

**STONEHAM ADMINISTRATION INC.  
BOARD OF DIRECTORS  
CHARTER**

**MANDATE OF THE BOARD**

**(A) Overview**

Stoneham Administration Inc. (the "**Company**") is the manager of Stoneham Drilling Trust (the "Trust"). Valiant Trust Company (the "**Trustee**") is the trustee of the Trust. Pursuant to the Amended and Restated Declaration of Trust (the "**Declaration of Trust**") of the Trust, the Company is responsible for overseeing the administration and management of all general and administrative affairs of the Trust and has the general authority, responsibility and obligation to perform the Trustee's duties and responsibilities under the Declaration of Trust. The board of directors (the "**Board**") of the Company is responsible under law for the management of the Company's business and affairs. Accordingly, under law and the Declaration of Trust, the Board is generally responsible for the management of the Trust's business and affairs.

Stoneham Drilling Limited Partnership (the "**Partnership**") is directly and indirectly wholly owned by the Trust and is the primary operating entity of the Trust. Generally speaking, Stoneham Drilling Inc. (the "**General Partner**") and the board of directors of the General Partner are responsible for the management of the Partnership's business and affairs. It is important that a clear division of responsibility and authority be maintained between (i) the Board acting on behalf of the Company and the Trust, and (ii) the board of directors of the General Partner acting on behalf of the General Partner and the Partnership. However, because the Partnership is the primary operating entity of the Trust, the Board will have an obligation under securities laws to be informed and knowledgeable about the business and operations of the Partnership and to maintain a dialogue with the management and board of directors of the General Partner to ensure that the Board is able to meet its obligations to the Trust and unitholders under the Declaration of Trust and pursuant to applicable securities laws and the rules and policies of the Toronto Stock Exchange.

**(B) Operation of the Board**

The Board shall operate by delegating certain of its authorities, including the day to day conduct of the business of the Trust, to management and overseeing the activities of management, and by reserving certain powers to itself. The Board shall retain the responsibility of managing its own affairs, including selecting its Chair, nominating candidates for election to the Board, constituting committees of the full Board and determining director compensation. Subject to the Declaration of Trust, the Articles and By-Laws of the Company and the *Business Corporations Act* (Alberta) (the "**ABCA**"), the Board may constitute, seek the advice of and delegate powers, duties and responsibilities to committees of the Board and shall do so where it considers appropriate.

**(C) General Responsibilities**

The Board's fundamental responsibilities are to foster the long-term success of the Trust consistent with the Board's fiduciary responsibility to the Trust and the Company, to enhance and

preserve long-term unitholder value and to provide stewardship in order that the Trust meets its obligations on an ongoing basis and operates in a reliable and safe manner. In performing its functions, the Board should also consider the legitimate interests that other stakeholders may have in the Trust. In broad terms the stewardship of the Trust involves the Board in financial planning and reporting, strategic planning, risk management and mitigation, senior management determination, communication planning and internal control integrity. In fulfilling its responsibilities, the Board will need to keep apprised of the business of the Partnership and work with the board of directors of the General Partner to ensure that, the Trust meets its obligations on an ongoing basis.

**(D) Specific Responsibilities**

The Board's specific duties and responsibilities fall into the categories outlined below.

1. **Legal Requirements.** Under corporate law, the Board is subject to certain legal requirements governing its relationship with, and responsibilities to, the Company. Given the Company's obligations to the Trust, the Board will also have a relationship with, and responsibilities to, the Trust.
  - (a) The Board has the oversight responsibility for directing management in order that the Trust meets its legal and regulatory requirements and that documents and records are properly prepared, approved and maintained.
  - (b) The Board has the responsibility to:
    - (i) manage the business and affairs of the Company and the Trust;
    - (ii) act honestly and in good faith with a view to the best interests of the Company and the Trust;
    - (iii) exercise the care, diligence and skill that reasonably prudent people would exercise in comparable circumstances;
    - (iv) act in accordance with its obligations contained in the ABCA and the regulations thereto, the securities legislation of each province and territory of Canada, other relevant legislation and regulation, applicable to the Company and the Trust, and the Declaration of Trust and the Company's Articles and By-laws; and
    - (v) on the recommendation of the Audit Committee of the Board, recommend to the Trust and the Unitholders the appointment of an external auditor, and fix the remuneration of the external auditor.
  - (c) The Board has the responsibility for considering, as a full Board, the following matters:
    - (i) any submission to the Trust or the Unitholders of a question, or matter requiring the approval of the Trust or the Unitholders;

