

MIDNIGHT OIL EXPLORATION LTD.
Notice of Annual Meeting of Shareholders

TO: **THE SHAREHOLDERS OF MIDNIGHT OIL EXPLORATION LTD.**

TAKE NOTICE that an Annual Meeting (the "Meeting") of the shareholders of **Midnight Oil Exploration Ltd.** (the "Corporation") will be held at the **Metropolitan Centre, 333 – 4th Avenue S.W., Calgary, Alberta**, on **Friday, the 12th day of May, 2006 at 9:00 a.m. (Calgary time)** for the following purposes:

1. To receive and consider the financial statements of the Corporation for the year ended December 31, 2005, the auditors' report thereon and the report of the Board of Directors;
2. To elect directors;
3. To appoint auditors and to authorize the directors to fix their remuneration as such;
4. To transact such other business as may properly be brought before the Meeting or any adjournment thereof.

The specific details of the matters proposed to be put before the Meeting are set forth in the Information Circular accompanying and forming part of this Notice.

The management and Board of Midnight encourages you to participate by ensuring that your shareholdings are represented and that your wishes are made known at the Meeting. **If you are unable to attend the meeting in person, we request that you date and sign the enclosed form of proxy and mail it to or deposit it with the President of the Corporation c/o Valiant Trust Company 310, 606 – 4th Street S.W., Calgary, Alberta T2P 1T1, Fax No. (403) 233-2857. In order to be valid and acted upon at the meeting, forms of proxy must be returned to the aforesaid address not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time for holding the meeting or any adjournment thereof. Shareholders are cautioned that the use of the mails to transmit proxies is at each shareholder's risk.**

The record date for the determination of shareholders entitled to receive notice of and to vote at the Meeting is the close of business on March 24, 2006 (the "Record Date"). Shareholders of record will be entitled to vote those shares included in the list of shareholders entitled to vote at the Meeting prepared as at the Record Date, unless any such shareholder transfer his shares after the Record Date and the transferee of those shares establishes that he owns the shares and demands, not later than 10 days before the Meeting, that the transferee's name be included on the list of shareholders entitled to vote at the Meeting, in which case such transferee shall be entitled to vote such shares at the Meeting.

DATED at Calgary, Alberta, this 31st day of March, 2006.

BY ORDER OF THE BOARD OF DIRECTORS

(Signed) "Fred Woods"
President and Chief Executive Officer

INFORMATION CIRCULAR – PROXY STATEMENT
for the Annual Meeting of Midnight Oil Exploration Ltd.
to be held on May 12, 2006

MIDNIGHT OIL EXPLORATION LTD.

March 31, 2006

Management Solicitation

This Information Circular – Proxy Statement ("Information Circular") is furnished in connection with the solicitation of proxies by the management of Midnight Oil Exploration Ltd. ("Midnight" or the "Corporation") for use at the Annual Meeting (the "Meeting") of our shareholders of common shares of Midnight.

The Meeting will be held on **May 12, 2006 at 9:00 a.m. (Calgary time) at the Metropolitan Centre, 333 – 4th Avenue S.W., Calgary, Alberta**, and at any adjournment thereof, for the purposes set forth in the Notice of Annual Meeting of Shareholders accompanying this Information Circular. Information contained in this Information Circular is as of March 31, 2006 except where otherwise indicated.

Solicitation of proxies will be primarily by mail but may also be by telephone, facsimile or in person by directors and officers of Midnight who will not be additionally compensated therefore. The cost of solicitation by or on behalf of management will be borne by the Corporation.

Completion and Voting of Proxies

The form of proxy provides the shareholders or intermediaries an opportunity to specify that the common shares ("Shares") registered in their name shall be voted for or against or withheld from voting in respect of elections of directors, the appointment of auditors (as well as authorizing the directors to fix the remuneration of the auditors) and on certain matters relating to the stock option plan of the Corporation.

The persons named in the accompanying proxy are directors or senior officers of the Corporation.

Registered shareholders or intermediaries holding Shares on behalf of unregistered shareholders have the right to appoint a person, who need not be a shareholder, to attend and act on their behalf at the Meeting, other than the persons named in the proxy. To exercise this right, the shareholder or intermediary must strike out the names of the persons named in the proxy and insert the name of his nominee in the space provided, or complete another proxy.

A shareholder or intermediary may indicate the manner in which the persons named in the enclosed proxy are to vote with respect to any matter by checking the appropriate space. On any poll, 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. If the shareholder or intermediary wishes to confer a discretionary authority with respect to any matter, the space should be left blank. **In such instance, the nominee, if one is proposed by management, intends to vote the Shares represented by the proxy in favour of the motion.**

The enclosed proxy, when properly signed, also 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.

Management knows of no matters to come before the Meeting other than matters referred to in the Notice of Meeting. However, if any other matters which are not now known to management should properly come before the Meeting, the proxies in favour of management nominees will be voted on such matters in accordance with the best judgement of the management nominees.

The proxy must be dated and signed by the registered shareholder or by his attorney authorized in writing or by the intermediary. If the proxy is not dated it will be deemed to bear the date on which it was received by our management. In the case of a corporation, the proxy must be executed under its corporate seal or signed by a duly authorized officer or attorney for the corporation with proof of authority accompanying the proxy.

Completed proxies 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 President of the Corporation c/o Valiant Trust Company, 310, 601 – 4th Street S.W., Calgary, Alberta, T2P 1T1 not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time for the holding of the Meeting or any adjournment thereof or deposited with the Chairman of the Meeting on the day of the Meeting before the commencement of the Meeting.

Revocation of Proxies

A shareholder or intermediary who has given a proxy may revoke it at any time prior to its use. In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing signed by the intermediary or shareholder or his attorney authorized in writing, or if the shareholder is a corporation, executed under its corporate seal or signed by a duly authorized officer or attorney for the corporation and either delivered to our registered office at 1400, 350 – 7th Avenue, S.W., Calgary, Alberta, T2P 3N9 prior to the last business day preceding the day of the Meeting, or any adjournment thereof at which the proxy is to be used, or deposited with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof before the commencement of such meeting and upon either of such deposits the proxy is revoked.

Exercise of Discretion by Proxyholder

The proxyholder named in the enclosed form of proxy will, on a poll if the instructions are certain, vote the Shares in respect of which they are so appointed in accordance with the direction of the shareholder appointing him. **In the absence of any such direction, such Shares will be voted in favour of the matters described in this proxy.**

The enclosed form of proxy confers discretionary authority upon the proxyholder with respect to amendments or variations of matters identified in the Notice of Meeting and other matters which may properly come before the Meeting unless revoked by the shareholder as provided herein. At the time of printing this Information Circular, our management knows of no such amendments, variations or other matters which are to be presented for consideration at the Meeting.

