



700, 700 2nd St SW Calgary, Alberta T2P 2W1

May 8, 2006

To our valued shareholders,

Enclosed are the 2005 Information Circular-Proxy Statement and Notice of Annual and Special Meeting for Iteration Energy Ltd. ("Iteration"). Also included is a letter to shareholders outlining the Company's recent activity and future direction. In order to reduce the amount of time and money on administration, avoid duplication and to focus our time on higher value adding activities, we did not undertake to prepare an annual report for 2005. We would however, like to refer you to the following places where you may obtain additional information regarding the company:

1. The System for Electronic Document Analysis and Retrieval ("SEDAR") website (www.sedar.com) contains all continuous disclosure documents for Iteration filed with the Canadian Securities Regulatory Authorities since our inception, including:
 - Our 2005 Annual Information Form, which includes Iteration's reserves data and other oil and gas information as at December 31, 2005 as mandated by National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators.
 - Our 2005 Annual and Fourth Quarter Press Release dated March 27, 2006.
2. Additional information, including our latest corporate presentation is also available on our website at www.iterationenergy.com.

Some people may not be able to access these documents electronically, so we would be more than happy to supply copies of any of these disclosure documents that you may require. Copies may be obtained upon request without charge from Iteration's office at Suite 700, 700-2nd Street S.W., Calgary, Alberta T2P 2W1 or by telephone at (403) 261-6883.

Thank you,
ITERATION ENERGY LTD.

"signed by"

Brian Illing
President and Chief Executive Officer



700, 700 2ND ST SW CALGARY, ALBERTA T2P 2W1

MAY 8, 2006

LETTER TO SHAREHOLDERS

The Company saw significant change in 2005. Over 40% of the producing assets were sold in the first quarter, the debt was eliminated, a new management team was brought in, the Company's name was changed from Hawker Resources Inc. to Iteration Energy Ltd., and an aggressive program of operational improvements, cost cutting and new drilling helped return the company to positive earnings and increased cash flow by year end.

Hawker Resources Inc. opened a data room in late 2004 to market its assets. This resulted in the March 2005 sale of its 50% non-operated ownership of the Lavoy properties. The \$85 million sale eliminated the Company's debt and put positive working capital in the bank while reducing production to an average of 2790 barrels of oil equivalent per day (boed) for April 2005.

The bids received on the remaining properties were not considered attractive by the Board of Directors so, instead of selling further assets, Hawker acquired a small private company named Iteration Energy Inc. in order to bring in a new management team. Iteration Energy Inc. had been formed by a group of experienced technical professionals who previously worked together for many years in lead roles at a senior Canadian oil and gas company. Hawker then changed its name to Iteration Energy Ltd. at the July 2005 Annual General Meeting, in conjunction with the appointment of a new Board of Directors.

Iteration's new management initially focused on maximizing production and financial return from the existing properties. Capital projects had been curtailed while the assets were up for sale, and many wells were producing at restricted rates due to operational problems that needed to be corrected. Total production fell to less than 2500 boed before field conditions allowed new operations to be started after break up. The new technical team was able to bring production up to 3200 boed by the end of the third quarter almost entirely through work-overs and re-completions of existing wells. As new wells drilled in the second half of the year were brought on stream, production rose to over 3900 boed before Christmas.

Substantial effort was also devoted to cost control and increasing efficiency in the field. Technical assessment of the remaining reserves showed it to be advisable to buy most of the field equipment that was being leased, and the combined efforts of the field operators and the Calgary staff led to significant operating cost reductions. At the same time streamlining of the staff and other cost cutting measures led to significant reductions in overhead for the second half of the year. With the rise in commodity prices and reduced costs, the Company achieved netbacks of \$40 to \$45 per boe in the fourth quarter of 2005.

Increased netbacks resulted in a much stronger financial position for the company by year-end, despite the significant asset dispositions in early 2005. In the first quarter of 2005 the Company reported cash flow of \$4.1 million and negative earnings of \$3.2 million. In the fourth quarter, cash flow had increased to \$14 million with positive earnings of \$7 million. At year-end there was positive working capital of \$15 million with zero debt, leaving the Company in an excellent position to fund future growth. Production at the end of the winter drilling season increased to over 4100 boed with a further 450 boed completed behind pipe and waiting to be tied in later in 2006.

Iteration has taken the first step of maximizing the economic potential of the existing properties through detailed work on all aspects of its current operations. Administration and operating costs have been reduced, production has been optimized in all active wells, new zones have been brought on in suspended wells, and an abandonment and reclamation program has been initiated for wells no longer capable of production. New reserves have been added through drilling and the land base has been expanded significantly through landsales and acquisitions. We now have a larger and more diverse inventory of prospects, with less reliance on our largest producing field at Boundary Lake. Effective cost control and accounting procedures are in place, and an experienced and technically competent team has been collected to create future value. The challenge now is to add new lands and production at attractive finding and development costs.

The Company's approach for increasing asset values is to do detailed work on a series of small projects in each focus area. Knowledge, effectiveness and cost control are all enhanced by a consistent work process and repetition of efficient field procedures. We concentrate on medium depth, multi-zone areas where we can obtain good quality geological and geophysical data and minimize our risk by detailed review of all aspects of each opportunity. The 2006 summer drilling program is currently being licensed and should result in substantial production growth by year-end. Much of next winter's program is also in place. Detail of our current asset base production and drilling results can be seen in the latest corporate presentation on the Company's website at www.iterationenergy.com.

Our prime focus is on the Cretaceous and Triassic sections of northeast B.C. and western Alberta, but we are also increasing our presence in some of the eastern Alberta Cretaceous and Devonian gas plays. As our land, seismic and facilities base grows, we

will be in a position to also drill for a few larger but deeper and higher risk targets. We will continue to evaluate landsale, farm-in and acquisition opportunities in our areas, and maintain the same disciplined approach to all our work.