- (ii) the filling of a vacancy among the directors or in the office of auditor;
- (iii) the issuance of securities;
- (iv) the declaration of dividends or distributions;
- (v) the purchase, redemption or any other form of acquisition of trust units issued by the Trust;
- (vi) the payment of a commission to any person in consideration of his/her purchasing or agreeing to purchase trust units of the Trust from the Trust or from any other person, or procuring or agreeing to procure purchasers for any such trust units;
- (vii) the approval of management proxy circulars;
- (viii) the approval of any take-over bid circular or directors' circular;
- (ix) the approval of financial statements of the Trust; and
- (x) the adoption, amendment or repeal of By-Laws of the Company or the Declaration of Trust.

2. **Declaration of Trust.** Under the Declaration of Trust, the Company has been delegated the following authority, responsibilities and duties. The Board, subject to delegation to management, committees of the Board or third parties as deemed appropriate and as permitted under the Declaration of Trust and applicable law, is responsible for ensuring that the Company fulfils its duties and responsibilities to the Trust.

- (a) The Company (and accordingly, subject to permitted delegation, the Board) has the general authority, responsibility and obligation to perform the Trustee's duties and responsibilities under the Declaration of Trust, and is responsible for overseeing the administration and management of all general and administrative affairs of the Trust.
- (b) The Board shall provide and perform, or cause management or third parties to provide or perform, all general administrative, management and support services (other than as specifically provided for in the Declaration of Trust) as may be required or advisable, from time to time, in order to administer the business, affairs and operations of the Trust, including the following services:
  - (i) undertake any matters required by the Declaration of Trust to be performed by the Trustee, including taking all actions which are necessary to effect the implementation and carrying out of the Trustee's powers and responsibilities, and generally provide all other services as may be necessary or as requested by the Trustee for the administration of the Trust;

- (ii) vote all securities held by the Trust (subject to restrictions contained in the Declaration of Trust);
- (iii) prepare all returns, filings and documents and make all determinations necessary for the discharge of the Trustee's obligations under the Declaration of Trust;
- (iv) retain and monitor the transfer agent of the Trust and other organizations serving the Trust;
- (v) develop acquisition strategies for, and investigate potential acquisitions by, the Trust and its subsidiaries, other than the General Partner and the Partnership;
- (vi) carry out any acquisitions or dispositions of assets of the Trust and any financings related thereto;
- (vii) authorize and pay operation expenses incurred on behalf of the Trust and negotiate contracts with third party providers of services (including, but not limited to, transfer agents, legal counsel, auditors and printers);
- (viii) provide office space, telephone, office equipment, facilities, supplies and executive, secretarial and clerical services;
- (ix) prepare and provide to the Unitholders annual audited and interim unaudited financial statements of the Trust, as well as relevant tax information;
- (x) submit all income tax returns and filings to the Trustee in sufficient time prior to the dates upon which they must be filed so that the Trustee has a reasonable opportunity to review them, execute them and return them to the Company, and arrange for their filing within the time required by applicable tax law;
- (xi) compute, determine and make on the Trust's behalf distributions to Unitholders properly payable by the Trust and administer such distribution reinvestment plans and other similar plans as the Trust may establish from time to time;
- (xii) ensure compliance by the Trust with, and enforce all rights of the Trust under, all agreements entered into by the Trust, provide advice with respect to the Trust's obligations as a reporting issuer, and ensure compliance by the Trust with all applicable securities legislation including without limitation, continuous disclosure obligations;
- (xiii) implement trading and disclosure policies in respect of Trust Units and other securities of the Trust;