Beneficial Holders Of Shares

The information set forth in this section is of significant importance to many of our shareholders, as a substantial number of the shareholders do not hold Shares in their own name. Shareholders who do not hold their Shares in their own name (referred to as "Beneficial Shareholders") should note that only proxies deposited by shareholders whose names appear on our records as the registered holders of Shares can be recognized and acted upon at the Meeting. If Shares are listed in an account statement provided to a shareholder by a broker, then in almost all cases those Shares will more likely be registered under the name of the broker or an agent of a broker. In Canada, the vast majority of such Shares are registered under the name of CDS & Co., (the registration name for The Canadian Depository of Securities, which acts as nominee for many Canadian brokerage firms). Shares held by brokers or their nominees can only be voted upon the instructions of the Beneficial Shareholders. Without specific instructions, brokers/nominees are prohibited from voting Shares for their clients. We do not know for whose benefit the Shares registered in the name of CDS & Co. are held. Therefore, Beneficial Shareholders cannot be recognized at the Meeting for purposes of voting the Shares in person or by way of proxy, except as set out below.

Applicable regulatory policy requires your broker to seek voting instructions from you in advance of the Meeting. Every broker has its own mailing procedures and provides its own return instructions, which you should carefully follow in order to ensure that your Shares are voted at the Meeting. Often, the form of proxy supplied by your broker is identical to the form of proxy provided to registered shareholders. However, its purpose is limited to instructing the registered shareholder how to vote on your behalf. The majority of brokers now delegate responsibility for obtaining instructions from clients to ADP Investor Communications (formerly Independent Investor Communications Corporation). If you receive a voting instruction form from ADP Investor

Communications, it cannot be used as a proxy to vote Shares directly at the Meeting as the proxy must be returned (or otherwise reported as provided in the voting instruction form) to ADP Investor Communications well in advance of the meeting in order to have the Shares voted.

If you are a Beneficial Shareholder and wish to vote in person at the Meeting, please contact your broker or agent well in advance of the Meeting to determine how you can do so.

Record Date

Any shareholder of record at the close of business on March 24, 2006 who either personally attends the Meeting or has completed and delivered a form of proxy in the manner and subject to the provisions described above will be entitled to vote or to have his Shares voted at the Meeting or any adjournment or adjournments thereof. To the extent that registered shareholders have transferred the ownership of any Shares subsequent to March 24, 2006 and the transferee of those Shares produces properly endorsed share certificates, or otherwise establishes that they own the Shares and demands, not later than 10 days before the Meeting, that their name be included on the shareholder list before the Meeting, the transferee shall be entitled to vote their Shares at the Meeting.

BUSINESS OF THE MEETING

1. Report of the Directors and Consolidated Financial Statements

A copy of Midnight's Annual Financial Statements for the periods ended December 31, 2005 and 2004 along with the Management's Discussion and Analysis is available on the SEDAR system at www.sedar.com or on our website at www.midnightoil.ca.

2. Election of Directors

At the Meeting, the shareholders will be asked to fix the number of our directors to be elected at the Meeting at five (5) members and to elect five (5) directors. Each director elected will hold office until the next annual meeting or until his successor is duly elected or appointed, unless his office is vacated earlier. There are presently five (5) directors of Midnight, each of whom retire from office at the Meeting.

Unless otherwise directed, it is the intention of management to vote proxies in the accompanying form in favour of the election as directors of the five (5) nominees hereinafter set forth:

Fred Woods
 Anthony Lambert
 Paul Moynihan
 Jay Squiers
 Tom Medvedic

Management does not contemplate that any of the nominees will be unable to serve as a director. We have not received notice of, and we are not aware of, any proposed nominees in addition to those named. The names and municipalities of residence of the persons nominated for election as directors, the number of voting securities of Midnight beneficially owned, directly or indirectly, or over which each exercises control or direction, the offices held by each in Midnight, the period served as director and the principal occupation of each are as follows:

Name and Municipality of Residence	Number of Common Shares Beneficially Owned⁽¹⁾⁽²⁾	Offices Held and Time as Director	Principal Occupation
Fred Woods Calgary, Alberta	1,124,433	President and CEO; Director since October 1, 2004	President and Chief Executive Officer of Midnight and Executive Chairman of Daylight Energy Ltd.
Anthony Lambert Calgary, Alberta	828,581	Director since November 30, 2004	President and Chief Executive Officer of Daylight Energy Ltd.
Paul Moynihan ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾ Calgary, Alberta	215,508	Chairman of the Board and Director since November 30, 2004	Managing Director and Partner of Mustang Capital Partners Inc.
Jay Squiers ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾ Dallas, Texas	14,378	Director since November 30, 2004	Managing Director of Fortress Investment Group LLC
Tom Medvedic ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾ Calgary, Alberta	66,667	Director since November 30, 2004	Vice-President, Finance and Chief Financial Officer of Calfrac Well Services Ltd.

Notes:

- (1) Information as to Common Shares beneficially owned directly or indirectly or over which control or direction is exercised as at March 31, 2006, is based on data furnished to Midnight by the nominees.
- (2) Fred Woods has 553,333 warrants, Anthony Lambert has 425,000 warrants and each of Messrs. Moynihan, Squiers and Medvedic have 70,000 warrants to purchase Common Shares of Midnight which were acquired as part of an initial private placement of an aggregate 2,333,333 warrants prior to the effective time of the Plan of Arrangement. Each warrant is exercisable into one Midnight Common Share at an exercise price of \$3.00 per share. The warrants were subject to the achievement of the following performance criteria; (i) one-third of the warrants will vest on November 29, 2005 and will only be exercisable if the 10 day weighted average trading price of Midnight Common Shares is equal to or greater than \$3.00 per share; (ii) an additional one-third of the warrants will vest on November 29, 2006 and will only be exercisable if the 10 day weighted average trading price of the Midnight Common Shares is equal to or greater than \$3.75 per share; and (iii) the balance of the warrants will vest on November 29, 2007 and will only be exercisable if the 10 day weighted average trading price of the Midnight Common Shares is equal to or greater than \$4.50 per share. The performance requirements were met in December 2005 resulting in one-third of the warrants vesting on November 29, 2005 with the balance vesting equally over the next two years. The warrants expire on November 29, 2008.
- (3) Member of the Audit Committee, which committee is required pursuant to the Business Corporations Act (Alberta).
- (4) Member of the Compensation Committee.
- (5) Member of the Reserves Committee.
- (6) Member of the Corporate Governance Committee.

Each of the above individuals has not been engaged in the principal occupation indicated opposite his name for the last five years. Mr. Fred Woods was the President and Chief Executive Officer of Midnight Oil & Gas Ltd. from July 2000 to November 30, 2004 and prior thereto, from March 1997 to May 17, 2000 was the President and Chief Operating Officer of Ulster Petroleums Ltd. Anthony Lambert who, from November 30, 2004 to August 3, 2005, in addition to being President of Daylight Energy Ltd., was Vice-President Operations and Chief Operating Officer of Midnight and who, from July 2000 to November 30, 2004, was the Vice-President Operations and Chief Operating Officer of Midnight Oil & Gas Ltd. and prior thereto, from July 1992 to May 17, 2000 was the Vice-President Operations of Ulster Petroleums Ltd. Paul Moynihan who, prior to December 2002, was the Managing Director of Hudson Capital Partners Inc, an investment banking firm and prior thereto, from 1995 to November 2001, was an investment banker with TD Securities Inc. Jay Squiers, prior to August 2005, was a Senior Vice-President of Prudential Capital Group, a private capital lender and a division of Prudential Financial, Inc., prior to 2002 Mr. Squiers held various other positions at Prudential Capital since 1991. Mr. Medvedic, prior to July 2004, was the Treasurer of Ensign Resource Service Group Inc. since December 1994.

