
UNDER EQUITY COMPENSATION PLANS**

The following table sets out, as at the end of the Company's last completed financial year, information regarding outstanding options, warrants and rights (other than those granted *pro rata* to all shareholders) granted by the Company under its equity compensation plans.

**Equity Compensation Plan Information**

Plan Category	Number of shares issuable upon exercise of outstanding options, warrants and rights <sup>(1)</sup>	Weighted average exercise price of outstanding options, warrants and rights	Number of shares remaining available for issuance under equity compensation plans <sup>(2)</sup>
Equity compensation plans <b>approved</b> by shareholders	1,180,000	\$0.10	203,769
Equity compensation plans <b>not approved</b> by shareholders	0	–	–
<b>Total</b>	<b>1,180,000</b>	<b>\$0.10</b>	<b>203,769</b>

- (1) Assuming outstanding options, warrants and rights are fully vested.
- (2) Excluding the number of shares issuable upon exercise of outstanding options, warrants and rights shown in the second column.

### **INDEBTEDNESS OF DIRECTORS AND OFFICERS**

None of the directors, executive officers or employees of the Company, persons who were directors, executive officers or employees of the Company at any time during the Company's last completed financial year, proposed nominees for election as directors of the Company nor any of the associates of such persons are or have been indebted to the Company or any subsidiary at any time since the beginning of the Company's last completed financial year. Furthermore, none of such persons were indebted to a third party during such period where their indebtedness was the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any subsidiary.

### **INTEREST OF MANAGEMENT AND INSIDERS IN MATERIAL TRANSACTIONS**

None of the directors or executive officers of the Company, any proposed nominee for election as a director of the Company, any person beneficially owning, directly or indirectly, shares carrying more than 10% of the voting rights attached to all outstanding shares of the Company nor any associate or affiliate of the foregoing persons has any material interest, direct or indirect, in any transaction since the commencement of the Company's last completed financial year or in any proposed transaction which, in either case, has or will materially affect the Company.

### **REMUNERATION AND APPOINTMENT OF AN AUDITOR**

The persons named in the enclosed Proxy will vote for the appointment of Ernst & Young LLP, Chartered Accountants, of London, Ontario, as the Company's auditor to hold office until the next Annual General Meeting. Ernst & Young LLP was appointed the Company's auditor on December 20, 2007 in the place of the former auditor, BDO Dunwoody LLP, Chartered Accountants. Attached to this Circular is a Notice of Change of Auditor and letters from the former and new auditor confirming that the Notice is correct.

### **MANAGEMENT CONTRACTS**

Pursuant to an agreement dated as of June 1, 2000, as amended November 1, 2003, between the Company and Ionic Management Corp. (formerly Quest Management Corp., "**Management**") of Suite 1028, Bentall V, 550 Burrard Street, Vancouver, British Columbia, the Company paid \$2,500 per month to Management in consideration of Management providing office, reception, secretarial, accounting and corporate records services to the Company until October 31, 2006. Effective November 1, 2006, a new agreement providing for the same services to be provided for the same remuneration was entered into with Management.

Management is a private company wholly-owned by the President, Chief Executive Officer and a director of the Company, Brian E. Bayley of North Vancouver, British Columbia, and A. Murray Sinclair, of Vancouver, British Columbia.

## **PARTICULARS OF OTHER MATTERS TO BE ACTED UPON**

In addition to the ordinary business to be conducted at the Meeting, approval of the Company's shareholders is being sought for the following matters.

### **Stock Option Plan**

The Board of Directors of the Company has established an incentive stock option plan (the "Plan") as described under 'Executive Compensation – Stock Option Plan'.

The policies of the TSX Venture Exchange require stock option plans which reserve for issuance up to 10% (instead of a fixed number) of the issued shares be approved annually by shareholders. That approval is being sought at the Meeting by way of an ordinary resolution. The persons named in the accompanying Proxy as proxyholders intend to vote the shares represented by Proxies in favour of this proposed resolution.