- (xiv) prepare any circular or other disclosure document required under applicable securities legislation with respect to an offer to acquire securities of another person or in response to an offer to purchase Trust Units and otherwise undertake all matters pertaining to any take-over bid, merger, amalgamation, arrangement, reorganization, recapitalization, business combination or similar transaction involving the Trust;
- (xv) provide investor relations services to the Trust;
- (xvi) undertake all matters related to the listing and maintaining of the listing on the Toronto Stock Exchange of the Trust Units, or such other stock exchanges as may be determined by the Company from time to time;
- (xvii) call and hold all annual and/or special meetings of Unitholders pursuant to the Declaration of Trust and prepare and arrange for the distribution of all materials (including notices of meetings and information circulars) in respect thereof;
- (xviii) prepare and provide or cause to be provided to Unitholders on a timely basis all information to which Unitholders are entitled under the Declaration of Trust and under applicable laws, including information or proxy circulars, annual information forms, quarterly and annual reports, notices, financial reports and tax information relating to the Trust;
- (xix) take all steps necessary-to complete the issuance of securities of the Trust;
- (xx) attend to all administrative and other matters arising in connection with any redemptions of Trust Units;
- (xxi) determine the timing and terms of any offer by the Trust for, and repurchase by the Trust of, Trust Units;
- (xxii) obtain and maintain appropriate liability insurance for the benefit of the directors and officers of all of the Trust's direct and indirect subsidiaries, including the General Partner and the Company;
- (xxiii) monitor the Trust's status as a mutual fund trust and provide the Trustee with written notice when the Trust is at risk of ceasing to be a mutual fund trust for the purpose of the *Income Tax Act* (Canada);
- (xxiv) monitor the investments of the Trust to ensure that the aggregate cost amount of the "foreign property" of the Trust does not exceed the limits prescribed in the *Income Tax Act* (Canada), the result of which would be to expose the Trust to Part XI tax under such act;
- (xxv) deal with banks and other institutional lenders, including in respect of the maintenance of bank records and the negotiation and securing of bank financing or refinancing of one or more credit or debt facilities, hedging or

swap facilities or other ancillary facilities in respect of the Trust or any entity in which the Trust holds any direct or indirect interest, excluding the Partnership;

- (xxvi) undertake, manage and prosecute any and all proceedings from time to time before or in respect of governmental authorities;
  - (xxvii) undertake all matters relating to an offering of Trust Units or other securities of the Trust, including preparing any prospectus or comparable documents of the Trust to qualify the sale of securities of the Trust from time to time and ensure compliance with all applicable laws in relation to such an offering; and
  - (xxviii) promptly notify the Trust of any event that might reasonably be expected to have a material adverse effect on the affairs of the Trust.
- (c) In the performance of its duties, the Company (and therefore the Board or management, as applicable) shall:
- (i) perform all such services at all times in compliance with applicable laws;
  - (ii) observe and perform or cause to be observed and performed on behalf of the Trust, in every material respect, the provisions of: (i) all agreements from time to time entered into by the Trust in connection with its activities; and (ii) all applicable laws;
  - (iii) not commingle its own funds with any funds held by it on behalf of the Trust;
  - (iv) maintain proper books, records and documents in which complete, true and correct entries in conformity, in all material respects, with generally accepted accounting principles and all requirements of applicable laws will be made in respect of the performance of the Company's services under the Declaration of Trust, and all such books and records shall be maintained at the Company's head office in the Province of Alberta; and
  - (v) upon reasonable prior notice by the Trustee to the Company, make available to the Trustee and its authorized representatives, for examination during normal business hours on a business day, all books, records and documents required to be maintained, wherever maintained. In addition, the Company shall make available to the Trustee and its authorized representatives such financial and operating data and other information in respect of the performance of the Company's services under the Declaration of Trust as may be in existence and as the Trustee and its authorized representatives shall from time to time reasonably request, including for the purposes of conducting any audit in respect of expenses of the Trust or other matters necessary or advisable to be audited in order for the Trustee to conduct an audit of the financial affairs of the Trust.