Over the past year, we have been successful in accomplishing our primary goals. We have greatly benefited from the guidance and active contribution of our Board of Directors, and we have an extremely dedicated and capable staff. Between us we have grown production and reserves on our main existing properties while adding new prospective lands through selective acquisitions, farm-ins and landsales. Going forward, we are committed to creating value through detailed technical work, cost control and production growth.

Signed by

Brian Illing
President and CEO

ITERATION ENERGY LTD.

Annual General Meeting of Holders of Common Shares

To be held on June 7, 2006

**NOTICE OF ANNUAL GENERAL MEETING AND INFORMATION
CIRCULAR AND PROXY STATEMENT**

May 8, 2006

**ITERATION ENERGY LTD.
NOTICE OF ANNUAL GENERAL MEETING**

For the Annual Meeting of Shareholders
to be held on June 7, 2006

NOTICE IS HEREBY GIVEN that the annual general meeting (the "Meeting") of the holders (the "Shareholders") of common shares (the "Shares") of ITERATION ENERGY LTD. (the "Corporation") will be held in the Strand/Tivoli room of the Metropolitan Centre, 333 – 4th Avenue SW, Calgary, Alberta on June 7, 2006 at 3:00 pm for the following purposes to:

- 1) Receive the consolidated financial statements of the Corporation for the year ended December 31, 2005, together with the auditor's report on those statements,
- 2) Nominate the directors of the Corporation,
- 3) Appoint the auditors of the Corporation, and
- 4) Transact any other business which may properly come before the meeting.

The specific details of the matters proposed to be put before the Meeting are set forth in the Information Circular and Proxy Statement that accompanies this Notice.

Every registered holder of Shares at the close of business on April 27, 2006 is entitled to receive notice of and vote its Shares at the meeting on the basis of one vote for each Share held. No person acquiring Shares after such date is entitled to vote at the Meeting or any adjournment thereof.

If Unable to attend the meeting in person, Shareholders are requested to complete, sign, date and return the accompanying form of proxy or voting instruction form (each referred to as "Form of Proxy") in the envelope provided, or vote by telephone or the internet in accordance with the instructions that may be included in the Form of Proxy. Non-registered Shareholders who wish to appear in person and vote at the Meeting must appoint themselves as proxy by inserting their name in the blank space provided on the Form of Proxy and returning the Form of Proxy in the envelope provided or by appointing themselves as proxy on the internet by following the instructions included in the Form of Proxy. To be used at the Meeting, the Form of Proxy must be received by Computershare Trust Company of Canada, Attention: Proxy Department, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, not later than 3:00 p.m. on June 5, 2006. Further instructions with respect to attending the Meeting or voting by proxy are provided in the Form of Proxy and in the Information Circular and Proxy Statement accompanying this notice.

Dated at Calgary, Alberta this 8th day of May, 2006.

By order of the Board of Directors of
ITERATION ENERGY LTD.

Brian Illing
President and Chief Executive Officer

MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT

SOLICITATION OF PROXIES

This Information Circular is furnished in connection with the solicitation of proxies by the management of the Corporation for use at the Annual Meeting of the Shareholders of the Corporation to be held on June 7, 2006 at the Metropolitan Centre, 333 – 4th Avenue SW, Calgary, Alberta, at 3:00 p.m. (Calgary time) and at any adjournment thereof .

APPOINTMENT OF PROXYHOLDER AND DISCRETIONARY AUTHORITY

The persons designated in the accompanying form of proxy are officers of the Corporation. A shareholder has the right to appoint a person or company to represent the shareholder at the Meeting other than Brian Illing and James Grenon, the management designees, in the accompanying form of proxy. A shareholder may exercise this right by inserting in the blank space provided in the accompanying form of proxy the name of the person to be appointed and deleting the names of the persons designated in the form of proxy, or by completing another proper form of proxy. **In order for a proxy to be valid, it must be dated and signed by the shareholder or by the shareholder's attorney authorized in writing and received by Computershare Trust Company of Canada, Attention: Proxy Department, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, not later than 3:00 p.m. on June 5, 2006.**

All Common Shares represented by a proxy will be voted or withheld from voting in accordance with the instructions of the Shareholder on any ballot that may be called for, and if the Shareholder specifies a choice with respect to any matter to be acted upon, the Common Shares will be voted accordingly. The Common Shares to which a proxy relates will be voted FOR each matter as to which a choice is not specified.

The accompanying form of proxy confers discretionary authority with respect to amendments or variations to the matters identified in the notice of the Meeting and other matters that may properly come before the Meeting. As at the date of this Circular, management of the Corporation is not aware that any amendments, variations or other matters are to be presented for action at the Meeting. If any amendments, variations or other matters do properly come before the Meeting, the persons named in the accompanying form of proxy will vote according to their best judgment.

REVOCABILITY OF PROXY

A shareholder may revoke a proxy by depositing an instrument in writing executed by the shareholder or the shareholder's attorney authorized in writing at the office of Computershare Trust Company of Canada, Attention: Proxy Department, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof at which the proxy is to be used, or with the chairman of the Meeting on the day of the Meeting or any adjournment thereof.

VOTING SHARES AND PRINCIPAL HOLDERS OF VOTING SHARES

The record date for the Meeting is April 27, 2006. A person whose name was entered on the register of Common Shares at the close of business on that date is entitled to vote at the Meeting the number of Common Shares shown opposite that person's name in the register of Common Shares, except to the extent that the person has transferred the ownership of any of the person's Common Shares after the record date and the transferee of those Common Shares establishes that the transferee owns the Common Shares and demands, not later than 10 days before the Meeting, that the transferee's name be included in the list of Shareholders entitled to vote at the Meeting, in which case the transferee is entitled to vote the transferee's shares at the Meeting. As at April 27, 2006 there were 48,929,847 Common Shares outstanding, with each share carrying the right to one vote.