Following approval of the Plan by the shareholders any options granted pursuant to the Plan will not require further shareholder or Exchange approval unless the exercise price is reduced or the expiry date is extended for an option held by an insider of the Company.

### **Other Matters**

The management does not know of any other matters to come before the Meeting other than those referred to in the Notice of Meeting. Should any other matters properly come before the Meeting, the shares represented by the Proxies solicited hereby will be voted on such matters in accordance with the best judgment of the persons voting the Proxies.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is on SEDAR at [www.sedar.com](http://www.sedar.com). Shareholders may contact the Company at Suite 100, 360 Queens Avenue, London, ON N6B 1X6, Canada by mail, telecopier (+1) 866-484-8296, telephone (+1) 866-484-8230 or e-mail ([jsmith@torqueenergy.com](mailto:jsmith@torqueenergy.com)) to request copies of the Company's financial statements and MD&A.

Financial information for the Company's most recently completed financial year is provided in its comparative financial statements and MD&A, copies of which are enclosed with this Circular and filed on SEDAR.

**DATED** this 17<sup>th</sup> day of April, 2008

## **ON BEHALF OF THE BOARD OF DIRECTORS**

(signed) JANICE M. SMITH  
Secretary

**CHARTER  
FOR  
THE AUDIT COMMITTEE  
OF  
THE BOARD OF DIRECTORS  
OF  
TORQUE ENERGY INC.**

**I. MANDATE**

The Audit Committee (the “**Committee**”) of the Board of Directors (the “**Board**”) of Torque Energy Inc. (the “**Company**”) shall assist the Board in fulfilling its financial oversight responsibilities. The Committee’s primary duties and responsibilities under this mandate are to serve as an independent and objective party to monitor:

1. The quality and integrity of the Company’s financial statements and other financial information;
2. The compliance of such statements and information with legal and regulatory requirements;
3. The qualifications and independence of the Company’s independent external auditor (the “**Auditor**”); and
4. The performance of the Company’s internal accounting procedures and Auditor.

**II. STRUCTURE AND OPERATIONS**

A. Composition

The Committee shall be comprised of three or more members.

B. Qualifications

Each member of the Committee must be a member of the Board.

A majority of the members of the Committee shall not be officers or employees of the Company or of an affiliate of the Company.

Each member of the Committee must be able to read and understand fundamental financial statements, including the Company’s balance sheet, income statement, and cash flow statement.

C. Appointment and Removal

In accordance with the Articles of the Company, the members of the Committee shall be appointed by the Board and shall serve until such member's successor is duly elected and qualified or until such member's earlier resignation or removal. Any member of the Committee may be removed, with or without cause, by a majority vote of the Board.

D. Chair

Unless the Board shall select a Chair, the members of the Committee shall designate a Chair by the majority vote of all of the members of the Committee. The Chair shall call, set the agendas for and chair all meetings of the Committee.

E. Sub-Committees

The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that a decision of such subcommittee to grant a pre-approval shall be presented to the full Committee at its next scheduled meeting.

F. Meetings

The Committee shall meet at least four times in each fiscal year, or more frequently as circumstances dictate. The Auditor shall be given reasonable notice of, and be entitled to attend and speak at, each meeting of the Committee concerning the Company's annual financial statements and, if the Committee feels it is necessary or appropriate, at every other meeting. On request by the Auditor, the Chair shall call a meeting of the Committee to consider any matter that the Auditor believes should be brought to the attention of the Committee, the Board or the shareholders of the Company.

At each meeting, a quorum shall consist of a majority of members that are not officers or employees of the Company or of an affiliate of the Company.

As part of its goal to foster open communication, the Committee may periodically meet separately with each of management and the Auditor to discuss any matters that the Committee or any of these groups believes would be appropriate to discuss privately. In addition, the Committee should meet with the Auditor and management annually to review the Company's financial statements in a manner consistent with Section III of this Charter.

The Committee may invite to its meetings any director, any manager of the Company, and any other person whom it deems appropriate to consult in order to carry out its responsibilities. The Committee may also exclude from its meetings any person it deems appropriate to exclude in order to carry out its responsibilities.