Any examination of records at the Company's head office shall be conducted in a manner which will not unduly interfere with the conduct of the business of the Company.

- (d) In carrying out its duties to the Trust, the Company (and therefore the Board and management, as applicable) shall act honestly, in good faith and with a view to the best interests of the Trust, and with the same degree of care, diligence and skill that a reasonably prudent person, having responsibilities of a similar nature to those prescribed under the Declaration of Trust, would exercise in comparable circumstances.

### 3. Composition of Board

The Board shall from time to time examine its size and composition and undertake, where appropriate, a program to reduce or increase the number of directors to a number which facilitates more effective decision making.

### 4. Compensation of Directors

The Board shall from time to time review, or appoint a committee to review, the adequacy and form of the compensation of the directors and shall ensure that such compensation realistically reflects the responsibilities and risks involved in being a director of the Company in its capacity as manager of the Trust.

### 5. Outside Advisers

The Board shall implement a system whereby individual directors may engage an outside advisor (including legal counsel), at the expense of the Trust, to provide consultation and advice in appropriate circumstances. The engagement of an outside advisor by a director shall be subject to the approval of the Board or the Governance and Compensation Committee of the Board.

### 6. Independence

The Board has the responsibility to implement appropriate structures and procedures to permit the Board to function independently of management.

Such structures and procedures shall, at a minimum, include:

- (a) the appointment of a Chair of the Board, who shall be independent (as defined below) and who shall be responsible for ensuring that the Board discharges its responsibilities independently of management;
- (b) the requirement that a majority of the members of the Board shall be independent; and
- (c) the adoption of alternative means of ensuring independence from management such as assignment of this responsibility to a committee of the Board.

7. Strategy Determination

The Board has the responsibility:

- (a) to determine long-term goals, to establish a strategic planning process for the Trust, and to participate with management directly or through its committees in approving the mission of, and the strategic plan for the Trust by which the Trust proposes to achieve its goals; and
- (b) to monitor progress in respect of the achievement of the goals established in the strategic plan and to initiate corrective action when required.

8. Committees of the Board and Independent Directors

The Board shall appoint committees of directors, and such committees shall have the responsibilities of meeting regularly and carrying out the duties and powers delegated to them by the Board. The committees of the Board shall at a minimum consist of:

- (a) Governance and Compensation Committee; and
- (b) Audit Committee.

In order for independent directors of the Company to serve as a more effective check on management, the independent directors must meet at regularly scheduled executive sessions, without management present.

9. Managing Risk

The Board has the responsibility to understand the principal risks of the business in which the Trust and its subsidiaries are engaged, to achieve a proper balance between risks incurred and the potential return to unitholders, and to confirm that there are systems in place which effectively monitor and manage those risks with a view to the long-term viability of the Trust and its subsidiaries. The Board also has a responsibility to understand and review the derivative and hedge policies of the Trust and its subsidiaries.

10. Appointing, Training and Monitoring Senior Management

The Board has the responsibility:

- (a) to appoint the Chief Executive Officer (the "*CEO*") of the Company, to monitor and assess CEO performance, to determine CEO compensation, and to provide advice and counsel in the execution of the CEO's duties;
- (b) to consider the advice of the CEO and the recommendations of the Governance and Compensation Committee in approving the appointment and remuneration of all officers of the Company; and

- (c) to consider the advice and recommendation of the Governance and Compensation Committee to satisfy itself that adequate provision has been made for the training, development and continuing education of management and for the orderly succession of management.

## 11. Reporting and Communication

The Board has the responsibility:

- (a) to verify that the Trust has in place policies and programs to enable the Trust to communicate effectively with its unitholders, other stakeholders and the public generally;
- (b) to verify that the financial performance of the Trust (and its subsidiaries on a consolidated basis) is adequately reported to unitholders, other security holders and regulators on a timely and regular basis;
- (c) to verify that the financial results are reported fairly and in accordance with generally accepted accounting principles and standards;
- (d) to verify the timely reporting of any other developments that have a significant and material impact on the value of the trust units of the Trust; and
- (e) to report annually to unitholders on its stewardship of the affairs of the Trust for the preceding year.

