

## **SUPERIOR MINING INTERNATIONAL CORPORATION**

### **NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS**

**NOTICE IS HEREBY GIVEN** that the Annual and Special Meeting of Shareholders of **SUPERIOR MINING INTERNATIONAL CORPORATION** (the "Corporation") will be held at Suite 1500 – 885 West Georgia Street, Vancouver, British Columbia, on Thursday, the 4<sup>th</sup> day of March, 2010, at the hour of 10:00 a.m. (Vancouver time), for the following purposes:

1. to receive the audited consolidated financial statements of the Corporation for the fiscal year ended July 31, 2009 together with the report of the Auditors thereon;
2. to appoint MacKay LLP, Chartered Accountants as auditors of the Corporation for the ensuing year and to authorize the Directors to fix their remuneration;
3. to determine the number of directors at five;
4. to elect directors of the Corporation for the ensuing year;
5. to approve the amendment to stock options held by insiders of the Corporation as more particularly described in the accompanying Management Proxy Circular; and
6. to transact such further or other business as may properly come before the meeting or any adjournment or adjournments thereof.

Accompanying this Notice is the Corporation's Management's Proxy Circular and a form of Proxy and the Corporation's Annual Report which includes financial statements referred to in item 1 above. The accompanying Management Proxy Circular provides additional information relating to the matters to be dealt with at the Meeting and is supplemental to and expressly made a part of this Notice of Meeting.

If you are a registered shareholder of the Corporation and are unable to attend the Meeting in person, please complete, date and execute the accompanying form of proxy and deposit it with Computershare Investor Services, 9th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1, Fax 1-866-249-7775, not less than 48 hours (excluding Saturdays, Sundays and holidays) prior to the Meeting, or deposit it with the Chairman of the Meeting prior to the commencement of the Meeting.

DATED at Vancouver, British Columbia, this 29th day of January, 2010.

#### **BY ORDER OF THE BOARD OF DIRECTORS**

*"John Proust"* (signed)

John Proust  
President and Chief Executive Officer



# SUPERIOR MINING INTERNATIONAL CORPORATION

**2010**

**ANNUAL  
MEETING**

Notice of Annual and Special Meeting of Shareholders  
Management Proxy Circular

**Place:**

Suite 1500, 885 West Georgia Street  
Vancouver, British Columbia  
V6C 3E8

**Time:**

10:00 a.m.

**Date:**

March 4, 2010

# SUPERIOR MINING INTERNATIONAL CORPORATION

## CORPORATE DATA

### **Head Office**

Suite 1500, 885 West Georgia Street  
Vancouver, British Columbia V6C 3E8

### **Directors**

John Henry Atkinson  
John Proust  
Cyrus Driver  
Kjeld Thygesen  
David M. Stone

### **Officers**

John Henry Atkinson, Chairman  
John Proust, President and Chief Executive Officer  
Cyrus Driver, Chief Financial Officer  
Eileen Au, Corporate Secretary

### **Auditor**

MacKay LLP  
Chartered Accountants  
Suite 1100, 1177 West Hastings Street  
Vancouver, British Columbia V6E 4T5

### **Legal Counsel**

Axium Law Corporation  
Suite 3350, Four Bentall Centre  
1055 Dunsmuir Street  
Vancouver, British Columbia V7X 1L2

### **Registrar & Transfer Agent**

Computershare Investor Services Inc.  
2<sup>nd</sup> Floor, 510 Burrard Street  
Vancouver, British Columbia V6C 3B9

### **Listing**

TSX Venture Exchange  
Symbol – SUI

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
Suite 1500 – 885 West Georgia Street  
Vancouver, British Columbia  
V6C 3E8

**MANAGEMENT PROXY CIRCULAR**  
(as at January 29, 2010 unless otherwise specified)

**SOLICITATION OF PROXIES**

This Management Proxy Circular is furnished in connection with the solicitation of proxies by the management of **SUPERIOR MINING INTERNATIONAL CORPORATION** (the “Corporation”) for use at the Annual and Special Meeting of Shareholders of the Corporation (and any adjournment thereof) (the “Meeting”) to be held on Thursday, March 4, 2010 at the time and place and for the purposes set forth in the accompanying Notice of Meeting. While it is expected that the solicitation will be primarily by mail, proxies may be solicited personally or by telephone by the regular employees of the Corporation at nominal cost, or by outside parties. All costs of solicitation by management will be borne by the Corporation.

The contents and the sending of this Management Proxy Circular have been approved by the Directors of the Corporation.

**APPOINTMENT AND REVOCATION OF PROXIES**

The individuals named in the accompanying form of proxy are officers of the Corporation. **A SHAREHOLDER WISHING TO APPOINT SOME OTHER PERSON (WHO NEED NOT BE A SHAREHOLDER) TO REPRESENT HIM AT THE MEETING HAS THE RIGHT TO DO SO, EITHER BY STRIKING OUT THE NAMES OF THOSE PERSONS NAMED IN THE ACCOMPANYING FORM OF PROXY AND INSERTING THE DESIRED PERSON’S NAME IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY OR BY COMPLETING ANOTHER FORM OF PROXY.** A proxy will not be valid unless the completed form of proxy is received by **COMPUTERSHARE INVESTOR SERVICES INC.** of 2<sup>nd</sup> Floor, 510 Burrard Street, Vancouver, British Columbia V6C 3B9 not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time for holding the Meeting or any adjournment thereof or to the Chairman of the Meeting on the day of the Meeting, prior to the commencement of the Meeting.

A shareholder who has given a proxy may revoke it by an instrument in writing executed by the shareholder or by his or her attorney authorized in writing or, where the shareholder is a corporation, by a duly authorized officer or attorney of the corporation, and delivered to the office of the Corporation’s solicitors in British Columbia at Suite 3350, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1L2, at any time up to and including the last business day preceding the day of the Meeting, or if adjourned, any reconvening thereof, or to the Chairman of the Meeting on the day of the Meeting, prior to the commencement of the Meeting or, if adjourned, any reconvening thereof or in any other manner provided by law. A revocation of a proxy does not affect any matter on which a vote has been taken prior to the revocation.

**VOTING OF PROXIES**

**IN THE ABSENCE OF ANY DIRECTION IN THE INSTRUMENT OF PROXY, IT IS INTENDED IF MANAGEMENT’S PROXYHOLDERS ARE SELECTED THAT SUCH SHARES WILL BE VOTED IN FAVOUR OF THE MOTIONS PROPOSED TO BE MADE AT THE MEETING AS STATED UNDER THE HEADINGS IN THIS MANAGEMENT PROXY CIRCULAR.**

The shares represented by proxies will, on any poll where a choice with respect to any matter to be acted upon has been specified in the form of proxy, be voted in accordance with the specification made.