### III. DUTIES

#### A. Introduction

The following functions shall be the common recurring duties of the Committee in carrying out its purposes outlined in Section I of this Charter. These duties should serve as a guide with the understanding that the Committee may fulfill additional duties and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory or other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the Board from time to time related to the purposes of the Committee outlined in Section I of this Charter.

The Committee, in discharging its oversight role, is empowered to study or investigate any matter of interest or concern which the Committee in its sole discretion deems appropriate for study or investigation by the Committee.

The Committee shall be given full access to the Company's internal accounting staff, managers, other staff and Auditor as necessary to carry out these duties. While acting within the scope of its stated purpose, the Committee shall have all the authority of, but shall remain subject to, the Board.

#### B. Powers and Responsibilities

The Committee will have the following responsibilities and, in order to perform and discharge these responsibilities, will be vested with the powers and authorities set forth below, namely, the Committee shall:

##### *Independence of Auditor*

1. Review and discuss with the Auditor any disclosed relationships or services that may impact the objectivity and independence of the Auditor and, if necessary, obtain a formal written statement from the Auditor setting forth all relationships between the Auditor and the Company, consistent with Independence Standards Board Standard 1.
2. Take, or recommend that the Board take, appropriate action to oversee the independence of the Auditor.
3. Require the Auditor to report directly to the Committee.
4. Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the Auditor and former independent external auditor of the Company.

*Performance & Completion by Auditor of its Work*

5. Be directly responsible for the oversight of the work by the Auditor (including resolution of disagreements between management and the Auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.
6. Review annually the performance of the Auditor and recommend the appointment by the Board of a new, or re-election by the Company's shareholders of the existing, Auditor.
7. Pre-approve all auditing services and permitted non-audit services, including the fees and terms thereof, to be performed for the Company by the Auditor unless such non-audit services:
  - (a) which are not pre-approved, are reasonably expected not to constitute, in the aggregate, more than 5% of the total amount of revenues paid by the Company to the Auditor during the fiscal year in which the non-audit services are provided;
  - (b) were not recognized by the Company at the time of the engagement to be non-audit services; and
  - (c) are promptly brought to the attention of the Committee by the Company and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board to whom authority to grant such approvals has been delegated by the Committee.

*Internal Financial Controls & Operations of the Company*

8. Establish procedures for:
  - (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
  - (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

*Preparation of Financial Statements*

9. Discuss with management and the Auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.

10. Discuss with management and the Auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Company's financial statements or accounting policies.
11. Discuss with management and the Auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
12. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.
13. Discuss with the Auditor the matters required to be discussed relating to the conduct of any audit, in particular:
  - (a) The adoption of, or changes to, the Company's significant auditing and accounting principles and practices as suggested by the Auditor, internal auditor or management.
  - (b) The management inquiry letter provided by the Auditor and the Company's response to that letter.
  - (c) Any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.

*Public Disclosure by the Company*

15. Review the Company's annual and quarterly financial statements, management discussion and analysis (MD&A) and earnings press releases before the Board approves and the Company publicly discloses this information.
16. Review the Company's financial reporting procedures and internal controls to be satisfied that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from its financial statements, other than disclosure described in the previous paragraph, and periodically assessing the adequacy of those procedures.
17. Review disclosures made to the Committee by the Company's Chief Executive Officer and Chief Financial Officer during their certification process of the Company's financial statements about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.

*Manner of Carrying Out its Mandate*

18. Consult, to the extent it deems necessary or appropriate, with the Auditor, but without the presence of management, about the quality of the Company's accounting principles, internal controls and the completeness and accuracy of the Company's financial statements.
19. Request any officer or employee of the Company or the Company's outside counsel or Auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.
20. Meet, to the extent it deems necessary or appropriate, with management, any internal auditor and the Auditor in separate executive sessions.
21. Have the authority, to the extent it deems necessary or appropriate, to retain special independent legal, accounting or other consultants to advise the Committee advisors.
22. Make regular reports to the Board.
23. Review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.
24. Annually review the Committee's own performance.
25. Provide an open avenue of communication among the Auditor, the Company's financial and senior management and the Board.
26. Not delegate these responsibilities other than to one or more independent members of the Committee the authority to pre-approve, which the Committee must ratify at its next meeting, non-audit services to be provided by the Auditor.