To the knowledge of the directors and officers of the Corporation, no person or company beneficially owns, directly or indirectly, or controls or directs voting securities carrying 10% or more of the voting rights attached to any class of voting securities of the Corporation

VOTING BY NON-REGISTERED SHAREHOLDERS

Shareholders who do not hold their Common Shares in their own name ("Non-registered Shareholders") may have their Common Shares voted at the Meeting by providing voting instructions to their "nominee", which is usually a trust company, broker or other financial institution. Nominees will typically seek voting instructions by sending with this Circular a voting instruction form instead of a form of proxy. A voting instruction form can be used only to provide voting instructions to a Non-registered Shareholder's nominee. Every nominee has its own signing and return instructions, which Non-registered Shareholders must follow to ensure that their shares are voted at the Meeting.

Alternatively, Non-registered Shareholders may attend the Meeting and vote their Common Shares as proxy holder by entering their own name in the space provided on the voting instruction form supplied by their nominee and following the signing and return instructions. Non-registered Shareholders who follow this procedure will be recognized at the Meeting as proxy holders and will be permitted to vote their shares in that capacity.

MATTERS TO BE ACTED UPON AT THE MEETING

Presentation of Financial Statements

The consolidated financial statements of the Corporation for the year ended December 31, 2005, together with the auditor's report on those statements, have been mailed to the Shareholders who have requested such materials. A copy of these financials statements is also available through the internet on the Corporation's SEDAR profile at www.sedar.com.

Nomination of Directors of the Corporation

The directors of the Corporation are responsible for the governance and the administration of the business and affairs of the Corporation. Pursuant to the governing documents of the Corporation, the Shareholders are entitled to nominate the directors of the Corporation. The term of office for each director is from the date at which he or she is elected until the next annual meeting of the Shareholders, or until a successor is elected or appointed. At the Meeting, a total of six individuals are proposed to be nominated by the Shareholders as directors of the Corporation. Management does not contemplate that any of the nominees will be unable to serve as a director, but should that circumstance arise for any reason prior to the meeting, the persons named in the enclosed Form of Proxy reserve the right to vote for another nominee at their discretion.

The name, residence, date of appointment, principal occupation and number of Common Shares beneficially owned, directly or indirectly, or over which control or direction is exercised, with respect to each of the six nominees as directors of the corporation is set forth below:

<u>Name and Municipality of Residence</u>	<u>Position with the Corporation</u>	<u>Director or Officer Since</u>	<u>Present Occupation and Positions Held During the Last Five Years</u>	<u>Shares and Warrants Beneficially Owned</u>
Pat Breen, P. Eng. ⁽³⁾⁽⁴⁾ <i>Calgary, Alberta</i>	Director	July 5, 2005	President Foremost Income Trust Fund since October 2003. From August, 2003, President Universal Industries Ltd., from November 2000 to August 2003. Prior thereto, Mr. Breen was District Manager, Lloydminster for Husky Energy Inc.	Nil
Dallas Droppo, Q.C. ⁽¹⁾⁽²⁾⁽⁴⁾ <i>Calgary, Alberta</i>	Director	July 5, 2005	Partner, Blake, Cassels and Graydon LLP, Barristers and Solicitors	Nil
James T. Grenon ⁽²⁾⁽³⁾⁽⁵⁾ <i>Calgary, Alberta</i>	Chairman and a Director	July 5, 2005	President, TOM Capital Associates Inc. (private investment company)	2,833,333 Common Shares 2,500,000 Warrants
Michael J. Hibberd ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾ <i>Calgary, Alberta</i>	Director	July 5, 2005	President of MJH Services Inc. (Corporate Finance Advisors)	Nil
Brian Illing, P. Geol. <i>Airdrie, Alberta</i>	President and Chief Executive Officer and Director	March 21, 2005	President and Chief Executive Officer. President of Iteration Energy Inc. from September 2004 to March 2005. Mr. Illing held various positions with Canadian Natural Resources Ltd. from August 1993 to September 2003, including Executive Vice-President Exploration	620,000 Common Shares 535,098 Warrants
Robert Waters, C.A. ⁽¹⁾ <i>Calgary, Alberta</i>	Director	July 5, 2005	Senior Vice-President and Chief Financial Officer Enerplus Resource Fund since December, 2001. Prior thereto, Vice-President Finance and Chief Financial Officer Pengrowth Energy Trust since June, 1998.	25,200 Common Shares

Notes:

- (1) Member of Audit Committee.
- (2) Member of Corporate Governance Committee.
- (3) Member of Reserves and Safety Committee.
- (4) Member of Compensation Committee.
- (5) Mr. Grenon was the Manager Business Development of the Corporation from March 21, 2005 until July 5, 2005

Appointment of Auditors

At the meeting, Shareholders will be asked to appoint Ernst & Young LLP, Chartered Accountants, as auditors of the Corporation until the next annual general meeting of the Shareholders at a remuneration to be fixed by the board of directors of the Corporation upon the recommendation of the Corporation's Audit Committee. Ernst & Young LLP are currently the auditors of the Corporation.

Certain information regarding the Corporation's Audit Committee, including fees paid to the Corporation's auditors in the last two fiscal years, that is required to be disclosed in accordance with Multilateral Instrument 52-110 of the Canadian Securities Administrators is contained in the Corporation's Annual Information Form for the year ended December 31, 2005, an electronic copy of which is available on the internet on the Corporation's SEDAR profile at www.sedar.com.

Other Matters

As of the date of this Information Circular, the board of directors and management know of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice of Annual General Meeting; however, if any other matter properly comes before the Meeting, proxies in favour of management nominees will be voted on such matter in accordance with the best judgment of the person or persons voting the proxy.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table provides a summary of compensation earned during the fiscal years ended December 31, 2005, 2004 and 2003 by the President and Chief Executive Officer, each Chief Financial Officer and the most highly compensated executive officers (the "Named Executive Officers") who were serving as executive officers as at December 31, 2005.