## 12. Monitoring and Acting

The Board has the responsibility:

- (a) to verify that the Trust and its subsidiaries operate at all times within applicable laws and regulations to the highest ethical and moral standards;
- (b) to approve and monitor compliance with significant policies and procedures by which the Trust and its subsidiaries are operated;
- (c) to review and approve the annual budget, annual financing plans, any payment of dividends and new financing;
- (d) to review and approve quarterly financial reports and the annual report;
- (e) to monitor the Trust's progress towards its goals and objectives and to revise and alter its direction through management in response to changing circumstances;
- (f) to take action when performance falls short of goals and objectives or when other special circumstances warrant;
- (g) to review and direct management to establish the necessary processes and procedures to meet the Board's expectations regarding timely scheduling of Board

and Committee meetings, receipt of materials, reports, presentations and other information from management in a timely and efficient manner, in order to permit the Board to properly carry out its duties and responsibilities.

- (h) to verify that the Trust and its subsidiaries have implemented adequate internal control and information systems which ensure the effective discharge of their responsibilities; and
- (i) to determine the advisability, from time to time, of implementing a policy requiring a minimum level of ownership by directors in the capital of the Trust.

**(E) General**

1. The Board shall also be responsible for:
  - (a) reviewing and assessing this Charter annually and revising it in accordance with the recommendations of the Governance and Compensation Committee;
  - (b) considering the recommendations of the Governance and Compensation Committee with respect to the Charter of each of the committees of the Board and revising such charters accordingly, as appropriate; and
  - (c) performing any other activities consistent with this Charter, the Declaration of Trust, the Company's Articles and By-Laws and any other governing law and regulation as the Board deems necessary or appropriate in order to carry out its mandate.
2. This Charter shall not be taken to create a level of duty, or increase the liability of the Trust, the Company, the Board, or any of its directors or management, beyond that otherwise provided by applicable law and the Declaration of Trust. The systematic identification, management and delegation of the business and affairs of the Trust contained in this Charter are intended to improve the process of the Trust's corporate governance.

**COMPOSITION OF THE BOARD**

1. The Board shall be comprised of at least three directors.
2. A majority of the members of the Board shall be "independent", as affirmatively determined by the Board and as required by securities laws and any applicable stock exchange or regulatory requirements.
3. The Chair of the Board shall be appointed by the Board to oversee the Board carrying out its responsibilities effectively.
4. Each member of the Board shall have such skills and abilities appropriate to his or her appointment as a director as shall be determined by the Board.

## **MEETINGS OF THE BOARD**

1. The Board shall meet at such times and places as designated by the Chair of the Board, at least on a quarterly basis, and whenever a meeting is requested by a member of the Board or a senior officer of the Company.
2. Notice of each meeting of the Board shall be given to each member of the Board.
3. Notice of a meeting of the Board shall:
  - (a) be in writing (which may be communicated by facsimile or other communication facilities including e-mail);
  - (b) state the nature of the business to be transacted at the meeting in reasonable detail;
  - (c) to the extent practicable, be accompanied by copies of documentation to be considered at the meeting; and
  - (d) be given at least 7 days preceding the time stipulated for the meeting (or such shorter period of time agreed to by all members of the Committee).
4. A quorum for the transaction of business at a meeting of the Board shall consist of a majority of the members of the Board and such quorum of directors may exercise all the powers of the directors.
5. A member of the Board may participate in a meeting of the Board by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other. A member of the Board participating in the meeting by any such means is deemed to be present at that meeting.
6. In the absence of the Chair of the Board, the members of the Board, shall choose one of the members present at the meeting to be Chair of the meeting and, in the absence of the Secretary of the Company, the Board shall choose one of the members of the Board present at the meeting to be the Secretary of the meeting.
7. Minutes shall be kept of all meetings of the Board and shall be signed by the Chairman and Secretary of the meeting. The minutes shall be maintained with the Company's records, shall include copies of all resolutions passed at each meeting, and shall be available for review by members of the Committee, the Board and management.