**SUCH SHARES WILL ON A POLL BE VOTED IN FAVOUR OF EACH MATTER FOR WHICH NO CHOICE HAS BEEN SPECIFIED OR WHERE BOTH CHOICES HAVE BEEN SPECIFIED BY THE SHAREHOLDER.**

The enclosed form of proxy when properly completed and delivered and not revoked confers discretionary authority upon the person appointed proxy thereunder to vote with respect to amendments or variations of matters identified in the Notice of Meeting, and with respect to other matters which may properly come before the Meeting. In the event that amendments or variations to matters identified in the Notice of Meeting are properly brought before the Meeting or any further or other business is properly brought before the Meeting, it is the intention of the persons designated in the enclosed form of proxy to vote in accordance with their best judgement on such matters or business. At the time of the printing of this Management Proxy Circular, the management of the Corporation knows of no such amendment, variation or other matter which may be presented to the Meeting.

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

Authorized Capital: unlimited number of common shares without par value  
 Issued and Outstanding: 41,707,995 common shares without par value<sup>(1)</sup>

<sup>(1)</sup> As at January 29, 2010.

Only shareholders of record at the close of business on January 29, 2010, (the "Record Date") who either personally attend the Meeting or who have completed and delivered a form of proxy in the manner and subject to the provisions described above shall be entitled to vote or to have their shares voted at the Meeting.

On a show of hands, every individual who is present as a shareholder or as a representative of one or more corporate shareholders, or who is holding a proxy on behalf of a shareholder who is not present at the Meeting, will have one vote, and on a poll every shareholder present in person or represented by a proxy and every person who is a representative of one or more corporate shareholders, will have one vote for each common share registered in his or her name or the name of the corporate shareholder(s) represented by him or her on the list of shareholders, which is available for inspection during normal business hours at Computershare Investor Services Inc. and will be available at the Meeting.

To the knowledge of the directors and senior officers of the Corporation, there are no persons or companies who 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 Corporation.

### **APPOINTMENT OF AUDITORS**

The persons named in the accompanying proxy intend to vote for the re-appointment of MacKay LLP, Chartered Accountants of Suite 1100, 1177 West Hastings Street, Vancouver, British Columbia V6E 4T5 and to authorize the directors to fix their remuneration.

### **ELECTION OF DIRECTORS**

The Board of Directors of the Corporation presently consists of five (5) directors and it is intended to determine the number of directors at five (5) and to elect five (5) directors for the ensuing year.

The term of the office of each of the present directors expires at the Meeting. The persons named below will be presented for election at the Meeting as management's nominees and the persons named in the accompanying form of proxy intend to vote for the election of these nominees. Management does not contemplate that any of these nominees will be unable to serve as a director. Each director elected will hold office until the next annual meeting of the Corporation or until his successor is elected or appointed, unless his office is earlier vacated in accordance with the provisions of the applicable corporate law or the Articles of the Corporation.

The following table states the name of each person proposed to be nominated by management for election as a director, the jurisdiction in which he is ordinarily resident, all offices of the Corporation now held by him, his principal occupation, the period of time for which he has been a director of the Corporation, and the number of common shares of the Corporation ("Shares") beneficially owned by him, directly or indirectly, or over which he exercises control or direction, as at the Record Date.

| <b>Nominee Position with the Corporation and Province/State and Country of Residence<sup>(2)</sup></b>                 | <b>Occupation, Business or Employment<sup>(1)</sup></b>  | <b>Period as a Director of the Corporation</b> | <b>Shares Beneficially Owned or Controlled</b> |
|--|--|--|--|
| <b>John Proust<sup>(3)</sup></b><br><i>President, Chief Executive Officer and Director</i><br>British Columbia, Canada | Consultant, director and senior officer of numerous reporting companies.                           | Since January 23, 2006                         | 1,292,500                                      |
| <b>John Henry Atkinson<sup>(4)(5)</sup></b><br><i>Chairman</i><br>Lausanne, Switzerland                                | Business person and a director and officer of numerous non-reporting companies.                    | Since December 18, 1996                        | 2,083,385                                      |
| <b>Cyrus Driver</b><br><i>Chief Financial Officer and Director</i><br>British Columbia, Canada                         | Chartered Accountant and a director and officer of numerous reporting and non-reporting companies. | Since January 25, 1996                         | 540,000  |
| <b>Kjeld Randolph Thygesen<sup>(3)(4)(5)</sup></b><br><i>Director</i><br>England, United Kingdom                       | Business person and a director and officer of numerous non-reporting companies.                    | Since October 14, 2004                         | 485,000  |
| <b>David M. Stone<sup>(3)</sup></b><br><i>Director</i><br>Washington, USA  | President of Minefill Services Inc.  | Since May 4, 2009                              | 100,000  |

- (1) The information as to principal occupation, business or employment and Shares beneficially owned or controlled is not within the knowledge of management of the Corporation and has been furnished by the respective nominees themselves. Each nominee has held the same or a similar principal occupation for the last five years.
- (2) No proposed nominee for director will be elected pursuant to any arrangement or understanding between the nominee and any other person except the directors and executive officers of the Corporation acting solely in such capacity.
- (3) Members of the Audit Committee.
- (4) Member of the Compensation Committee.
- (5) Member of the Corporate Governance Committee.

The Corporation does not have an executive committee.

The Corporation's Board of Directors does not contemplate that any of its nominees will be unable to serve as a director. If any vacancies occur in the slate of nominees listed above before the Meeting, then the proxyholders named in the accompanying form of proxy intend to exercise discretionary authority to vote the shares represented by proxy for the election of any other persons as directors.

No proposed director of the Corporation is, as at the date of this Information Circular, or was within 10 years before the date of this Information Circular, a director, chief executive officer or chief financial officer of any company (including the Corporation), that:

- (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer; or
- (b) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer,

except that Cyrus Driver, the Chief Financial Officer of the Corporation, is the chief financial officer of Maxim Resources Inc. which had a cease trade order issued against it by the British Columbia Securities Commission on May 4, 2009 for failure to file its comparative financial statements for the year ended December 31, 2008 and the required management's discussion and analysis for the year ended December 31, 2008. The cease trade order was revoked by the British Columbia Securities Commission on August 4, 2009 after Maxim Resources Inc. filed the required financial statements and management's discussion and analysis.

No proposed director of the Corporation:

- (a) is, as at the date of this Information Circular, or has been within the 10 years before the date of this Information Circular, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person 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
- (b) has, within 10 years before the date of this Information 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 the assets of the proposed director,

except that David Stone was a director of Adanac Moly Corporation from February 1, 2006 to July 14, 2008 and interim Chief Executive Officer from March 27, 2008 to July 14, 2008. Subsequent to Dr. Stone's resignation, Adanac Moly Corporation announced that it had been granted creditor protection under the Companies' Creditors Arrangement Act ("CCAA") as of December 19, 2008. Adanac Moly Corporation continues to operate under CCAA creditor protection.

No proposed director of the Corporation has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

### **AUDIT COMMITTEE**

Pursuant to the provisions of section 224 of the *Business Corporations Act* (British Columbia), the Corporation is required to have an Audit Committee.

National Instrument 52-110 of the Canadian Securities Administrators ("NI 52-110") requires the Corporation to have a written charter, and, as a venture issuer, to disclose annually in its Management Proxy Circular certain information concerning the constitution of its Audit Committee and its relationship with its independent auditor, as set forth in the following:

#### **The Audit Committee's Charter**

The text of the Audit Committee Charter is attached as Schedule "A".