Name and Principal Position	Financial Year Ended	Annual Compensation			Long-Term Compensation			All Other Compensation ⁽⁵⁾
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards		Payouts	
					Securities Under Options (#)	Shares Subject to Resale Restrictions (\$)	LTP Payouts (\$)	
Brian Illing ⁽¹⁾ President and CEO	2005	69,972	49,956	-	937,629	-	-	-
Sean Johnson ⁽²⁾ Chief Financial Officer ⁽¹⁾	2005	-	-	-	-	-	-	-
Mark Ariss ⁽¹⁾ Vice President Exploration East	2005	69,972	49,956	-	462,440	-	-	-
Jane Mactaggart ⁽¹⁾ Vice President Exploitation	2005	69,972	49,956	-	462,440	-	-	-
Carmen McKay-Illing ⁽¹⁾ Vice President Corporate Affairs	2005	69,972	49,946	-	299,794	-	-	-
Kevin Stromquist ⁽¹⁾ Vice President Exploration West	2005	69,972	49,956	-	462,440	-	-	-
David Tuer ⁽³⁾ President and CEO	2005	7,291	-	-	-	-	-	-
	2004	167,708	-	-	-	-	-	16,771
	2003	175,000	135,000	-	-	-	-	17,625
David Scobie ⁽⁴⁾ Chief Financial Officer	2005	60,000	250,000	-	-	-	-	-
	2004	24,000	-	-	-	-	-	-
	2003	-	-	-	-	-	-	-

Notes:

- (1) Each of Mr. Illing, Mr. Ariss, Ms Mactaggart, Ms. McKay-Illing and Mr. Stromquist was appointed to his or her respective positions effective March 21, 2005 in connection with the acquisition of Iteration Energy Inc. by the Corporation.
- (2) During 2005, a corporation controlled by Mr. Johnson received \$80,950 for providing Chief Financial Officer consulting services to the Corporation. Mr. Johnson became an employee and Chief Financial Officer for the Corporation January 1, 2006, for a base salary of \$150,000 per annum.
- (3) Mr. Tuer resigned as an officer of the Corporation effective March 22, 2005 in connection with the acquisition of Iteration Energy Inc. by the Corporation.
- (4) Mr. Scobie was appointed Chief Financial Officer effective November, 2004 and resigned as an officer of the Corporation effective March 22, 2005 in connection with the acquisition of Iteration Energy Inc. by the Corporation.
- (5) Other than where noted above, the value of all perquisites and benefits for each Named Executive Officer is less than the lesser of \$50,000 and 10% of total annual salary and bonus.

Employee Share Purchase Plan

On June 1, 2004, the board of directors established the Employee Share Purchase Plan (the "Employee Purchase Plan") to enable employees of the Corporation to acquire Common Shares through payroll deductions with financial assistance provided by the Corporation. Effective June 1, 2005, the Employee Purchase Plan was discontinued by the Corporation. Those employees of the Corporation, who had previously participated in the plan, received a 10% increase in base salary as compensation for the discontinued contribution by the Corporation. Employees of the Corporation could contribute in any calendar month toward the purchase of Common Shares for their accounts under the employee Purchase Plan an amount which was either 2.5% or 5% of such employee's salary during such month, contributed by way of payroll deductions. The Corporation paid a contribution to the administrator on behalf of and as an absolute benefit for such employee, for such calendar month, an amount equal to two times the amount contributed by such employee. The administrator appointed under the Employee Purchase Plan purchased Common Shares for the accounts of the employees. Common Shares were purchased through a member firm of the Toronto Stock Exchange ("TSX") or from the Corporation at a price equivalent to the average of the daily high and low prices of board lots of Common Shares sold on the TSX during the five days preceding the date on which the contributions were made by the employees. The Corporation's contributions in respect of each employee vested following the completion of six months of continuous employment by such employee. Should an employee terminate his membership in the Employee Purchase Plan prior to the completion of six months of continuous employment, for any reason, other than change of control of the Corporation, the Corporation contributions would not vest and could be allocated to the remaining employees who are members of the Employee Purchase Plan, in a specified formula, or retained in the plan to be used for future Corporation contributions.

Stock Option Plan

The Stock Option Plan of the Corporation (the "Stock Option Plan") was initially established in May of 2000. Amendments to the Stock Option Plan were approved by Shareholders at special meetings on April 3, 2003, April 28, 2004 and on July 5, 2005.

The Stock Option Plan provides that the board of directors may grant options to purchase Common Shares to directors, officers and employees of the Corporation and its subsidiaries. In granting an option, the Board must fix the number of Common Shares, exercise price, vesting provisions and expiry date (which shall be no later than ten years from the date of grant). The exercise price of a stock option shall be no less than the closing price of the Common Shares on the TSX on the day preceding the date of grant on which at least one board lot of Common Shares traded. The board of directors has the discretion under the Stock Option Plan to adjust both the number of Common Shares under option and the exercise price of options upon the occurrence of specified dilutive or anti-dilutive events. The Stock Option Plan provides that options granted thereunder may give option holders the right to surrender the option for cancellation and receive a cash payment from the Corporation based on the amount by which the market price of the Common Shares at the time of surrender exceeds the exercise price of the option. The Stock Option Plan also provides for the acceleration of vesting of options upon the occurrence of any one of a number of specified events that constitute a change of control of the Corporation.

The maximum number of Common Shares that may be issued under the Stock Option Plan is 10.0% of the currently outstanding Common Shares. The maximum number of Common Shares that may be issued

under the Stock Option Plan and any other share compensation arrangements of the Corporation is limited to 5% of the total number of outstanding Common Shares in the case of any one person, and 10% in the case of insiders as a group. Options are not assignable and cannot be converted into share appreciation rights. Options which are vested terminate (i) on the earlier of their expiration or 90 days after a participant ceases to be a director, officer or employee for any reason other than for cause, death, permanent disability or retirement, and (ii) 12 months after the date of death, permanent disability or retirement. Options which have not vested as at such times terminate automatically. At the date of this Management Information Circular, options to purchase 4,889,722 Common Shares (each to 10% of the currently outstanding Common Shares) have been granted, of which 1,560,129 options have vested.

Option Grants During the Most Recently Completed Financial Year

The following table sets out the individual grants of options issued by the corporation during the financial year ended December 31, 2005 to each Named Executive Officer.