Corporate Cease Trade Orders or Bankruptcies

No director, officer or promoter of Midnight has, within the last ten (10) years, been a director, officer or promoter of any reporting issuer that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the company access to any statutory exemption for a period of more than 30 consecutive days or was declared a bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold the assets of that person.

Penalties or Sanctions

No director, officer or promoter of Midnight, within the last ten (10) years, has been subject to any penalties or sanctions imposed by a court or securities regulatory authority relating to trading in securities, promotion or management of a publicly traded issuer or theft or fraud.

Personal Bankruptcies

No director, officer or promoter of Midnight, or, to the knowledge of Midnight, a shareholder holding sufficient securities of Midnight to affect materially the control of Midnight, or a personal holding company of any such persons, has, within the last ten (10) years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the individual.

Conflicts of Interest

The directors and officers of Midnight may, from to time, be involved with the business and operations of other oil and gas issuers, in which case a conflict of interest may arise between their duties as officers and directors of Midnight and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such procedures and remedies, as applicable, under the *Business Corporations Act* (Alberta).

3. Appointment of Auditors

Unless otherwise directed, it is management's intention to vote the proxies in favour of an ordinary resolution to re-appoint the firm of KPMG LLP, Chartered Accountants, Calgary, Alberta, to serve as auditors of Midnight until the next annual meeting of the shareholders and to authorize the directors to fix their remuneration as such. KPMG LLP has been Midnight's auditors since October 28, 2004.

Fees paid or payable to Midnight's auditors for professional services rendered to Midnight in 2005 are as follows:

• Audit Services – Services rendered in connection with the audit of Midnight's financial statements for the period ended December 31, 2005 and for services provided in connection with statutory and regulatory filings	\$ 83,000
• Audit Related Services	30,000
• Tax Related Services	1,200
Total	\$ 114,200

INFORMATION CONCERNING THE CORPORATION

Principal Holders of Shares and Voting Rights

We are authorized to issue an unlimited number of common shares. As at March 31, 2006, Midnight had 38,327,829 common shares issued and outstanding, each such share carrying the right to one vote on the ballot at the Meeting. A quorum for the transaction of business at the Meeting is not less than two persons present, holding or representing not less than 5% of the shares entitled to be voted at the Meeting.

As at March 31, 2006, the directors and officers, as a group, beneficially owned, directly or indirectly, 3,895,334 common shares representing approximately 10.16% of the issued and outstanding common shares.

To the knowledge of our directors and senior officers, as at the date of this Information Circular, no person or company beneficially owns, directly or indirectly, or exercises control or direction over common shares carrying more than 10% of the votes attached to our issued and outstanding common shares other than:

Name of Shareholder	Number of Common Shares Owned Directly or Indirectly	Percentage of Outstanding Common Shares
BlackRock Advisors, Inc.	3,887,200	10.14%

EXECUTIVE COMPENSATION

Compensation

For the year ended December 31, 2005, the Named Executive Officers in accordance with National Instrument 51-102 were Fred Woods, President and Chief Executive Officer and Judy Stripling, Vice-President, Finance and Chief Financial Officer (the "Named Executive Officers"). The Named Executive Officers provided services to Midnight pursuant to an Administrative and Technical Services Agreement with Daylight Energy Ltd. ("Daylight Energy") described in greater detail under the heading "Administrative and Technical Services Agreement" and as such the annual compensation of such Named Executive Officers is paid by Daylight Energy. Mr. Woods and Ms. Stripling's compensation is disclosed in Daylight Energy Trust's 2006 annual meeting information circular, which is available on the SEDAR system and may be viewed at www.sedar.com. Under the terms of the Administrative and Technical Services Agreement, a portion of the Named Executive Officers' time is allocated to the affairs of Midnight based on relative production and capital spending levels between the two companies.

Summary Compensation Table

The following table and notes set forth certain information concerning the compensation paid to the Named Executive Officers by Midnight for 2005 and the one month period from the commencement of operations on November 30, 2004 to December 31, 2004. See "Administrative and Technical Services Agreement".

Name and principal position	Fiscal year	Annual compensation			Long-term compensation			All other compensation ⁽¹⁾ (\$)
		Salary ⁽¹⁾ (\$)	Bonus ⁽¹⁾ (\$)	Other annual compensation (\$)	Awards		Payouts	
					Common Shares Under option/SARs granted (#)	Shares or Units Subject to Resale Restrictions (\$)	LTIP payouts (\$)	
Fred Woods ⁽²⁾ President and Chief Executive Officer	2005	Nil	Nil	-	Nil	-	-	Nil
	2004	Nil	-	-	Nil	-	-	Nil
Judy Stripling ⁽²⁾ Vice-President, Finance and Chief Financial Officer	2005	Nil	Nil	-	Nil	-	-	Nil
	2004	Nil	-	-	Nil	-	-	Nil

Notes:

- (1) Midnight has no employees; all compensation is paid by Daylight Energy Ltd.
- (2) Fred Woods has 553,333 warrants and Judy Stripling has 425,000 warrants to purchase Common Shares of Midnight which were acquired as part of an initial private placement of an aggregate 2,333,333 warrants prior to the effective time of the Plan of Arrangement. Each warrant is exercisable into one Midnight Common Share at an exercise price of \$3.00 per share and vest equally over three years. The warrants expire on November 29, 2008.

Stock Option Plan

We have adopted a stock option plan effective November 29, 2004 which was amended effective January 1, 2005 upon the Toronto Stock Exchange (the "TSX") amending certain parts of the TSX Company Manual including amendments to share compensation arrangements (collectively the "TSX Amendments") which amendments provide, among other things, for the removal of the requirement for a fixed maximum number of securities issuable under a share compensation arrangement, thereby allowing issuers to have a rolling maximum number of securities based on a percentage of its outstanding securities. At the special meeting of shareholders of Midnight held on November 29, 2004 at which the stock option plan of Midnight was originally approved, the shareholders of Midnight also passed a resolution approving a 10% rolling maximum number of Common Shares issuable under Midnight's stock option plan to be effective upon the TSX Amendments becoming effective and accordingly, Midnight's stock option plan has been amended by: (i) changing the number of authorized but unissued Common Shares that may be subject to options granted under the Midnight's stock option plan at any time to 10% of the number of outstanding Common Shares from time to time; and (ii) providing that: (A) any increase in the issued and outstanding Common Shares will result in an increase in the available number of Common Shares issuable under Midnight's stock option plan; and (B) any increase in the number of options granted under Midnight's stock option plan will, if exercised, make new grants available under Midnight's stock option plan.