### Composition of the Audit Committee

The members of the Corporation's Audit Committee are John Proust, Kjeld Randolph Thygesen and David M. Stone. Mr. Thygesen and Dr. Stone are independent member of the audit committee. John Proust is not independent as he is an officer of the Corporation. All members and proposed members are considered to be financially literate.

A member of the Audit Committee is independent if the member has no direct or indirect material relationship with the Corporation. A material relationship means a relationship which could, in the view of the Corporation's Board of Directors, reasonably interfere with the exercise of a member's independent judgment.

A member of the Audit Committee is considered financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation.

### Relevant Education and Experience

Each member of the Corporation's present and proposed Audit Committee has adequate education and experience that is relevant to their performance as an Audit Committee member and, in particular, the requisite education and experience that have provided the member with:

- (a) an understanding of the accounting principles used by the Corporation to prepare its financial statements and the ability to assess the general application of those principles in connection with estimates, accruals and reserves;
- (b) experience preparing, auditing, analyzing 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 Corporation's financial statements or experience actively supervising individuals engaged in such activities; and
- (c) an understanding of internal controls and procedures for financial reporting.

### Audit Committee Oversight

The Audit Committee has not made any recommendations to the Board of Directors to nominate or compensate any external auditor.

### Reliance on Certain Exemptions

The Corporation's auditors, MacKay LLP, have not provided any material non-audit services.

### Pre-Approval Policies and Procedures

The Audit Committee has not adopted specific policies and procedures for the engagement of non-audit services.

### External Auditor Service Fees

The Audit Committee has reviewed the nature and amount of the non-audited services provided by MacKay LLP to the Corporation to ensure auditor independence. Fees incurred with MacKay LLP for audit and non-audit services in the last two fiscal years for audit fees are outlined in the following table:

| Nature of Services        | Fees Paid to Auditor in Year Ended July 31, 2009 | Fees Paid to Auditor in Year Ended July 31, 2008 |
|---------------------------|--|--|
| Audit Fees <sup>(1)</sup> | \$34,544   | \$31,242   |

|                                   |          |          |
|-----------------------------------|----------|----------|
| Audit-Related Fees <sup>(2)</sup> | \$Nil    | \$Nil    |
| Tax Fees <sup>(3)</sup>           | \$Nil    | \$Nil    |
| All Other Fees <sup>(4)</sup>     | \$Nil    | \$Nil    |
| Total                             | \$34,544 | \$31,242 |

- (1) “Audit Fees” include fees necessary to perform the annual audit and quarterly reviews of the Corporation’s consolidated financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.
- (2) “Audit-Related Fees” include services that are traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.
- (3) “Tax Fees” include fees for all tax services other than those included in “Audit Fees” and “Audit-Related Fees”. This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.
- (4) “All Other Fees” include all other non-audit services.

### **Exemption**

The Corporation is relying upon the exemption in section 6.1 of NI 52-110 in respect of the composition of its Audit Committee and in respect of its reporting obligations under NI 52-110 for the year ended July 31, 2008. This exemption exempts a “venture issuer” from the requirement to have 100% of its members be independent, as would otherwise be required by NI 52-110.

### **COMPENSATION COMMITTEE**

The current members of the Corporation’s Compensation Committee are John Henry Atkinson and Kjeld Randolph Thygesen. Mr. Thygesen will be the only independent member of the Compensation Committee. The Compensation Committee periodically reviews the compensation paid to directors, management and employees based on such factors as time commitment, comparative fee paid by other companies in the industry in North America and the level of responsibility and the Corporation’s current position as a development company with limited operating revenue.

### **CORPORATE GOVERNANCE COMMITTEE**

The Corporation’s Corporate Governance Committee is responsible for reviewing matters relating to corporate governance and making recommendations to the Board of Directors with respect thereto. This Committee meets at least once annually. The current members of the Corporation’s Corporate Governance Committee are John Henry Atkinson and Kjeld Randolph Thygesen. Mr. Thygesen is the only independent member of the Corporate Governance Committee.

## **CORPORATE GOVERNANCE**

### **General**

National Instrument 58-101 Disclosure of Corporate Governance Practices (“NI 58-101”) requires that reporting issuers to disclose the corporate governance practices that they have adopted and National Policy 58-201 Corporate Governance Guidelines (“NP 58-201”) provides guidance on corporate governance practices.

The Board of Directors believes that good corporate governance improves corporate performance and benefits all shareholders. The Canadian Securities Administrators (the “CSA”) have adopted NP 58-201, which provides non-prescriptive guidelines on corporate governance practices for reporting issuers such as the Corporation. In addition, the CSA have implemented National Instrument 58-101F2 *Disclosure of Corporate Governance Practices*, which prescribes certain disclosure by the Corporation of its corporate governance practices. This section sets out the Corporation’s approach to corporate governance and addresses the Corporation’s compliance with NI 58-101.

### **1. Board of Directors**

Directors are considered to be independent if they have no direct or indirect material relationship with the Corporation. A “material relationship” is a relationship which could, in the view of the Corporation’s Board of Directors, be reasonably expected to interfere with the exercise of a director’s independent judgment.

The independent members of the Board of Directors of the Corporation at present are Kjeld Randolph Thygesen and Dr. David M. Stone.

The non-independent directors of the Corporation are John Proust, the current President, Chief Executive Officer and a director of the Corporation, John Henry Atkinson, the current Chairman and a director of the Corporation, and Cyrus Driver, the current Chief Financial Officer and a director of the Corporation.

Currently, a majority of the Board of Directors is not independent as three members are officers of the Corporation.

The Board of Directors facilitates its independent supervision over management by having regular Board of Directors’ meetings and by establishing and implementing prudent corporate governance policies and procedures in accordance with NI 58-101.

### **2. Directorships**

Currently, John Henry Atkinson is not a director or officer of any other reporting issuer (or the equivalent) in Canada or elsewhere.

Kjeld Randolph Thygesen is a director of Ivanhoe Mines Ltd., a reporting issuer, which is listed on the Toronto Stock Exchange and the New York Stock Exchange.

John Proust presently serves as a director of Western Uranium Corporation (TSXV:WUC) a reporting issuer listed on the TSX Venture Exchange. He also serves as both a director and senior officer of Southern Arc Minerals Inc., (TSXV:SA) and Canada Energy Partners Inc. (TSXV:CE), reporting issuers listed on the TSX Venture Exchange and Bryant Resources Inc. (CNSX:BYR), a reporting issuer listed on the Canadian National Stock Exchange.

Cyrus Driver is a director of Cobra Venture Corporation, Bellhaven Copper & Gold Inc., Sieger Capital Management Ltd., Orko Silver Corp., Aldrin Resources Corp., as well as a director and senior officer of Nevada Exploration Inc., Mira Resources Corp. and Whitebear Resources Inc. All of these companies are reporting issuers listed on the TSX Venture Exchange.

David M. Stone is a director of Formation Metals Inc. (TSX:FCO) and Southern Arc Minerals Inc. (TSXV:SA), as well as a director and senior officer of ATW Gold Corp. (TSXV:ATW), Boss Power Corp. (TSXV:BPU) and Skeena Resources Ltd. (TSXV:SKE).