<u>Name</u>	<u>Securities Under Options Granted⁽¹⁾</u>	<u>% of Total Options Granted to Employees in Financial Year</u>	<u>Exercise or Base Price (\$/Security)</u>	<u>Market Value of Securities Underlying Options on Date of Grant (\$/Security)</u>	<u>Expiration Date</u>
Brian Illing	937,629	19.1	2.90	2.90	March 23, 2010
Sean Johnson	-	-	-	-	-
Mark Ariss	462,440	9.4	2.90	2.90	March 23, 2010
Jane Mactaggart	462,440	9.4	2.90	2.90	March 23, 2010
Carmen McKay-Illing	299,794	6.1	2.90	2.90	March 23, 2010
Kevin Stromquist	462,440	9.4	2.90	2.90	March 23, 2010
David Tuer	-	-	-	-	-
David Scobie	-	-	-	-	-

Note:

(1) The Options vest evenly over a three year period and expire five years from the date of grant.

Executive Employment Agreements

Pursuant to employment agreements dated March 21, 2005 Mr. Illing, Mr. Stromquist, Mr. Ariss, Ms. Mactaggart and Ms. McKay-Illing are entitled to termination pay equal to six months base salary, plus severance pay of one month severance for each year of service, should their employment be terminated other than for cause. In addition, under certain circumstances, should there be a change of Control of the Corporation, all outstanding options will immediately vest.

Pursuant to an employment agreement dated as of April 3, 2003, Mr. Tuer was entitled to an annual base salary of \$175,000 per year and to a discretionary bonus of up to a maximum of 200% of his base salary as determined by the board of directors of the Corporation in light of the Corporation's overall operational and financial performance. In the event Mr. Tuer was terminated other than for cause, he was entitled to a payment equal to his annual base salary at the date of termination multiplied by 1.5 and his average bonus entitlement for the two preceding years multiplied by 1.5. Mr. Tuer resigned as President and Chief Executive Officer and director of the Corporation effective March 22, 2005.

Mr. Scobie's employment with the Corporation ceased on March 22, 2005.

Composition of Compensation Committee

The Compensation Committee of the board of directors of the Corporation is comprised of Messrs. Breen, Hibberd and Droppo, each of whom is an independent director.

Report on Executive Compensation

The Compensation Committee approves the compensation paid to the Corporation's officers and in general the overall compensation paid by the Corporation to its employees and contractors. The compensation paid includes base salary, a discretionary year end cash bonus, and awards of options to acquire the Corporation's Common Shares pursuant to the Stock Option Plan. These forms of compensation are considered both individually and collectively to determine the compensation levels paid. Compensation levels of the Corporation's employees are reviewed annually following completed performance reviews by management.

In arriving at the compensation levels paid by the Corporation, the Compensation Committee takes into account a number of factors, including the responsibilities and experience of the individuals, the performance of the individuals and the overall financial performance and returns of the Corporation. The Compensation Committee also examines available compensation data conducted on the industry.

The Compensation Committee believes that, to the extent possible, granting of stock options should be used to augment the overall compensation package. To remain competitive with its industry peer group the board of directors believes it is important that the Corporation has an option plan available. These options provide an incentive for all employees and officers to ensure they are striving to maximize shareholder value.

Salaries and option awards for officers are set at a reasonable level for similar positions in oil and natural gas companies of comparable size. In addition, compensation in the form of yearly cash bonuses is provided to recognize performance.

Submitted by the Compensation Committee

Messrs. Hibberd, Breen and Droppo

Compensation of Directors

Prior to the annual general meeting of July 5, 2005, approved compensation for non-management directors was as follows:

Retainer and meeting attendance:

Annual retainer	\$ 15,000
Attendance:	
Board of director	
or committee meeting	\$ 1,000 per meeting in person
	\$ 750 per meeting by phone

Additional compensation for acting as Chair:

Chairman of the Board	\$ 30,000 per annum
Audit committee	20,000 per annum
Compensation committee	7,500 per annum
Reserves committee	7,500 per annum
Corporate governance committee	7,500 per annum

After the annual general meeting of Shareholders of the Corporation held on July 5, 2005, approved compensation for non-management directors was as follows:

Retainer and meeting attendance:

Annual retainer	\$ 20,000
Attendance:	
Board of director meeting	\$ 1,000 per meeting
Committee meeting	\$ 500 per meeting

Committee participation:

Audit committee and corporate governance committees	
Chair	\$ 10,000 per annum
Members	\$ 5,000 per annum
Reserves/ safety and compensation committees	
Chair	\$ 5,000 per annum
Members	\$ 2,000 per annum

Mr. James T. Grenon chose to forego all compensation that would have been paid to him pursuant to the compensation arrangement outlined above for 2005 and Mr. Robert Waters has elected to have such compensation paid to his employer.

The total amounts paid/payable to each non-management director for the 2005 financial year was:

For directors of the Corporation prior to July 5, 2005

R.P. Mathison - \$21,000; Stan G. Grad - \$12,250; Bruce J. Kenway - \$24,500; Martin A. Lambert - \$16,250; and Keith T. Smith - \$14,250.

For directors of the Corporation after July 5, 2005

James T. Grenon - \$ nil; Dallas Droppo - \$ 23,000; Michael Hibberd – \$ 26,500; Pat Breen - \$ 17,500; Enerplus Resource Fund (for services rendered by Mr. Robert Waters) - \$ 21,000 ;

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

The following table summarizes for the Named Executive Officers the number of Common Shares acquired pursuant to exercises of options during the financial year ended December 31, 2005.