The stock option plan of Midnight, as amended, is hereinafter referred to as the "Stock Option Plan". The Stock Option Plan limits the number of Common Shares granted thereunder at any time to 10% of the number of outstanding Midnight Common Shares from time to time, subject to certain restrictions as set forth below. Based on the number of issued and outstanding Common Shares as at March 31, 2006 of 38,327,829 Common Shares, the number of Options which may be issued under the Stock Option Plan is currently limited to 3,832,783 Common Shares of which options to purchase 1,084,300 Common Shares (3% of the outstanding Common Shares) are outstanding and 2,748,483 options are available for future grants (7% of the outstanding Common Shares). No Common Shares have been issued to date on exercise of options.

Notwithstanding these authorization limits, we have agreed to limit option grants under our stock option plan to 5% of our outstanding Common Shares until November 30, 2005 and to 7.5% of the outstanding Common Shares until November 30, 2006. In addition, Midnight does not intend to issue any options to any individuals that received warrants to purchase Common Shares of Midnight in connection with Midnight's initial private placement of Common Shares and warrants on November 29, 2004 until November 30, 2006.

Administration of the Stock Option Plan

The Stock Option Plan is administered by the Board and options may be granted to directors, officers, key employees or consultants of Midnight or any subsidiaries of Midnight and, certain other persons providing services on an ongoing basis to Midnight and its subsidiaries, including through the Administrative and Technical Services Agreement. Options granted under the Stock Option Plan are non-assignable.

Restrictions on the Grant of Options

The grant of options pursuant to the Stock Option Plan are subject to the following limitations: (a) the aggregate number of Common Shares reserved for issuance to any one person under the Stock Option Plan, together with all other share compensation arrangements of Midnight, must not exceed 5% of the outstanding issue of Common Shares (on a non-diluted basis); (b) in the aggregate, no more than 10% of the issued and outstanding Common Shares (on a non-diluted basis) may be reserved at any time for "insiders" of Midnight under the Stock Option Plan, together with all other share compensation arrangements of Midnight; (c) the aggregate number of Common Shares issued to "insiders" of Midnight pursuant to the Stock Option Plan and all other share compensation arrangements of Midnight, within a one-year period, shall not exceed 10% of the outstanding issued Common Shares (on a non-diluted basis); (d) the aggregate number of Common Shares issued to any one "insider"

of Midnight and such insider's associates pursuant to the Stock Option Plan and all other share compensation arrangements of Midnight, within a one-year period, shall not exceed 5% of the outstanding issue of Common Shares (on a non-diluted basis); and (e) non-employee directors, in the aggregate, shall not be entitled to receive in any calendar year, options to acquire, in the aggregate, in excess of 250,000 Common Shares.

Option Price

The option price shall be fixed by the Board but under no circumstance shall any option price at the time of the grant be lower than the market price per Common Share or such other minimum price as may be required by any stock exchange on which the Common Shares are listed at the time of grant. Notwithstanding the foregoing, in certain circumstances, such as when an option is offered to an individual as an inducement to secure employment, the option price may be otherwise determined, but only with the prior consent of stock exchanges on which the Common Shares are at that time listed.

Term of Options

The term of options granted shall be determined by the Board in its discretion, to a maximum of five (5) years from the date of the grant of the option. The vesting period or periods within this period during which an option or a portion thereof may be exercised by any participant in the Stock Option Plan shall be determined by the Board.

Put Right

The Stock Option Plan provides that optionees have the right (the "Put Right") to request that Midnight purchase each of their vested options for a price (the "Purchase Price") equal to the excess of the Current Market Price (as defined in the Stock Option Plan), determined on the date (the "Notice Date") of receipt of written notice of exercise (the "Put Notice") by Midnight, over the exercise price for each option being purchased under the Put Right. Upon the exercise of the Put Right, Midnight will cause to be delivered to the optionee a cheque representing the Purchase Price within three business days of the Notice Date. Notwithstanding the foregoing, (a) the Board or the optionee may select all or a portion of the Purchase Price to be satisfied wholly or in part by the issuance of Common Shares from treasury; and (b) the Board, or any committee of the Board to whom the operation of the Stock Option Plan has been delegated, may at its sole discretion decline to accept the exercise of a Put Right at any time.

The total number of Common Shares reserved for issuance pursuant to a Midnight stock option surrendered in connection with the exercise of the Put Right and accepted by Midnight shall be available for inclusion in any other Midnight stock options granted pursuant to the Stock Option Plan.

Termination of Employment/Death

If an optionee is terminated by Midnight (with or without cause), then an option, and all rights to purchase Common Shares pursuant thereto, shall expire and terminate immediately at the earlier of 5:00 p.m. on the 90th day after the later of the optionee ceasing to be an officer, director, employee or consultant of Midnight or a subsidiary of Midnight, as the case may be, and the expiry of the option.

If an optionee resigns from Midnight, then all rights to purchase Common Shares pursuant thereto shall expire and terminate immediately at 5:00 p.m. on the date of such resignation or the date on which the optionee ceases to be an officer, director, employee or consultant of Midnight or a subsidiary of Midnight. Thereafter, all of such optionee's options shall immediately expire and be of no further force and effect and the optionee shall have no further rights in respect of any options.

If before the expiry of an option in accordance with the terms thereof, an optionee ceases to be an employee, officer, director or consultant by reason of his permanent physical or mental disability or death of the optionee, any unvested portion of such option shall immediately vest. In addition, such option may, subject to the terms thereof and any other terms of the Stock Option Plan, be exercised by the legal personal representative(s) of the optionee's estate at any time before 5:00 p.m. (Calgary time) on the 90th day after the date of death of the optionee, subject to, at the discretion of the Board, to extension of the expiry date. Notwithstanding the foregoing, in

no event will an option be exercisable at a date in excess of five years from the date of grant without the approval of the TSX.

Amendment or Discontinuance of Stock Option Plan

The Board may amend or discontinue the Stock Option Plan at any time without the consent of the optionees thereunder provided that such amendment shall not alter or impair any option previously granted under the Stock Option Plan except in certain permitted circumstances. Any amendment of the Stock Option Plan will require the prior approval of the TSX.

Stock Options Granted During Most Recently Completed Financial Year

No stock options were granted to Name Executive Officers in 2005. The following table sets forth certain information concerning stock options granted to Midnight's service providers during the financial year ended December 31, 2005.

Name	Securities Under Options Granted (#)⁽¹⁾	% of Total Options Granted to Employees in 2005	Exercise Price (\$/Security)	Market Value of Securities Underlying Options at the Time of Grant (\$/Security)	Expiration Date
Name Executive Officers	Nil	Nil	Nil	Nil	Nil
Other Service Providers ⁽²⁾	1,174,300	100%	\$3.30 - \$4.30	\$3.30 - \$4.30	Feb. 14, 2010 – Dec. 30, 2010
Total Options	1,174,300	100%		\$3.30 - \$4.30	

Notes:

- (1) The securities consist of Midnight Common Shares. The options vest as to one-third on the first anniversary of the date of the grant and one-third on each of the second and third anniversaries of the date of the grant.
- (2) Other Service Providers are employees of Daylight who work on behalf of Midnight through the Administrative and Technical Services Agreement.