### **3. Orientation and Continuing Education**

When new directors are appointed they receive orientation, commensurate with their previous experience, on the Corporation's business and industry and on the responsibilities of directors. Board of Directors' meetings may also include presentations by the Corporation's management and employees to give the directors additional insight into the Corporation's business.

### **4. Ethical Business Conduct**

The Board of Directors has found that the fiduciary duties placed on individual directors by the Corporation's governing corporate legislation and the common law and the restrictions placed by applicable corporate legislation on an individual directors' participation in decisions of the Board of Directors in which the director has an interest have been sufficient to ensure that the Board of Directors operates independently of management and in the best interests of the Corporation.

### **5. Nomination of Directors**

The Board of Directors considers its size each year when it considers the number of directors to recommend to the shareholders for election at the annual meeting of shareholders, taking into account the number required to carry out the Board of Directors' duties effectively and to maintain a diversity of views and experience.

The Board of Directors does not have a nominating committee, and these functions are currently performed by the Board of Directors as a whole. However, if there is a change in the number of directors required by the Corporation, this policy will be reviewed.

### **6. Compensation**

The Compensation Committee determines compensation for the directors and senior officers of the Corporation which it believes is currently relatively nominal.

### **7. Other Board Committees**

The Board of Directors has no other committees other than the Audit Committee, the Compensation Committee and the Corporate Governance Committee.

### **8. Assessments**

The Board of Directors monitors the adequacy of information given to directors, communication between the Board of Directors and management and the strategic direction and processes of the Board of Directors and committees.

## **EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

The objective of the Corporation's compensation program is to compensate the executive officers for their services to the Corporation at a level that is both in line with the Corporation's fiscal resources and competitive with companies at a similar stage of development.

The Corporation compensates its executive officers based on their skill and experience levels and the existing stage of development of the Corporation. Executive officers are rewarded on the basis of the skill and level of responsibility involved in their position, the individual's experience and qualifications, the Corporation's resources, industry practice, and regulatory guidelines regarding executive compensation levels.

The Board has implemented three levels of compensation to align the interests of the executive officers with those of the shareholders. First, executive officers are paid a monthly consulting fees. Second, the Board awards executive officers long term incentives in the form of stock options. Finally, and only in special circumstances, the Board may

award cash or share bonuses for exceptional performance that results in a significant increase in shareholder value. The Corporation does not provide medical, dental, pension or other benefits to the executive officers.

The base compensation of the executive officers is reviewed and set annually by the Board. The CEO has substantial input in setting annual compensation levels. The CEO is directly responsible for the financial resources and operations of the Corporation. In addition, the CEO and Board from time to time determine the stock option grants to be made pursuant to the Corporation's Stock Option Plan. Previous grants of stock options are taken into account when considering new grants. The Board awards bonuses at its sole discretion. The Board does not have pre-existing performance criteria or objectives. Bonuses are awarded only in exceptional circumstances.

Compensation for the most recently completed financial year should not be considered an indicator of expected compensation levels in future periods. All compensation is subject to and dependant on the Corporation's financial resources and prospects.

### Summary Compensation Table

Set out below are particulars of compensation paid to the following persons (the "Named Executive Officers"):

- (a) the Corporation's chief executive officer ("CEO");
- (b) the Corporation's chief financial officer ("CFO");
- (c) each of the Corporation's three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year whose total compensation was, individually, more than \$150,000, as determined in accordance with subsection 1.3(6) of Form 51-102F6 Statement of Executive Compensation, for that financial year; and
- (d) each individual who would be a Named Executive Officer under paragraph (c) but for the fact that the individual was neither an executive officer of the Corporation, nor acting in a similar capacity, at the end of that financial year.

During the fiscal year ended July 31, 2009, the Corporation had two Named Executive Officers, being John Proust, President and CEO and Cyrus Driver, CFO.

The following table is a summary of compensation paid to the Named Executive Officers for the Corporation's financial year ended July 31, 2009:

| Name<br>and Principal Position<br>(a)   | Year<br>(b) | Salary<br>(\$)<br>(c) | Share-<br>based<br>Awards<br>(\$)<br>(d) | Option-<br>based<br>Awards <sup>(2)</sup><br>(\$)<br>(e) | Non-equity incentive<br>plan compensation<br>(\$) |   | Pension<br>Value<br>(\$)<br>(g) | All<br>other<br>compen-<br>sation<br>(\$)<br>(h) | Total<br>Compen-<br>sation<br>(\$)<br>(i) |
|---|-------------|-----------------------|--|--|---|---|---------------------------------|--|---|
|   |             |                       |  |  | Annual<br>incentive<br>plans<br>(f1)              | Long-<br>term<br>incentive<br>plans<br>(f2) |                                 |  |   |
| <b>JOHN PROUST</b><br>President and CEO | 2009        | \$96,000              | Nil                                      | Nil  | Nil   | Nil   | Nil                             | Nil  | \$96,000                                  |
| <b>CYRUS DRIVER</b><br>CFO              | 2009        | Nil                   | Nil                                      | Nil  | Nil   | Nil   | Nil                             | Nil  | Nil                                       |

- (1) These funds were paid to J Proust & Associates, a company controlled by Mr. Proust, for consulting services rendered during the Corporation's fiscal year.

John Proust, a director of the Corporation, provides management and advisory services to the Corporation pursuant to a consulting agreement (the "Proust Agreement") with J. Proust & Associates Inc. ("JPA"), the management company of Mr. Proust, in consideration for the payment of \$8,000 plus GST per month.

### Incentive Plan Awards

#### *Outstanding share-based awards and option-based awards*

The following table sets out the outstanding share-based awards and option-based awards held by the Named Executive Officers as at July 31, 2009:

| Name<br>(a)                      | Option-based Awards   |                                   |                               |   | Share-based Awards  |   |
|----------------------------------|---|-----------------------------------|-------------------------------|---|---|---|
|                                  | Number of securities underlying unexercised options<br>(#)<br>(b) | Option exercise price (\$)<br>(c) | Option expiration date<br>(d) | Value of unexercised in-the-money options (\$)<br>(e) | Number of shares or units of share that have not vested<br>(#)<br>(f) | Market or payout value of share-based awards that have not vested (\$)<br>(g) |
| JOHN PROUST<br>President and CEO | 570,000   | \$0.25                            | May 10, 2011                  | Nil   | Nil   | Nil   |
|                                  | 180,000   | \$0.27                            | August 24, 2012               | Nil   | Nil   | Nil   |
|                                  | 750,000   | \$0.34 <sup>(2)</sup>             | July 26, 2011                 | Nil   | Nil   | Nil   |
| CYRUS DRIVER<br>CFO              | 250,000   | \$0.25                            | May 10, 2011                  | Nil   | Nil   | Nil   |
|                                  | 650,000   | \$0.27                            | August 24, 2012               | Nil   | Nil   | Nil   |
|                                  | 600,000   | \$0.34 <sup>(2)</sup>             | July 26, 2011                 | Nil   | Nil   | Nil   |

(1) The closing market price of the Corporation's common shares on July 31, 2009 was \$0.07.

(2) Subsequent to the financial year ended July 31, 2009, the exercise price was reduced to \$0.12 per share.