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options at December 31, 2005		Value of unexercised In-the-Money Options at December 31, 2005 ⁽¹⁾	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Brian Illing	-	-	-	937,629	-	3,131,681
Sean Johnson	-	-	-	-	-	-
Kevin Stromquist	-	-	-	462,440	-	1,544,550
Mark Ariss	-	-	-	462,440	-	1,544,550

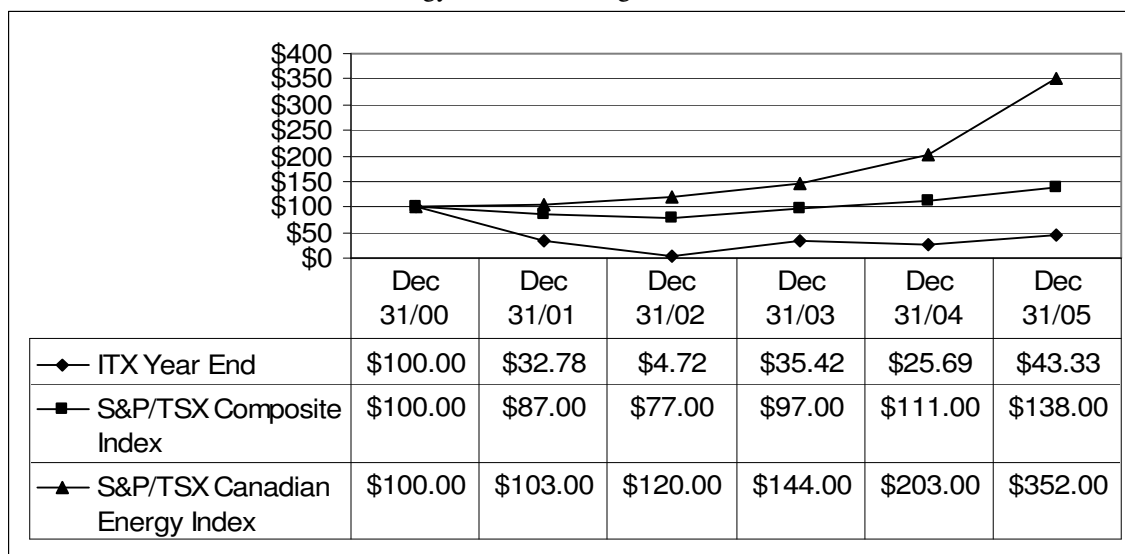
Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options at December 31, 2005		Value of unexercised In-the-Money Options at December 31, 2005 ⁽¹⁾	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Jane Mactaggart	-	-	-	462,440	-	1,554,550
Carmen McKay-Illing	-	-	-	299,794	-	1,001,312
David Tuer	-	-	-	-	-	-
David Scobie	-	-	-	-	-	-

Note:

(1) The closing price of the Common Shares on the TSX on December 31, 2005 was \$6.24 per share.

PERFORMANCE GRAPH

The following graph compares the yearly percentage change in the cumulative shareholder return on the Common Shares over the period from December 31, 2000 to December 31, 2005 (assuming a \$100 investment was made on December 31, 1999) with the cumulative total return on the S&P/TSX Composite Index and the S&P/TSX Canadian Energy Index, assuming reinvestment of dividends.



SECURITIES AUTHORIZED FOR ISSUE UNDER EQUITY COMPENSATION PLANS

The following table provides information in respect of the Stock Option Plan, the only compensation plan previously approved by Shareholders as at December 31, 2005. The Corporation does not have any compensation plan not previously approved by Shareholders.

Equity Compensation Plan Information

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options (a)</u>	<u>Weighted-Average Exercise Price of Outstanding Options (b)</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))</u>
Stock Option Plan	4,798,122	2.97	91,413

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

None of the directors or executive officers of the Corporation, or any associate of any such director, executive officer or proposed nominee, has been indebted to the Corporation or any of its subsidiaries at any time during the year ended December 31, 2005.

INTEREST OF CERTAIN PERSONS IN MATERIAL TRANSACTIONS

To the knowledge of the directors and officers of the Corporation, except as described below, no insider and none of the directors and executive officers of the Corporation, or associate or affiliate of any of the foregoing, has had an interest, direct or indirect, in any material transaction of the Corporation since the beginning of the Corporation's last financial year, or in any proposed transaction that has materially affected or would materially affect the Corporation, other than management's interest in the outcome of the resolution to approve of the grant of stock options issued to management in accordance with their employment agreements entered into in connection with the acquisition of Iteration, which resolution was passed by the previous the board of directors prior to current management joining the Corporation.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

TSX suggests listed companies disclose their corporate governance practices with reference to the TSX guidelines, including any explanation of the differences between the listed company's practices and the guidelines. The Board of Directors and senior management of Iteration consider good corporate governance to be central to the effective operation of the Corporation.

During the past year, there have been several changes to the corporate governance disclosure requirements applicable to the Corporation. Specifically, the Canadian Securities Administrators introduced, National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (the “**National Instrument**”) and National Policy 58-201 – *Corporate Governance Guidelines* (the “**National Policy**”), both of which came into force on June 30, 2005.

Iteration has devoted significant attention to ensuring that the Corporation's system of corporate governance meets or exceeds applicable legal and stock exchange requirements. Of particular note, the Board of Directors has adopted a Code of Business Conduct (the “**Code**”) applicable to all directors, officers, employees and consultants of Iteration. A copy of the Code is available on the Corporation's website at www.iterationenergy.com and on the Corporation's SEDAR profile at www.sedar.com. With input from the relevant committees, the Board of Directors also revised the charters of the Audit Committee, Corporate Governance Committee, Reserves/Safety Committee and the Compensation Committee.

Set out below is a description of certain governance practices of the Corporation, as required by the National Instrument.

Board of Directors

Independence

The National Policy recommends that the boards of directors of reporting issuers be composed of a majority of independent directors. Four of the six directors of Iteration have been determined to be independent based on information provided by individual directors and, as a result, the Board of Directors is composed of a majority of independent directors. The four independent directors are: Messrs. Pat Breen, Robert Waters, Dallas Droppo and Michael Hibberd. Mr. Brian Illing, President and Chief Executive Officer of the Corporation and Mr. James T. Grenon, Chairman of the Board (a former employee of the Corporation), are not independent.