Aggregated Options Exercised During the Year Ended December 31, 2005 and Financial Year-End Option Values

Midnight does not intend to issue any options to any individuals that received warrants to purchase Common Shares of Midnight in connection with Midnight's initial private placement of Common Shares and warrants on November 29, 2004 until November 30, 2006, and accordingly no Named Executive Officer holds stock options.

Securities Authorized for Issuance Under Equity Compensation Plans

The following sets forth information in respect of securities authorized for issuance under Midnight's equity compensation plans as at March 31, 2006. As at December 31, 2005, Midnight had 1,099,800 options outstanding and 2,732,983 options available for future issuance. Midnight's only equity compensation plan is the Stock Option Plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)⁽¹⁾	Weighted average exercise price of outstanding options, warrants and rights (b)⁽¹⁾	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (c)⁽¹⁾
Stock Option Plan approved by shareholders	1,084,300	\$3.50	2,732,983
Stock Option Plan not approved by shareholders	N/A	N/A	N/A
Total ⁽¹⁾	1,084,300	\$3.50	2,732,983

Note:

- (1) Midnight has an aggregate of 2,083,333 warrants to purchase Common Shares outstanding at an exercise price of \$3.00 per share of which an aggregate of 978,333 warrants have been issued to Named Executive Officers. See Note (4) to "Statement of Executive Compensation – Summary Compensation Table" for a description of the vesting provisions of the warrants. The warrants expire on November 29, 2008.

Stock Options Outstanding

As at March 31, 2006, Midnight had an aggregate of 1,084,300 options outstanding which were granted to service providers of Midnight from February 14, 2005 to December 30, 2005 at an average exercise price of \$3.50 per share, vesting as to one-third of the total options granted on the first, second and third anniversaries of the date of the grant and expiring on the fifth anniversary of the date of the grant.

Employment Arrangements

There are no employment contracts or other compensation plans or arrangements with regard to any of the executive officers which provide for specific compensation in the event of resignation, retirement, other termination of employment or from a change of control of Midnight or from a change in an executive officer's responsibilities following a change of control.

Directors' Remuneration

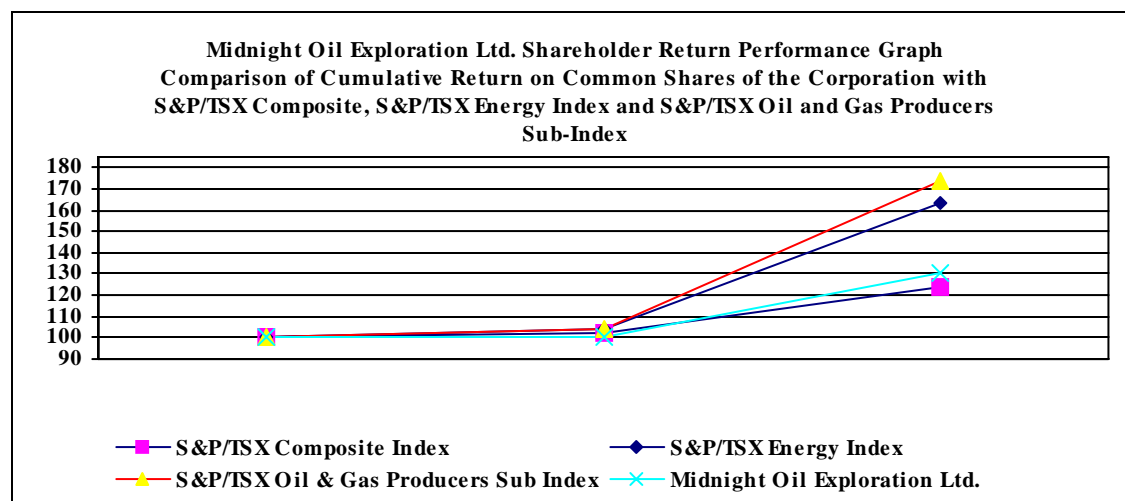
The directors of Midnight currently do not receive any fees for regular meetings of the Board or any committee meetings thereof attended but are entitled to be reimbursed for traveling and other expenses properly incurred in the performance of their duties as directors of Midnight. During the year ended December 31, 2005, \$35,000 was accrued and paid in 2006 to two independent directors of Midnight for attendance at Special Committee meetings. A Special Committee of independent directors was set up to evaluate the Red Earth acquisition completed on November 29, 2005 in conjunction with the corporate acquisition of Tempest Energy Corp. by Daylight Energy.

Indebtedness of Directors and Senior Officers

Management of Midnight is not aware of any indebtedness outstanding by directors or senior officers of Midnight to Midnight or its subsidiaries at any time since the commencement of the last completed financial year of Midnight.

Performance Graph

The chart below compares the cumulative total shareholder return of Midnight's Common Shares (see Notes (1) and 2 below) with the cumulative shareholder return of the S&P/TSX Composite Index, the S&P/TSX Energy Index and the S&P/TSX Oil and Gas Producers Sub Index for the period commencing December 2, 2004 and ending December 31, 2005 (see Note (2) below).



	December 2, 2004	December 2 to December 31, 2004	December 31, 2005
S&P/TSX Composite Index	100	102	124
S&P Energy Index	100	104	163
S&P/TSX Oil & Gas Producers Sub Index	100	104	174
Midnight Oil Exploration Ltd.	100	100	130

Notes:

- (1) Assumes that the initial value of the investment in Midnight's Common Shares, in the S&P/TSX Composite Index, the S&P/TSX Energy Index and the S&P/TSX Oil & Gas Producers Sub Index was \$100 on December 2, 2004.
- (2) Midnight was initially capitalized on November 29, 2004 pursuant to a private placement of 4,666,666 Common Shares at a price of \$1.50 per share for gross proceeds of \$7 million. Pursuant to the Plan of Arrangement, shareholders of Midnight Oil & Gas Ltd. and Series U subscription receipt holders of Daylight Energy Trust received Midnight Common Shares at a deemed value of \$1.50. Midnight's Common Shares began trading on the TSX on December 2, 2004 and the closing price of the Common Shares on that day was \$3.40. The closing trading price of Midnight common shares on the TSX on December 31, 2004 was \$3.40 and on December 31, 2005 was \$4.42.

REPORT ON EXECUTIVE COMPENSATION**Composition and Role of the Compensation Committee**

The board of directors of Midnight has appointed a Compensation Committee composed of three independent non-management directors, Messrs. Squiers (Chairman), Moynihan and Medvedic.

The Compensation Committee meets from time to time during the year for the purpose of, among other things, reviewing the overall employee and executive officer compensation policy. Midnight has no employees as it is staffed through the Administrative and Technical Services Agreement with Daylight Energy. The Compensation Committee makes specific recommendations to the Board on stock option grants and other share incentive rights allocations, employee savings plan contributions and directors' compensation and monitors the compensation practices of Daylight Energy to ensure that their compensation practice in respect of the employees and executive officers of Midnight both in terms of salaries and bonus payments facilitates the attraction and retention of a strong executive management team and employees. The board of directors reviews all recommendations of the Compensation Committee relating to compensation matters before final approval.