#### *Incentive plan awards – value vested or earned during the year*

| Name<br>(a)                      | Option-based awards – Value vested during the year (\$)<br>(b) | Share-based awards – Value vested during the year (\$)<br>(c) | Non-equity incentive plan compensation – Value earned during the year (\$)<br>(d) |
|----------------------------------|--|---|---|
| JOHN PROUST<br>President and CEO | Nil  | Nil   | Nil   |
| CYRUS DRIVER<br>CFO              | Nil  | Nil   | Nil   |

### Pension Plan Benefits

The Corporation does not provide retirement benefits for directors or executive officers.

### Termination and Change of Control Benefits

The Corporation has no plan or arrangement whereby any Named Executive Officer may be compensated in an amount exceeding \$50,000 in the event of that officer's resignation, retirement or other termination of employment, or in the event of a change of control of the Corporation or a subsidiary or a change in the Named Executive Officer's responsibilities following such a change of control.

## Director Compensation

### Director compensation table

The following table sets out the compensation provided to all directors, who are not Named Executive Officers, for the Corporation's financial year ended July 31, 2009:

| Name                | Fees earned (\$) | Share-based awards (\$) | Option-based awards <sup>(1)</sup> (\$) | Non-equity incentive plan compensation (\$) | Pension value (\$) | All other compensation (\$) | Total (\$) |
|---------------------|------------------|-------------------------|---|---|--------------------|-----------------------------|------------|
| John Henry Atkinson | Nil              | Nil                     | Nil                                     | Nil   | Nil                | Nil                         | Nil        |
| Kjeld Thygesen      | Nil              | Nil                     | Nil                                     | Nil   | Nil                | Nil                         | Nil        |
| David M. Stone      | Nil              | Nil                     | \$11,741                                | Nil   | Nil                | Nil                         | \$11,741   |

- (1) Option-based Awards are calculated using the Black-Scholes method to determine grant date fair value. The grant date fair value is not necessarily the value of the option to the individual over time, nor the value that might ultimately be derived from the exercise of such options. All outstanding options are currently at exercise prices in excess of the current share price. Dr. Stone was granted 250,000 stock options during the year ended July 31, 2009, with an estimated fair value of \$0.05 per share. The fair value of stock options granted during the year ended July 31, 2009, was estimated on the date of the grant using the Black-Scholes Option Pricing Model with the following assumptions: average risk-free interest rate of 2.1%, estimated volatility of 115%, expected life of 5 years, forfeiture rate of Nil and expected dividend yield of 0%.

### Share-based awards, option based awards and non-equity incentive plan compensation

The following table sets out the outstanding share-based awards and option-based awards held by the directors as at July 31, 2009:

| Name                | Option-based Awards                                     |                            |                        |  | Share-based Awards  |  |
|---------------------|---|----------------------------|------------------------|--|---|--|
|                     | Number of securities underlying unexercised options (#) | Option exercise price (\$) | Option expiration date | Value of unexercised in-the-money options (\$) | Number of shares or units of share that have not vested (#) | Market or payout value of share-based awards that have not vested (\$) |
| (a)                 | (b)   | (c)                        | (d)                    | (e)  | (f)   | (g)  |
| John Henry Atkinson | 250,000   | \$0.25                     | May 10, 2011           | Nil  | Nil   | Nil  |
|                     | 380,000   | \$0.27                     | Aug 24, 2012           | Nil  | Nil   | Nil  |
|                     | 100,000   | \$0.34 <sup>(2)</sup>      | July 26, 2011          | Nil  | Nil   | Nil  |
| Kjeld Thygesen      | 100,000   | \$0.25                     | May 10, 2011           | Nil  | Nil   | Nil  |
|                     | 100,000   | \$0.34 <sup>(2)</sup>      | July 26, 2011          | Nil  | Nil   | Nil  |
| David M. Stone      | 250,000   | \$0.08                     | May 7, 2014            | \$2,500  | Nil   | Nil  |

- (1) The closing market price of the Corporation's common shares on July 31, 2009 was \$0.07.  
(2) Subsequent to the financial year ended July 31, 2009, the exercise price was reduced to \$0.12 per share.

*Incentive plan awards – value vested or earned during the year*

| <b>Name</b>                | <b>Option-based awards –<br/>Value vested during the<br/>year<br/>(\$)</b> | <b>Share-based awards –<br/>Value vested during the<br/>year (\$)</b> | <b>Non-equity incentive<br/>plan compensation –<br/>Value earned during the<br/>year (\$)</b> |
|----------------------------|--|---|---|
| <b>(a)</b>                 | <b>(b)</b>   | <b>(c)</b>  | <b>(d)</b>  |
| <b>John Henry Atkinson</b> | Nil  | Nil   | Nil   |
| <b>Kjeld Thygesen</b>      | Nil  | Nil   | Nil   |
| <b>David M. Stone</b>      | Nil  | Nil   | Nil   |

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS****Equity Compensation Plan Information**

The following table provides information regarding the number of securities authorized for issuance under the Corporation's Stock Option Plan, as at the end of the Corporation's most recently completed financial year ended July 31, 2009.

| <b>Plan Category</b>                                      | <b>Number of securities to<br/>be issued upon exercise<br/>of outstanding options,<br/>warrants and rights</b> | <b>Weighted-average<br/>exercise price of<br/>outstanding options,<br/>warrants and rights</b> | <b>Number of securities<br/>remaining available for<br/>future issuance under equity<br/>compensation plans<br/>(excluding securities reflected<br/>in column (a))</b> |
|---|--|--|--|
|   | <b>(a)</b>   | <b>(b)</b>   | <b>(c)</b>   |
| Equity compensation plans approved by securityholders     | 6,205,000  | \$0.27   | 936,598  |
| Equity compensation plans not approved by securityholders | N/A  | N/A  | N/A  |
| <b>Total</b>  | 6,205,000  |  | 936,598  |

**INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

Since August 1, 2008, the beginning of the last completed financial year, no current or former director, executive officer or employee of the Corporation, or of any of its subsidiaries, has been indebted to the Corporation or to any of its subsidiaries, nor has any of these individuals been indebted to another entity which indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries.

**INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Other than transactions carried out in the ordinary course of business of the Corporation or any of its subsidiaries, no director or senior officer of the Corporation, management nominee for election as a director of the Corporation, shareholder beneficially owning shares carrying more than 10% of the voting rights attached to the shares of the Corporation nor an associate or affiliate of any of the foregoing persons had since August 1, 2008 (being the commencement of the Corporation's last completed financial year) any material interest, direct or indirect, in any transactions which materially affected or would materially affect the Corporation or any of its subsidiaries.

**MANAGEMENT CONTRACTS**

Except as set out herein, the management functions of the Corporation are not, to any substantial degree, performed by a

person other than the directors or senior officers of the Corporation.

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

### **Approval to Amended Insider Stock Options**

On September 24, 2009, the Corporation amended 1,500,000 outstanding stock options (the “Options”) to reduce the exercise price from a purchase price of \$0.34 to \$0.12 per share, of which, 1,450,000 of these options are held by insiders of the Corporation, as set out in the table below. The amendment has been conditionally accepted by the TSX-V. Pursuant to the policies of the Exchange, the amendment to the Options held by insiders must be approved by a “disinterested shareholder vote”, meaning a majority of the votes cast at the shareholders’ meeting other than votes attaching to securities beneficially owned by the insiders to whom shares may be issued pursuant to the amended stock options.