Board Meeting and Attendance Records

The Corporation has taken steps to ensure that adequate structures and processes are in place to permit the Board of Directors to function independently of management. The independent directors hold *in camera* sessions without management or the non-independent directors present at scheduled quarterly meetings through the year.

Since January 1, 2005, the number of board and committee meetings and the attendance at such meetings is as follows:

	Board Meetings Attended	Committee Meetings Attended		Corporate Governance	Reserves/Safety ⁽¹⁾
		Audit	Compensation		
Directors prior to July 5, 2005 AGM					
Ron Mathison	4 of 4	2 of 2	n/a	n/a	n/a
Stan Grad	1 of 4	n/a	n/a	n/a	0 of 1
Bruce Kenway	4 of 4	2 of 2	n/a	n/a	n/a
Martin Lambert	3 of 4	2 of 2	n/a	n/a	n/a
Keith Smith	2 of 4	n/a	n/a	n/a	1 of 1
Directors subsequent to July 5, 2005 AGM					
Jim Grenon	4 of 4	n/a	n/a	3 of 3	n/a
Brian Illing	4 of 4	n/a	n/a	n/a	n/a
Pat Breen	3 of 4	n/a	2 of 2	n/a	n/a
Dallas Droppo	3 of 4	2 of 2	2 of 2	3 of 3	n/a
Michael Hibberd	4 of 4	2 of 2	2 of 2	3 of 3	n/a
Robert Waters	4 of 4	2 of 2	n/a	n/a	n/a

Note:

(1) There were no Reserve/Safety committees meetings for the new board of directors following 2005 AGM until 2006 however safety and environment have been part of the agenda for all board meetings .

Other Directorships

The Corporation and the Board of Directors recognize the significant commitment involved in being a member of the Board of Directors. Accordingly the Corporate Governance Committee is responsible for evaluating the backgrounds and qualifications of nominees to determine whether continued membership on

the Board of Directors is appropriate. Currently, the following directors of Iteration serve on the boards of directors of other reporting issuers as listed below.

Director	Public Company Board Membership
Dallas Droppo	Norex Exploration Services Inc. Real Resources Inc.
Pat Breen	Foremost Income Fund
James T. Grenon	Foremost Income Fund
Michael Hibberd	AltaCanada Energy Challenger Energy Deer Creek Energy (to December 2005) Heritage Oil Corporation Pan Orient Energy Rally Energy Corp.

Board Mandate

The Board of Directors is responsible for the overall stewardship of the Corporation and its subsidiaries. The Board discharges this responsibility directly and through delegation of specific responsibilities to committees of the Board, the Chairman of the Board and the officers of Iteration.

The Board of Directors has established four committees to assist with its responsibilities, the Audit Committee, the Compensation Committee, the Corporate Governance Committee and the Reserves and Safety Committee. The Board of Directors does not have an executive committee.

The Board and the Corporate Governance Committee are in the process of establishing and adopting a written Board Mandate.

Positions Descriptions and Chairman's Role and Responsibilities

The Board of Directors has developed written position descriptions for the chairman of each committee. The Board of Directors and the Chief Executive Officer have also developed a written position for the Chief Executive Officer.

The Chairman of the Board is responsible for the management, development and effective leadership of the Board in the governance of the Corporation. The Chairman's primary role is to provide leadership to the Board and its committees, including facilitating open discussions and expressions of competing views, to mediate any dissent within the Board and, where possible, achieve consensus among the directors. The Chairman is also responsible for, among other things, fostering ethical and independent decision making, providing a link between the Board and management and acting in an advisory capacity to the President and Chief Executive Officer in all matters concerning the interests and management of Iteration. A written description of the role of the Chairman of the board will be contained in the Board Mandate.

Orientation and Continuing Education

All directors receive board materials which include any relevant by-laws of the Corporation, an organization chart of the Corporation and corporate fact sheets, strategic plan and budget, list of Committees and members, Committee Charters and all relevant corporate policies. As well, all directors receive the Corporation's quarterly and annual financial reporting package and any press releases issued by the Corporation.

Any new directors will be provided with substantial reference material pertaining to the Corporation, its strategic focus, financial and operating history, corporate governance practices and corporate vision, the roles, duties and responsibilities of the Board, its Committees and the directors and other relevant background information.

Information sessions are held from time to time within the context of the Corporation's Board meetings and may be held at other times as may be advisable. These sessions relate to significant aspects of the Corporation's business and operations and include legal, regulatory and industry requirements relating the Corporation. In addition, senior officers of the Corporation attend Board meetings from time to time to update the Board on their respective business activities.

Ethical Business Conduct

The Board of Directors has adopted a written Code of Business Conduct (the "**Code**") applicable to all directors, officers, employees and consultants of Iteration. The Code sets out in detail the core values and the principles by which the Corporation is governed and addresses topics such as: honest and ethical conduct and conflicts of interest; compliance with applicable laws and company policies and procedures; public disclosure and books of record; use of corporate assets and opportunities; confidentiality of corporate information; reporting responsibilities and procedures; and non-retaliation for reporting violations of the Code.

The Code is available on the Corporation's website at www.iterationenergy.com and has been filed on the Corporation's SEDAR profile at www.sedar.com. No waivers were granted from any provision of the Code since January 1, 2005 in respect of any director or executive officer of Iteration, and no material change report has been filed by the Corporation since January 1, 2005 pertaining to the conduct of any director or executive officer of Iteration that constitutes a departure from the Code.

The Board of Directors and the Audit Committee have established a Treatment of Complaints Policy (the "Complaints Policy") to encourage employees, officers and directors to raise concerns regarding matters covered by the Code, including accounting, internal controls or auditing matters. Pursuant to the Complaints Policy, anyone may contact the Chairman or any member of the Audit Committee, or the President and Chief Executive Officer to report a contravention of the Code on a confidential basis, free of discrimination, retaliation or harassment. A copy of the Complaints Policy is available on the Corporation's website at www.iterationenergy.com.