Compensation Strategy

Our compensation philosophy is aimed at attracting and retaining quality and experienced people, which is critical to the success of Midnight. Employee compensation, including executive officer compensation, is comprised of three elements: base salary, short-term incentive compensation (being cash bonuses) and long-term incentive compensation (being stock options).

Base Salaries

Midnight's approach to base compensation is to offer salaries which are competitive when compared to those within Midnight's peer group of companies. Base salary ranges are determined following a review of comparative data of Midnight's peer group.

Short-Term Incentive Compensation - Bonuses

In addition to base salaries, cash bonuses may be awarded to employees of Midnight, including executive officers. The award of a bonus is determined, in the case of employees, by senior management of Midnight, approved by the Daylight Energy Compensation Committee and reviewed by the Midnight Compensation Committee. The Daylight Energy Compensation Committee in consultation with the President establishes bonus levels for Vice-Presidents and the Daylight Energy Compensation Committee in consultation with the Daylight Energy Board and reviewed by the Midnight Compensation Committee establishes the President's bonus. In the case of non-executive employees, bonuses are based on the employee's contribution in adding share value and reducing costs and the employees' contribution to the achievement of overall corporate goals.

Long-Term Incentive Compensation - Stock Options

Individual stock options are granted by the Board on the recommendation of senior management, in the case of employees, and by the Midnight Compensation Committee, in the case of executive officers including the Chief Executive Officer. Stock options are intended to align executive and shareholder interests by attempting to create a direct link between compensation and shareholder return. Participation in Midnight's stock option plan rewards overall corporate performance, as measured through the underlying value of Midnight's Common Shares.

Stock options are normally awarded by the Board upon the commencement of employment with Midnight based on the level of responsibility within Midnight. Additional grants may be made periodically to ensure that the number of options granted to any particular individual is commensurate with the individual's level of ongoing responsibility within Midnight.

Employee Savings Plan

Daylight has an employee savings plan whereby all employees, including Midnight's officers, are encouraged to contribute up to a maximum of 9% of their salary to the employee savings plan. The contributions by employees are matched by the Company 100%. The funds are used to purchase both trust units of Daylight and common shares of Midnight in the open market. Since the plan is available to all employees it has been successful in encouraging employees to become shareholders of Midnight and promoting the principle of alignment with shareholders.

Summary

Midnight's compensation policies have allowed Midnight to attract and retain a team of motivated professionals and support staff working towards the common goal of enhancing shareholder value. The Compensation Committee and the Board will continue to review compensation policies to ensure that they are competitive within the oil and natural gas industry and consistent with the performance of Midnight.

Submitted By:

Jay Squiers (Chairman)
Paul Moynihan
Tom Medvedic

ADMINISTRATIVE AND TECHNICAL SERVICES AGREEMENT

Midnight entered into an Administrative and Technical Services Agreement with Daylight Energy concurrently with the completion of the Plan of Arrangement pursuant to which Midnight commenced business. Under this agreement, Daylight Energy personnel provide services in respect of the management, development, exploitation and operation of Midnight's assets. Daylight Energy also provides various administrative services, as

well as access to geological and technical data relating to Midnight's assets. Pursuant to this agreement, Midnight pays its proportionate share of Daylight Energy's general administrative costs, after all recoveries, based upon the respective level of oil and natural gas production of each company relative to the combined level of oil and natural gas production and the respective level of capital expenditures of each company relative to the combined capital spending. The Administrative and Technical Services Agreement has no set termination date and will continue until terminated by either party with three (3) months prior notice. Pursuant to the agreement, for the year ended December 31, 2005, \$995,000 in fees were charged relating to general administrative activities and \$1,627,000 in fees were charged relating to capital expenditures for the period. Both Midnight and Daylight Energy have created independent committees of their board of directors to monitor compliance with the Administrative and Technical Services Agreement.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Board of Directors

The majority of our Board of Directors is independent. Our Board of Directors has determined that Paul Moynihan, Jay Squiers and Tom Medvedic are independent. Fred Woods and Anthony Lambert are not considered independent in that Mr. Woods is the President and Chief Executive Officer of Midnight and Executive Chairman of Daylight Energy, Mr. Lambert is the President of Daylight Energy and each of Mr. Woods and Mr. Lambert provide services to Midnight pursuant to the Administrative and Technical Services Agreement with Daylight Energy and whose annual compensation is paid by Daylight Energy subject to reimbursement by Midnight of a portion thereof pursuant to the terms of the Administrative and Technical Services Agreement.

Although our independent directors do not hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance, in accordance with the mandate of the Board of Directors, at the end of, or during each regularly scheduled meeting of our Board of Directors, the members of our management who are present at such meeting leave the meeting in order that the independent directors can discuss any necessary matters without management being present. In addition, in camera sessions comprising only independent directors are held at the end of each of Audit Committee meeting with the external auditors of Midnight and at each Reserve Committee meeting with Midnight's independent qualified reserves evaluator.

Our Board of Directors has determined that Paul Moynihan, our Chairman, is independent. As our Chairman, Mr. Moynihan provides overall leadership to our Board. Among other things, our Chairman maintains a liaison and communication with all of our directors and the committee chairs to co-ordinate input from directors and optimize the effectiveness of our Board and its committees, and a liaison and communication with our CEO to ensure that our Board receives adequate and regular updates from the CEO on all issues important to the welfare and future of the Corporation. Our Chairman is also responsible for the overall management of our Board.

None of our directors are presently directors of other issuers that are reporting issuers (or the equivalent) other than Fred Woods and Anthony Lambert who are each directors of Daylight Energy Ltd.

Board And Committee Meetings And Meeting Attendance

The following is a summary of attendance of our directors at meetings of our Board and its committees for 2005:

Name	Board Meetings Attended	Audit Committee Meetings Attended	Reserve Committee Meetings Attended	Special Committee ⁽¹⁾ Meetings Attended
Paul Moynihan	6/7	4/4	4/4	n/a
Jay Squiers	7/7	4/4	4/4	4/4
Tom Medvedic	7/7	4/4	4/4	4/4
Fred Woods	7/7	n/a	n/a	n/a
Anthony Lambert	7/7	n/a	n/a	n/a

Note:

- (1) The mandate of the Special Committee was to review the Red Earth property acquisition effective November 29, 2005 in connection with the acquisition by Daylight Energy Trust of Tempest Energy Corp. to ensure that it was fair and in the best interests of Midnight Shareholders.

Board Mandate

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

Board Committees

Our Board has four (4) committees; the Audit Committee, the Compensation Committee, the Reserves Committee and the Corporate Governance Committee, all members of which are comprised of independent directors. The Board has accepted overall responsibility for health, safety and environment matters and no separate committee has been established to deal with these issues. Historically, the Board has also accepted overall responsibility for corporate governance but on March 15, 2006, determined to establish a separate corporate governance committee of the Board, the members of which and an outline of the committee's mandate being set out below under "Board Committees – Corporate Governance Committee".