### *Options Held by Insiders*

| <u>Name of Insider</u>  | <u>Number of<br/>Options Granted</u> | <u>Amended<br/>Exercise Price</u> | <u>Expiry Date</u> |
|---|--------------------------------------|-----------------------------------|--------------------|
| Harry Atkinson<br>Chairman and Director                           | 100,000                              | \$0.12                            | July 26, 2011      |
| John Proust<br>Chief Executive Officer, President and<br>Director | 750,000                              | \$0.12                            | July 26, 2011      |
| Cyrus Driver<br>Chief Financial Officer and Director              | 600,000                              | \$0.12                            | July 26, 2011      |
| Total:  | <u>1,450,000</u>                     |                                   |                    |

As of the Record Date, the Corporation had a total of 41,707,995 common shares issued and outstanding. To the best knowledge of management, the directors and officers of the Corporation and its subsidiaries whose options were amended beneficially own a total of 3,915,885 common shares of the Corporation as of the Record Date. These shares will not be voted on the aforementioned resolutions. The total number of shares held by “disinterested shareholders” totals 37,792,110 shares. These shares may be voted on the resolutions.

Management of the Corporation would like the disinterested shareholders as a group to approve the amendment to the options held by insiders. Accordingly, disinterested shareholders will be asked to approve the following ordinary resolution:

“BE IT RESOLVED, AS AN ORDINARY RESOLUTION, THAT the amendment to the 1,450,000 stock options (the “Options”) previously granted to insiders of the Corporation reducing the exercise price of the stock options to \$0.12 per share be and is hereby approved.”

An ordinary resolution is a resolution passed by a majority of at least 50% of the votes cast by those Shareholders, who being entitled to do so, vote in person or by proxy at the Meeting.

The directors of the Corporation consider the amendment to the Options held by insiders to be in the best interests of the Corporation and recommend that shareholders vote FOR the foregoing resolution. In the event the resolution is not passed, the Corporation may experience difficulty in attracting and retaining strong and qualified personnel.

## **OTHER MATTERS**

Management of the Corporation knows of no matters to come before the Meeting other than those referred to in the Notice of Meeting accompanying this Management Proxy Circular. However, if any other matters properly come

before the Meeting, it is the intention of the persons named in the form of proxy accompanying this Management Proxy Circular to vote the same in accordance with their best judgement of such matters.

**ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com). Shareholders may contact the Corporation at Suite 1500 – 885 West Georgia Street, Vancouver, British Columbia V6C 3E8 or call the Corporation at (604) 601-2005 to request copies of the Corporation's financial statements and management discussion and analysis.

Financial information for the Corporation is provided in the Corporation's comparative financial statements and management discussion and analysis for financial year ended July 31, 2009 which are contained in the Corporation's Annual Report.

DATED at Vancouver, British Columbia, this 29th day of January, 2010.

**BY ORDER OF THE BOARD OF DIRECTORS**

*"John Proust"* (signed)

John Proust  
President and Chief Executive Officer

## SCHEDULE "A"

### Audit Committee Charter

#### ***Statement of Policy of the Corporation***

The purpose of the Corporation's audit committee (the "Audit Committee") is to assist the Board of Directors of the Corporation (the "Board of Directors") in discharging its responsibilities with respect to the accounting policies, internal controls and financial reporting of the Corporation. The Audit Committee is also responsible for monitoring compliance with applicable laws and regulations, standards of ethical business conduct and the systems of internal controls. The Audit Committee shall have the authority to retain special legal, accounting or other consultants to advise the Audit Committee. The Audit Committee may request any, director, officer or employee of the Corporation, or the Corporation's outside counsel or independent auditor, to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.

The guidelines of the TSX Venture Exchange and the Toronto Stock Exchange (collectively, the "Exchange Guidelines") suggest that the Board of Directors of every listed company should be constituted with a majority of individuals who qualify as "unrelated" directors. An "unrelated" director is a director who is independent of management and 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 a view to the best interests of the Corporation other than interest and relationships arising from shareholding. In addition, where a company has a significant shareholder, the Exchange Guidelines suggest that the Board of Directors should include a number of directors who do not have interests in either the Corporation or the significant shareholder. In assessing the Exchange Guidelines and making the foregoing determinations, the circumstances of each director have been examined in relation to a number of factors.

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

The mandate of the Board of Directors, as prescribed by the *Business Corporations Act* (Yukon), is to manage or supervise the management of the business and affairs of the Corporation and to act with a view to the best interests of the Corporation. In doing so, the Board oversees the management of the Corporation's affairs directly and through its committees.

#### ***Meetings of the Board of Directors***

The Board of Directors meets to deal with matters as circumstances require. The Board of Directors transacts its business by circulating resolutions for signature by all directors.

#### ***Mandate of the Audit Committee***

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its financial oversight responsibilities by reviewing the financial reports and other financial information provided by the Corporation to regulatory authorities and shareholders, the Corporation's systems of internal controls regarding finance and accounting and the Corporation's auditing, accounting and financial reporting processes. The Audit Committee's primary duties and responsibilities are to:

- (a) serve as an independent and objective party to monitor the Corporation's financial reporting and internal control system and review the Corporation's financial statements;
- (b) review and assess management's overall process to identify principal risks that could affect the achievement of the Corporation's business plans and to monitor the process to manage such risks;
- (c) oversee and monitor the Corporation's compliance with legal and regulatory requirements;

- (d) be directly responsible for the appointment, compensation and oversight of the external auditors;
- (e) oversee audits of the Corporation's financial statements;
- (f) oversee and monitor the qualifications, independence and performance of the Corporation's external auditors and internal auditing department;
- (g) oversee and monitor the integrity of the Corporation's financial reporting process and system of internal controls regarding financial reporting and accounting compliance;
- (h) provide an avenue of communication among the external auditors, management, the internal auditing department and the Board of Directors; and
- (i) report to the Board of Directors regularly.

The Audit Committee has the authority to conduct any review or investigation appropriate to fulfilling its responsibilities. The Audit Committee shall have unrestricted access to personnel and information and any resources necessary to carry out its responsibility. In this regard the Audit Committee may direct internal audit personnel to particular areas of examination.

#### ***Operation of the Audit Committee***

##### *Reporting of the Audit Committee*

The Audit Committee shall report to the Board of Directors. The full Board of Directors shall be kept informed of the Audit Committee's activities by a report following each Audit Committee meeting.

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

The Audit Committee shall consist of not less than three directors as determined by the Board of Directors, the majority of whom shall qualify as unrelated directors and who are free from any relationship that would interfere with the exercise of his or her independent judgment as a member of the Audit Committee.

All members of the Audit Committee shall have the financial literacy to be able to read and understand the Corporation's financial statements and to understand the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements. At least one member shall have acquired, through: (i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions; (ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions; (iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or (iv) other relevant experience:

- (a) an understanding of generally accepted accounting principles and financial statements;
- (b) the ability to assess the general application of such principles in connection with the accounting for estimates accruals and reserves;
- (c) experience in preparing, auditing, analyzing 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 Corporation's financial statements, or experience actively supervising one or more persons engaged in such activities;
- (d) an understanding of internal controls and procedures for financial reporting; and

- (e) an understanding of audit committee functions.