F. Limitation of Audit Committee's Role

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the Auditor.

### NOTICE OF CHANGE OF AUDITOR

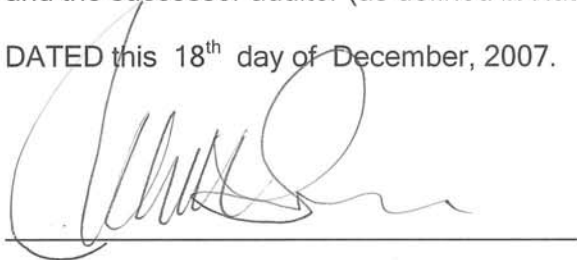
In accordance with National Instrument 51-102 *Continuous Disclosure Obligations*, of the Canadian Securities Administrators, notice is hereby given that BDO Dunwoody LLP, Chartered Accountants of Calgary, Alberta ("BDO") has resigned as the auditor of the Corporation effective December 12, 2007, at the request of the Corporation.

The Audit Committee and the Board of Directors of the Corporation have accepted the resignation of BDO and the Committee has recommended and the Board has appointed Ernst & Young LLP, Chartered Accountants of London, Ontario as the Corporation's successor auditor until the next annual general meeting of shareholders at which time the shareholders will be asked to confirm the appointment of the new auditor.

BDO did not have any reservations in its auditor's reports on the financial statements of the Corporation for the years ended November 30, 2005 and 2006.

In the opinion of the Corporation, there were no 'disagreements' or 'unresolved issues' between the Corporation and the former auditor nor were there any 'consultations' between the Corporation and the successor auditor (as defined in National Instrument 51-102) prior to the date hereof.

DATED this 18<sup>th</sup> day of December, 2007.

A handwritten signature in black ink, appearing to read "John Thomson", is written over a horizontal line.

John K. Thomson  
General Manager



Ernst & Young LLP  
Chartered Accountants  
One London Place, Suite 1800  
255 Queens Avenue  
P.O. Box 5332  
London, Canada, N6A 5S7

Phone: 519 672-6100  
Fax: 519 438-5785

December 18, 2007

British Columbia Securities Commission  
Alberta Securities Commission  
Ontario Securities Commission

Dear Sirs:

**Re: Torque Energy Inc.  
Notice of Change of Auditor dated 2007/12/18**

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Pursuant to National Instrument 51-102 (Part 4.11), we have read the above-noted Change of Auditor Notice and confirm our agreement with the information contained in the Notice pertaining to our firm.

Yours sincerely,

Chartered Accountants  
Licensed Public Accountants

W.H. Granger  
Direct Line (519) 646-5534

cc: The Board of Directors  
Torque Energy Inc.



**BDO Dunwoody LLP**  
Chartered Accountants  
and Advisors

1900, 801 - 6 Avenue S.W.  
Calgary Alberta Canada T2P 3W2  
Telephone: (403) 266-5608  
Fax: (403) 233-7833  
www.bdo.ca

December 18, 2007

British Columbia Securities Commission  
Alberta Securities Commission  
Ontario Securities Commission

Dear Sirs:

**Re: Torque Energy Inc.**

Pursuant to National Instrument 51-102 (Part 4.11), we have been provided with the enclosed notice, dated December 18, 2007, with respect to our resignation as the Auditor of the Company. Based on the information available to us, we agree with the information contained in the attached notice.

We understand that the Notice of Change of Auditor along with this letter will be provided to the Company's registered shareholders.

Yours truly,

***Signed "BDO Dunwoody LLP"***

Chartered Accountants  
Calgary, Alberta

cc: Torque Energy Inc.  
Ernst & Young LLP