Audit Committee

The members of our Audit Committee are Tom Medvedic (Chairman), Paul Moynihan and Jay Squiers, all of whom are independent and financially literate. Our Audit Committee's mandate includes:

- reviewing and approving the annual audited financial statements and the Auditors' Report thereon prior to submission to our Board for approval;
- reviewing and approving the quarterly financial statements prior to submission to the Board for approval;
- reviewing and approving of all other financial information that is publicly disseminated prior to its release;
- reviewing and approving all bank credit facilities and other borrowing strategies presented by senior management including hedging and foreign currency risk strategies;
- reviewing the scope of our external audits;
- reviewing, discussing and approving accounting and reporting policies and all changes in accounting principles and policies;
- reviewing our internal control systems and procedures; and
- meeting with the external auditors independently of our management.

See "Mandate and Terms of Reference of the Audit Committee" attached as Schedule "C" to our Annual Information Form for the period ended December 31, 2005 dated March 15, 2006 for the complete text of the Audit Committee's mandate.

Compensation Committee

The members of our Compensation Committee are: Jay Squiers (Chairman), Paul Moynihan and Tom Medvedic. During the period from January 1, 2005 to December 31, 2005, the Compensation Committee met informally on several occasions to review and discuss the compensation for the senior management and staff of Midnight adopted and approved by the Compensation Committee of Daylight Energy. The Compensation Committee's mandate includes:

- formulating and making recommendations to our Board in respect of compensation issues relating to directors, senior management and staff of Midnight;

- reviewing and monitoring the compensation practices of Daylight Energy to ensure that their compensation practice in respect of the employees and executive officers of Midnight both in terms of salaries and bonus payments facilitates the attraction and retention of a strong executive and management team and employees;
- reviewing and recommending to our Board the retainer and fees to be paid to members of our Board;
- reviewing the performance objectives and compensation and benefits package for our CEO and CFO and reviewing, on the direction of our CEO, the compensation and benefits package for other senior management positions; and
- administering our stock option plan in accordance with its terms including the grant of stock options in accordance with the terms thereof and reviewing other incentive plans of the Corporation.

Reserves Committee

The members of our Reserves Committee are Paul Moynihan (Chairman), Tom Medvedic and Jay Squiers. Our Reserves Committee's mandate includes:

- reviewing management's recommendations for the appointment of our independent reserves evaluator;
- meeting with our independent reserves evaluator for the purposes of the committee satisfying itself that the independent engineers act independently and are not unduly influenced by management;
- reviewing the terms of the engagement of our independent reserves evaluators;
- reviewing the Corporation's procedures relating to the disclosure of information with respect to oil and gas activities including reviewing its procedures for complying with its disclosure requirements and restrictions set forth under applicable securities law requirements;
- reviewing the Corporation's procedures for providing information to the independent reserves evaluator;
- reviewing the scope and methodology of the independent reserve evaluators valuation;
- reviewing any significant new discoveries, additions, revisions and acquisitions;
- reviewing assumptions and consistency with prior years;
- reviewing any problems experienced by our independent reserves evaluator preparing the reserve report, including any restrictions imposed by management or significant issues on which there was a disagreement with management; and
- reviewing all public disclosure documents containing reserve information prior to its release, including our annual report, our annual information form and management's discussion and analysis.

Corporate Governance Committee

The members of our Corporate Governance Committee are Tom Medvedic (Chairman), Paul Moynihan and Jay Squiers. Our Corporate Governance Committee's mandate includes:

- formulating and making recommendations to our Board in respect of governance issues and assessing and updating the Corporation's corporate governance practices to protect the interests of shareholders;

- considering any issues related to the Administrative and Technical Services Agreement with Daylight Energy as the Committee considers appropriate or that are directed to the Committee by management;
- meeting with the Corporate Governance and Technical Services Committee of Daylight Energy when appropriate; and
- advising the Board of decisions by the Corporate Governance Committee in respect of the interpretation, amendment or issues in dispute relative to the Administrative and Technical Services Agreement.

Orientation and Continuing Education

Due to the size of our company, no formal education program currently exists for the orientation of new directors. Existing directors provide orientation and education to new members on an informal and *ad hoc* basis. In addition, new directors of the Corporation are given the following: a copy of the mandate of the Board of Directors, a copy of the mandate of each of our committees, a manual of our corporate policies, our by-laws, as well as agendas and minutes for Board and committee meetings for a preceding period of time considered relevant. In addition, each new director receives a presentation by management respecting the nature and operations of our business.

No formal continuing education program currently exists for our directors. Each of our directors has the responsibility for ensuring that he or she maintains the skill and knowledge necessary to meet his obligations as a director.

Ethical Business Conduct

Our Board of Directors has adopted a code of ethics (the "**Code**") applicable to all members of the Corporation, including directors, officers and employees, a copy of which is available for review at www.sedar.com. Each employee, officer and director is required to confirm annually that he or she has read, understood and complied with the Code. Any reports of variance from the Code will be reported to the Board of Directors. There have been no material change reports filed since the beginning of the year ended December 31, 2005, that pertain to any conduct of a director or executive officer that constitutes a departure from our Code.

Our Board has also adopted a whistleblower policy which provides employees with the ability to report, on a confidential and anonymous basis, any violations within our organization including (but not limited to), falsification of financial records, unethical conduct, harassment or theft. The Board believes that providing a forum for employees, officers and directors to raise concerns about ethical conduct and treating all complaints with the appropriate level of seriousness fosters a culture of ethical conduct.

In accordance with the *Business Corporations Act* (Alberta), directors who are a party to or are a director or an officer of a person who is a party to a material contract or material transaction or a proposed material contract or proposed material transaction are required to disclose the nature and extent of their interest and not to vote on any resolution to approve the contract or transaction.

Nomination of Directors

Pursuant to the mandate of our Corporate Governance Committee, our Corporate Governance Committee, which is comprised entirely of independent directors, has the responsibility for selecting nominees for election to the Board. At present, the Corporate Governance Committee does not have a process by which it identifies new candidates for Board nomination but rather the identification of new candidates is done on an informal basis.

Assessments

We have not commenced a formal process of assessing the Board and its committees or the individual directors. To date, our Board as a whole has satisfied itself that the Board, its committees and individual directors are performing effectively through informal discussions.

Position Descriptions

Our Board of Directors has developed written positions descriptions for our CEO, our Chairman of the Board of Directors and the Chairman of each of our committees.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of directors and senior officers of Midnight, nominees for director, any shareholder who beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of the outstanding Common Shares, or any other Informed Person (as defined in National Instrument 51-102), or any known associate or affiliate of such persons in any transaction since the commencement of Midnight's last completed financial year or in any proposed transaction which has materially affected or would materially affect Midnight or any of its subsidiaries, which has not been previously disclosed herein or otherwise in an information circular of Midnight.

INTEREST OF CERTAIN PERSONS AND COMPANIES IN MATTERS TO BE ACTED UPON

Management of Midnight is not aware of any material interest of any director or nominee for director, or senior officer or any one who has held office as such since the beginning of Midnight's last financial year or of any associate or affiliate of any of the foregoing, in any matter to be acted on at the Meeting other than the election of directors and other than as disclosed herein.