In addition, in order to ensure independent judgment in considering transactions and agreements in which a Director or officer of Iteration has a material interest, all related party transactions and any payments arising from such transactions are approved by the independent directors. No such transactions or payments occurred in the past year, except as disclosed in the audited financial statements for the year ended December 31, 2005.

Nomination of Directors by Corporate Governance Committee

The Corporate Governance Committee is comprised of Messrs. James Grenon (Chairman), Dallas Droppo and Michael Hibberd of which Mr. Droppo and Mr. Hibberd are independent. The Corporate Governance Committee is responsible for, among other things, identifying and evaluating director candidates to the Board of Directors and recommending nominees for the Board of Directors. In addition, this Committee is responsible for:

- Assigning and making recommendations to the Board as to appropriate skills and characteristics required of Board members;
- Recommending nominees for election or re-election of the Board;
- Conducting an annual self evaluation process of the Board and each of the directors;
- Conducting an annual evaluation process to assess the effectiveness of the President and Chief Executive Officer;

- Regularly reviewing Iteration’s corporate governance practices and recommending to the Board any changes that the Committee deems necessary or advisable; and
- Reviewing the Corporation’s annual disclosure of corporate governance practices.

Determination of Compensation by Compensation Committee

The Compensation Committee is comprised of Messrs. Michael Hibberd (Chairman), Pat Breen, and Dallas Droppo, all of whom are independent. The Compensation Committee is responsible for, among other things, assisting the Board in fulfilling its duties regarding human resources, compensation matters and succession plan review, including recommending the form and adequacy of compensation arrangements for Iteration Directors and executive officers, having regard to associated risks and responsibilities. This Committee’s responsibilities include:

- Recommending executive compensation policies, programs and awards to the Board;
- Reviewing and approving the granting of Corporation options to officers and employees under the Corporation’s stock option plan;
- Reviewing overall compensation programs to ensure competitiveness and employee retention.

The Compensation Committee obtains executive compensation data from third party providers of compensation data in the oil and gas sector. During the year, Mercer was one source of market information used by the Corporation as a source of comparable compensation data for the Corporation to ensure market competitive salaries for Iteration’s executive officers.

Further information regarding the activities and recommendations of the Compensation Committee is provided under “Executive Compensation Report on Executive Compensation”.

Audit Committee

The Audit Committee is comprised of Messrs. Robert Waters (Chairman), Dallas Droppo and Michael Hibberd, all of whom are independent and financially literate for purposes of Multilateral instrument 52-110 – *Audit Committees*. The specific responsibilities, power and orientation of the Audit Committee are set out in the Audit Committee Charter, a copy of which is on the Corporation’s website at www.iterationenergy.com and is also included in the Corporation’s annual information form for the year ended December 31, 2005, which has been filed on SEDAR at www.sedar.com. This committee is primarily responsible for the quality of the Corporation’s financial reporting and its responsibilities include:

- Reviewing, with management and the external auditors, the integrity of the Corporation’s interim and annual financial statements, as well as management’s discussion and analysis of financial conditions and results of operations to be recommended for approval by the Board;
- Ensuring the Chief Executive Officer and Chief Financial Officer certify the accuracy of the information set forth in the consolidated annual financial statements, the unaudited interim financial statements and related disclosure materials.
- Reviewing with the external auditors the use by management of Generally Accepted Accounting Principles, their consistent application, and their appropriateness;
- Determining whether any restrictions affect the ability of the external auditor in reporting on the Corporation’s financial condition and operations;
- Engaging the Corporation’s external auditors and assessing their performance annually;
- Reviewing and approving the annual audit plan and fees;
- Reviewing and pre-approving non-audit services;
- Reviewing financial monitoring systems and monitoring managements initiatives with regard to internal controls;
- Reviewing the processes by which management identifies, measures and manages the various financial risks of the business and the proper disclosure respecting same; and
- Holding regular meetings independent of management with the external auditors.

Reserves and Safety Committee

The Reserves/Safety Committee is currently comprised of Messrs. Pat Breen (Chairman), Michael Hibberd and James Grenon, of which Mr. Breen and Mr. Hibberd are independent. The principal function of the Reserves and Safety Committee is to assist the Board in carrying its responsibilities with respect to:

Health, Safety and the Environment

- reviewing Iteration's environment, health and safety programs and policies;
- reviewing management's performance with respect to environment, health and safety matters;
- reviewing significant external and internal environment, health and safety reports on risk assessment, ongoing investigations and audits performed;
- reviewing the status of significant remediation projects, developments and environmental provisions;
- ensuring that long range preventive programs are in place to limit future risks; and
- generally ensuring the integrity of Iteration's environment, health and safety programs and policies.

Reserves

- assessing the work of the independent reserves evaluators annually;
- recommending to the Board the engagement of the independent reserves evaluator;
- reviewing Iteration's procedures relating to the disclosure of information with respect to the Corporation's reserves;
- reviewing the scope of the annual review of the reserves by the independent reserves evaluator, including findings and any disagreements with management;
- meeting independently of management with the independent reserves evaluator;
- determining whether any restrictions affected the ability of the reserves evaluator in reporting on Iteration's reserves data;
- receiving annually, a signed reserves evaluator's report and a certificate of compliance and due diligence from management;
- approving the year end reserves evaluation.

Assessments

The Corporate Governance Committee is responsible for assessing the effectiveness of the Board as a whole and the committees of the Board. The process of assessing the effectiveness of the Board and the Committees is carried on in an informal way through discussions between the Chairman and the Chairman of each of the Committees and the members thereof.

ADDITIONAL INFORMATION

Iteration regularly files quarterly and annual financial statements, as well as management's discussion and analysis ("MD&A") and other important information with the securities commission. Financial information for the Corporation is contained in the audited and consolidated comparative financial statements and MD&A of the Corporation for the year ended December 31, 2005. Copies of such documents are available on the internet on Iteration's SEDAR profile at www.sedar.com or may be obtained on request and without charge from the Corporation at 700, 700 – 2nd Street, SW, Calgary, Alberta, T2P 2W1, Telephone (403) 261-6883.