Audit Committee members shall not simultaneously serve on the audit committees of more than two other public companies, unless the Board of Directors first determines that such simultaneous service will not impair the ability of the relevant members to effectively serve on the Audit Committee, and required public disclosure is made.

At least one member of the Audit Committee shall have accounting or related financial management expertise. All members of the Audit Committee that are not financially literate will work towards becoming financially literate to obtain a working familiarity with basic finance and accounting practices. For the purpose of the Corporation's Audit Committee Charter, as may be determined by the Board of Directors from time to time (herein the "Audit Committee Charter"), the definition of "financially literate" is 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 presumably be expected to be raised by the Corporation's financial statements.

#### *Appointment of Audit Committee Members*

Members of the Audit Committee shall be appointed at a meeting of the Board of Directors typically held immediately after the Corporation's annual shareholders' meeting; provided that any member may be removed or replaced at any time by the Board of Directors and shall in any event cease to be a member of the Audit Committee upon ceasing to be a member of the Board of Directors.

#### *Vacancies*

Where a vacancy occurs at any time in the membership of the Audit Committee it may be filled by the Board of Directors.

#### *Chairperson*

The Corporation's Corporate Governance Committee will recommend an unrelated director as Chairperson of the Audit Committee to the Board of Directors for approval. The Board of Directors shall appoint the Chairperson of the Audit Committee.

If the Chairperson of the Audit Committee is not present at any meeting of the Audit Committee, one of the other members of the Audit Committee present at the meeting shall be chosen by the Audit Committee to preside as Chairperson.

The Chairperson presiding at any meeting shall not have a casting vote.

#### *Secretary*

The Audit Committee shall appoint a Secretary who need not be a member of the Audit Committee or a director of the Corporation. The Secretary shall keep minutes of the meetings of the Audit Committee.

#### *Compensation*

Audit Committee members may not, other than in their respective capacities as members of the Audit Committee, the Board of Directors or any other committee of the Board of Directors, accept any consulting, advisory or other compensatory fee from the Corporation or its affiliates. For greater certainty, director's fees are the only compensation an Audit Committee member may receive from the Corporation or its affiliates.

#### *Meetings of the Audit Committee*

The Audit Committee shall meet at least quarterly at the call of the Chairperson. The Chairperson of the Audit Committee may call additional meetings as required. In addition, a meeting may be called by any director or by

the external auditors. As part of its job to foster open communication, the Audit Committee will meet at least annually with the Chief Financial Officer and the external auditors in separate sessions.

Audit Committee meetings may be held in person, by video-conference, by means of telephone or by any combination of any of the foregoing.

#### *Notice of Meetings*

Notice of the time and place of every meeting may be given orally, in writing, by facsimile or by electronic communication to each member of the Audit Committee and to external auditors at least 48 hours prior to the time fixed for such meeting.

A member and the external auditors may, in any manner, waive notice of the meeting. Attendance of a member at the meeting shall constitute waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called.

#### *Quorum*

A majority of Audit Committee members, present in person, by videoconference, by telephone or by a combination thereof, shall constitute a quorum.

#### *Attendance at Meetings*

The Chief Executive Officer, the Chief Financial Officer, the Controller and the head of internal audit of the Corporation are expected to be available to attend meetings, but a portion of every meeting will be reserved for in-camera discussion without members of management being present.

The Audit Committee should meet on a regular basis and without management present, with the lead of internal audit, the external auditors and management in separate executive sessions to discuss any matters that the Audit Committee or these groups believe should be discussed privately with the Audit Committee.

The Audit Committee may by specific invitation have other resource persons in attendance.

The Audit Committee shall have the right to determine who shall and who shall not be present at any time during a meeting of the Audit Committee.

#### *Minutes*

Minutes of Audit Committee meetings shall be sent to all Audit Committee members and to the external auditors.

#### *Engaging Outside Resources*

The Audit Committee is empowered to engage outside resources, as it deems advisable, at the expense of the Corporation.

#### ***Major Responsibilities and Functions of the Audit Committee***

##### *Review Procedures*

The Audit Committee shall review and update the Audit Committee's Charter at least annually and provide a summary of the Audit Committee's composition and responsibilities in the Corporation's annual report or other public disclosure documentation.

The Audit Committee shall also provide a summary of all approvals by the Audit Committee of the provision of audit, audit-related, tax and other services by the external auditors for inclusion in the Corporation's annual report filed with the United States Securities and Exchange Commission.

### ***Annual Financial Statements***

The Audit Committee shall discuss and review with management and the external auditors the Corporation's annual audited financial statements and related documents prior to their filing or distribution. Such a review is to include but not be limited the following:

- (a) the annual financial statements and related footnotes, including significant issues regarding accounting policies and practices and significant management estimates and judgments, including any significant changes in the Corporation's selection or application of accounting principles, any major issues as to the adequacy of the Corporation's internal controls and any specific steps adopted in light of material control deficiencies;
- (b) a review of the use of off-balance sheet financing, including management's risk assessment and adequacy of disclosure;
- (c) a review of the external auditors' audit examination of the financial statements and their report thereon;
- (d) a review of any significant changes required in the external auditors' audit plan;
- (e) a review of any serious difficulties or disputes with management encountered during the course of the audit, including any restrictions on the scope of the external auditors' work or access to required information;
- (f) a review of other matters related to the conduct of the audit which are to be communicated to the Audit Committee under generally accepted auditing standards;
- (g) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the external auditors; and
- (h) other material written communications between the external auditors and management, such as any management letter or schedule of unadjusted differences.

Review and formally recommend approval to the Board of Directors of the Corporation's:

- (a) the Corporation's year-end audited financial statements;
- (b) the Corporation's management's discussion and analysis;
- (c) the Corporation's annual information forms and
- (d) all Corporation prospectuses and information circulars as to financial information.

The review shall include a report from the external auditors about the quality of the most critical accounting principles upon which the Corporation's financial status depends, and which involve the most complex, subjective or significant judgmental decisions or assessments.

### ***Quarterly Financial Statements***

Review with management and the external auditors and either approve (such approval to include the authorization for public release) or formerly recommend for approval to the Board of Directors the Corporation's:

- (a) quarterly unaudited financial statements and related documents, including management's discussion and analysis; and
- (b) any significant changes to the Corporation's accounting principles.

Review and discuss quarterly reports from the external auditors regarding:

- (a) all critical accounting policies and practices to be used;
- (b) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors; and
- (c) other material written communications between the external auditors and management, such as any management letter or schedule or unadjusted differences.

### ***Internal Control Environment***

Ensure that management provides the Audit Committee with an annual report on the Corporation's control environment as it pertains to the Corporation's financial reporting process and controls.

Review and discuss significant financial risks or exposures and assess the steps management has taken to monitor, control, report and mitigate such risk to the Corporation.

Review the effectiveness of the overall process for identifying the principal risks affecting the achievement of business plans and provide the Audit Committee's view to the Board of Directors.