ADDITIONAL INFORMATION

Additional information relating to Midnight is available on SEDAR at www.sedar.com. Financial information in respect of Midnight and its affairs is provided in Midnight's annual audited financial statements for the periods ended December 31, 2005 and 2004 and the related management's discussion and analysis. Copies of Midnight's financial statements and related management discussion and analysis are available upon request from Midnight at Midnight Oil Exploration Ltd., 2100, 144 – 4th Avenue S.W., Calgary, Alberta, T2P 3N4 Attention: Judy Stripling, Vice-President, Finance and Chief Financial Officer by telephone at (403) 303-8500 or by email at jstripling@midnightoil.ca. This information is also accessible on our website at www.midnightoil.ca.

OTHER MATTERS

Management knows of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice of Annual Meeting. However, if any other matter properly comes before the Meeting, the accompanying proxy will be voted on such matter in accordance with the best judgment of the person or persons voting the proxy.

SCHEDULE "A"

MIDNIGHT OIL EXPLORATION LTD.

MANDATE OF THE BOARD OF DIRECTORS

The Board of Directors (the "**Board**") of Midnight Oil Exploration Ltd. (the "**Corporation**") is responsible for the stewardship of the Corporation, the other subsidiaries, partnerships and trusts of the Corporation to the extent delegated to the Corporation. In discharging its responsibility, the Board will exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances and will act honestly and in good faith with a view to the best interests of the Corporation. In general terms, the Board will:

- in consultation with the chief executive officer of the Corporation (the "**CEO**"), define the principal objectives of the Corporation;
- supervise the management of the business and affairs of the Corporation with the goal of achieving the Corporation's principal objectives as defined by the Board;
- discharge the duties imposed on the Board by applicable laws; and
- for the purpose of carrying out the foregoing responsibilities, take all such actions as the Board deems necessary or appropriate.

Without limiting the generality of the foregoing, the Board will perform the following duties:

Strategic Direction and Capital and Financial Plans

- require the CEO to present annually to the Board a longer range strategic plan and a shorter range business plan for the Corporation's business, which plans must:
 - be designed to achieve the Corporation's principal objectives;
 - identify the principal strategic and operational opportunities and risks of the Corporation's business; and
 - be approved by the Board as a pre-condition to the implementation of such plans;
- review progress towards the achievement of the goals established in the strategic, operating and capital plans;
- identify the principal risks of the Corporation's business and ensure policies and procedures are in place to appropriately manage these risks;
- approve the annual operating and capital plans;
- approve acquisitions and dispositions in excess of which require approval pursuant to expenditure limits established by the Board;
- approve the establishment of credit facilities; and
- approve issuances of additional Shares or other instruments to the public.

Monitoring and Acting

- monitor the Corporation's progress towards achieving its goals, and to revise and alter its direction through management in light of changing circumstances;

- monitor overall human resources policies and procedures, including compensation and succession planning;
- appoint the CEO and determine the terms of the CEO's employment with the Corporation;
- ensure systems are in place for the implementation and integrity of the Corporation's internal control and management information systems;
- in consultation with the CEO, develop a position description for the CEO;
- evaluate the performance of the CEO at least annually;
- in consultation with the CEO, establish the limits of management's authority and responsibility in conducting the Corporation's business;
- in consultation with the CEO, appoint all officers of the Corporation and approve the terms of each officer's employment with the Corporation;
- develop a system under which succession to senior management positions will occur in a timely manner;
- approve any proposed significant change in the management organization structure of the Corporation;
- in consultation with the CEO, establish a disclosure policy for the Corporation;
- generally provide advice and guidance to management; and
- approve all matters relating to a takeover bid for the securities of the Corporation.

Finances and Controls

- review the Corporation's systems to manage the risks of the Corporation's business and, with the assistance of management, the Corporation's auditors and others (as required), evaluate the appropriateness of such systems;
- monitor the appropriateness of the Corporation's capital structure;
- ensure that the financial performance of the Corporation is properly reported to shareholders, other security holders and regulators on a timely and regular basis;
- in consultation with the CEO, establish the ethical standards to be observed by all officers and employees of the Corporation and use reasonable efforts to ensure that a process is in place to monitor compliance with those standards;
- require that the CEO institute and monitor processes and systems designed to ensure compliance with applicable laws by the Corporation and its officers and employees;
- require the CEO institute and maintain the integrity of internal control and information systems, including maintenance of all required records and documentation;
- approve material contracts to be entered into by the Corporation;
- recommend to shareholders of the Corporation a firm of chartered accountants to be appointed as the Corporation's auditors;
- ensure the Corporation's oil and gas reserve report(s) fairly represents the quantity and value of corporate reserves in accordance with generally accepted engineering principles and applicable securities laws; and

- take reasonable actions to gain reasonable assurance that all financial information made public by the Corporation (including the Corporation's annual and quarterly financial statements) is accurate and complete and represents fairly the Corporation's financial position and performance.

Governance

- in consultation with the Corporate Governance Committee, develop a position description for the Chairman of the Board;
- in consultation with the Corporate Governance Committee, selecting nominees for election to the Board;
- facilitate the continuity, effectiveness and independence of the Board by, amongst other things:
 - appointing a Chairman of the Board;
 - appointing from amongst the directors an audit committee and such other committees of the Board as the Board deems appropriate;
 - defining the mandate of each committee of the Board;
 - ensuring that processes are in place and are utilized to assess the effectiveness of the Chairman of the Board, the Board as a whole, each committee of the Board and each director; and
 - establishing a system to enable any director to engage an outside adviser at the expense of the Corporation;
- in consultation with the Corporate Governance Committee, review annually the composition of the Board and its committees and assess Directors' performance on an ongoing basis, and propose new members to the Board; and
- in consultation with the Compensation Committee, review annually the adequacy and form of the compensation of directors.

Delegation

- the Board may delegate its duties to, and receive reports and recommendations from, any committee of the Board.

Composition

- the Board should be composed of at least 5 individuals elected by the shareholders at the annual meeting;
- a majority of Board members should be independent Directors (within the meaning of Multilateral Instrument 52-110) and free from any business or other relationship that could impair the exercise of independent judgment;
- members should have or obtain sufficient knowledge of the Corporation and the oil and gas business to assist in providing advice and counsel on relevant issues; and
- board members should offer their resignation from the Board to the Chairman of the Board Corporate Governance Committee following:
 - change in personal circumstances which would reasonably interfere with the ability to serve as a Director; and
 - change in personal circumstances which would reasonably reflect poorly on the Corporation (for example, finding by a Court of fraud, or conviction under Criminal Code or securities legislation).

Meetings

- the Board shall meet at least four times per year and/or as deemed appropriate by the Board Chair;
- the Board shall meet at the end of its regular quarterly meetings without members of management being present;
- minutes of each meeting shall be prepared;
- the CEO and Chief Financial Officer shall be available to attend all meetings of the Board upon invitation by the Board; and
- Vice-Presidents and such other staff as appropriate to provide information to the Board shall attend meetings at the invitation of the Board.

Authority

- the Board shall have the authority to review any corporate report or material and to investigate activity of the Corporation and to request any employees to cooperate as requested by the Board; and
- the Board may retain persons having special expertise and/or obtain independent professional advice to assist in fulfilling its responsibilities at the expense of the Corporation.