Review significant findings prepared by the external auditors and the internal auditing department together with management's responses.

Review, in consultation with the internal auditors and the external auditors, the degree of coordination in the audit plans of the internal auditors and the external auditors, and enquire as to the extent the planned scope can be relied upon to detect weaknesses in internal controls, fraud or other illegal acts. The Audit Committee will assess the coordination of audit effort to assure completeness of coverage and the effective use of audit resources. Any significant recommendations made by the auditors for the strengthening of internal controls shall be reviewed and discussed with management.

### ***Other Review Items***

Review policies and procedures with respect to officers' and directors' expense accounts and prerequisites, including their use of corporate assets, and consider the result of any review of these areas by the internal auditor or the external auditors.

Review all insider transaction and related party transactions between the Corporation and any officers or directors.

Review with Corporation counsel, the head of internal audit and the external auditors the result of their review of the Corporation's monitoring compliance with each of the Corporation's published codes of business conduct and applicable legal requirements.

Review legal and regulatory matters, including correspondence with regulators and governmental agencies that may have material impact on the interim or annual financial statements, related Corporation compliance policies and programs and reports received from regulators or governmental agencies.

Review policies and practices with respect to off-balance sheet transactions and trading and hedging activities, and consider the results of any review of these areas by the internal auditors or the external auditors.

Review with the President, the Chief Executive Officer and the Chief Financial Officer of the Corporation and the external auditors: (i) all significant deficiencies identified and material weakness in the design of operation of the Corporation's internal controls and procedures for financial reporting which could adversely affect the Corporation's ability to record, process, summarize and report financial information required to be disclosed by the Corporation in the reports that it files or submits under the United States *Securities Exchange Act of 1934*, as

amended, within the required time periods; and (ii) any fraud, whether or not material, that involves management of the Corporation or other employees who have significant role in the Corporation's internal controls and procedures for financial reporting.

### *External Auditors*

Be directly responsible, in the Audit Committee's capacity as a committee of the Board of Directors and subject to the rights of shareholders and applicable law, for the appointment, compensation and oversight of the work of the external auditors (including resolution of disagreements between management and the external auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The external auditors shall report directly to the Audit Committee.

Meet on a regular basis with the external auditors (without management present) and have the external auditors be available to attend Audit Committee meetings or portions thereof at the request of the Chair of the Audit Committee or by a majority of the members of the Audit Committee.

Review and discuss with the external auditors all significant relationships that the external auditors and their affiliates have with the Corporation and its affiliates in order to determine the external auditors' independence including, without limitation: (i) receiving and reviewing, as a part of the report described in the preceding paragraph, a formal written statement from the external auditors delineating all relationships that may reasonably be thought to bear on the independence of the external auditors with respect to the Corporation and its affiliates; (ii) discussing with the external auditors any disclosed relationships or services that the external auditors believe may affect the objectivity and independence of the external auditors; and (iii) recommending that the Board of Directors take appropriate action in response to the external auditors' report to satisfy itself of the external auditors' independence.

Review and evaluate:

- (a) the external auditor's and the lead partner of the external auditors' team's performance, and make recommendation to the Board of Directors regarding the reappointment of the external auditors at the annual meeting of the Corporation's shareholders or regarding the discharge of such external auditors;
- (b) the terms of engagement of the external auditors, together with their proposed fees;
- (c) external audit plans and results;
- (d) any other related audit engagement matters; and
- (e) the engagement of the external auditors to perform non-audit services, together with the fees therefore, and the impact thereof, on the independence of the external auditors.

Upon reviewing and discussing the information provided to the Audit Committee in accordance with paragraphs 18 and 19 hereinabove, evaluating the external auditors' qualifications, performance and independence, and the provision of permitted non-audit services as compatible with maintaining auditor independence, taking into account the opinions of management and the head of internal audit. The Audit Committee shall present its conclusions with respect to the external auditors to the Board of Directors.

Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner for reviewing the audit as required by law. Consider whether, in order to assure continuing external auditor independence, it is appropriate to adopt a policy of rotating the external auditing firm on a regular basis.

Recommend to the Board of Directors policies for the Corporation's hiring of employees or former employees of the external auditors who participate in any capacity in the audit of the Corporation.

Consider with management and the external auditors the rationale for employing audit firms other than the principal external auditors, including a review of management consulting services and related fees provided by the external auditors compared to those of other audit firms.

***Internal Audit Department and Legal Compliance***

Meet with the internal auditors as required, but in any event at least quarterly,

Review and concur in the appointment, replacement, reassignment or dismissal of the lead of internal audit.

Confirm and assure, annually, the independence of the internal audit department.

Consider and review with management, the external auditors and the head of internal audit:

- (a) significant findings during the year and management's responses and follow-up thereto;
- (b) any difficulties encountered in the course of their audits, including any restriction on the scope of their work or access to required information;
- (c) any changes required in the planned scope of their audit plan;
- (d) the resources, budget, reporting relationships and planned activities of the internal auditors;
- (e) the internal audit department charter; and
- (f) internal audit's compliance with the IIA's Standards for the Professional Practice of Internal Auditing (Standards).

***Approval of Audit and Non-Audit Services***

Review and, where appropriate, approve the provision of all permitted non-audit services (including the fees and terms thereof) in advance of the provisions of those services by the external auditors (subject to the *de minimus* exception for non-audit services prescribed in applicable legislation which are approved by the Audit Committee prior to the completion of the audit).

Review and, where appropriate and permitted, approve the provision of all audit services (including the fees and terms thereof) in advance of the provision of those services by the external auditors.

If the pre-approvals contemplated in paragraphs 28 and 29 hereinabove are not obtained, approve, where appropriate and permitted, the provisions of all audit and non-audit services promptly after the Audit Committee or a member of the Audit Committee to whom authority is delegated becomes aware of the provision of those services.

Delegate, if the Audit Committee deems necessary or desirable, to sub-committees consisting of one or more members of the Audit Committee, the authority to grant the pre-approvals and approvals described in paragraphs 28 through 30 hereinabove. The decision of any such sub-committee to grant pre-approval shall be presented to the full Audit Committee at the next scheduled Audit Committee meeting.

***Other Matters***

Review and concur in the appointment, replacement, reassignment or dismissal of the Chief Financial Officer.

Review and approve hiring policies regarding partners, employees and former partners and employees of the present and former external auditor.

Report Audit Committee actions to the Board of Directors with such recommendations as the Audit Committee may deem appropriate.

Conduct or authorize investigations into any matters within the Audit Committee's scope of responsibilities.

The Corporation shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the external auditors for the purpose of rendering or issuing an audit report and to any advisors employed by the Audit Committee.

The Audit Committee shall review and reassess the adequacy of this Audit Committee Charter annually and recommend any proposed changes to the Board of Directors for approval.

The Audit Committee shall evaluate its performance annually.

Perform such other functions as required by law, the Corporation's Audit Charter, the Corporation's Articles or the Board of Directors.

Consider any other matters referred to it by the Board of Directors

Establish procedures for: (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or audit matters; and (ii) the confidential submission by employees of the Corporation of concerns regarding questionable accounting controls or auditing matters.

