

ITERATION ENERGY LTD.

ANNUAL INFORMATION FORM

March 21, 2007

**ITERATION ENERGY LTD.
ANNUAL INFORMATION FORM**

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GLOSSARY OF TERMS

Capitalized terms in this Annual Information Form have the meanings set forth below:

"**COGE Handbook**" means the "Canadian Oil and Gas Evaluation Handbook";

"**Common Share**" means a common share in the capital of the Corporation;

"**Hawker**" means Hawker Resources Inc., as the Corporation was named before it changed its name to Iteration Energy Ltd. on July 7, 2005;

"**Iteration**" or "**the Corporation**" means Iteration Energy Ltd., a corporation incorporated under and governed by the *Business Corporations Act* (Alberta);

"**Iteration Energy**" or "**the Partnership**" means Iteration Energy, a partnership formed on March 23, 2005;

"**LIBOR**" means London Interbank Offer Rate;

"**McDaniel**" means McDaniel and Associates Consultants Ltd., independent petroleum engineers, Calgary, Alberta;

"**McDaniel Report**" means the report prepared by McDaniel dated February 27, 2007, effective as at December 31, 2006, setting forth pertinent information relating to the oil and gas reserves of the Corporation's properties and the present value of the estimated future net reserves associated with such reserves;

"**NI 51-101**" means National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities;

"**Pointwest**" means Pointwest Energy Inc., a corporation incorporated under the *Business Corporations Act* (Alberta);

"**Southward**" means Southward Energy Ltd., a corporation incorporated under the *Business Corporations Act* (Alberta);

"**Southward Properties**" means all of the petroleum and natural gas rights and related assets acquired from Southward ;

"**TSX**" means The Toronto Stock Exchange;

"**Working interest**" means the interest in a lease that carries with it the rights and obligations to develop and operate an oil or natural gas property;

"**WCSB**" means Western Canada Sedimentary Basin;

"**Year**" means a calendar year; and

"**Zorin**" means Zorin Exploration Ltd., a corporation incorporated under the *Business Corporations Act* (Alberta);

Unless otherwise indicated, references herein to "\$" or "dollars" are to Canadian dollars.

ABBREVIATIONS

Crude Oil and Natural Gas Liquids

bbls	Barrels
bbls/d	barrels per day
mbbls	thousand barrels
boe	barrels of oil equivalent of natural gas

Natural Gas

mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
mcf/d	thousand cubic feet per day

boed	and crude oil on the basis of 1 bbl of	mmcf/d	million cubic feet per day
mboe	crude oil for 6 mcf of natural gas	GJ	Gigajoules
NGLs	barrels of oil equivalent per day	GJ/d	gigajoules per day
mmbtu	thousand boe		
stb	natural gas liquids		
	million British thermal units		
	standard stock tank barrel		

CONVERSION

In this Annual Information Form, certain measurements may be given in Standard Imperial or Metric Units only. The following table sets forth certain standard conversions:

<u>To Convert From</u>	<u>To</u>	<u>Multiply By</u>
Mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
Barrels	Cubic metres	0.159
Cubic metres	Barrels	6.293
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometers	1.609
Kilometers	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Information Form and in certain documents incorporated by reference into this Annual Information Form, constitute forward-looking statements. These statements relate to future events or the Corporation's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes that the expectations reflected in these forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form or as of the date specified in the documents incorporated by reference into this Annual Information Form, as the case may be.

In particular, this Annual Information Form and the documents incorporated by reference contain forward-looking statements pertaining to the following:

- the quantity of reserves;
- oil and natural gas production levels;
- commodity prices, foreign currency exchange rates and interest rates;
- capital expenditure programs and other expenditures;
- supply and demand for oil and natural gas;
- expectations regarding the Corporation's ability to raise capital and to continually add to reserves through acquisitions and development;
- schedules and timing of certain projects and Iteration's strategy for growth;
- Iteration's future operating and financial results; and
- treatment under governmental regulatory regimes and tax, environmental and other laws.

The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of both known and unknown risks, including the risk factors set forth below and elsewhere in this Annual Information Form:

- volatility in market prices for oil and natural gas;
- volatility or fluctuations in oil and natural gas production levels;
- volatility in exchange rates for the Canadian Dollar relative to other world currencies;
- liabilities and risks inherent in oil and natural gas operations including geological, technical, drilling and processing problems;
- uncertainties associated with estimating reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- Iteration's success at acquisition, exploitation and development of reserves;
- changes in general economic, market and business conditions in Canada, North America and worldwide including fluctuations in the price of oil and gas;
- actions by governmental or regulatory authorities including changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry.
- Environmental risks;
- Insurance limitations risks;
- Risks inherent in replacing reserves
- Risks inherent in replacing reserves
- Access to funding and issuance of debt;
- Aboriginal claims; and
- Availability of drilling equipment, access restrictions and cost inflation.

Natural gas is converted to crude oil equivalent at a ratio of six thousand cubic feet to one barrel. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Many of these risk factors and other specific risks and uncertainties are discussed in further detail throughout this Annual Information Form and in Iteration's Management's Discussion and Analysis for the year ended December 31, 2006, which is available at www.sedar.com. The Corporation undertakes no obligation, except as required by applicable securities legislation, to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise.

ITERATION ENERGY LTD.

Organization and Structure

The Corporation was incorporated as 599386 Alberta Ltd. under the *Business Corporations Act* (Alberta) on February 14, 1994 and changed its name to SYNSORB Biotech Inc. on March 31, 1994. Effective May 8, 2002: (i) each former holder of common shares of the Corporation received one new common share for each eight cancelled common shares previously held by such holder, (ii) the stated capital of the Corporation was reduced in respect of the common shares of the Corporation by \$59,896,000, and (iii) 4,000,235 common shares of Oncolytics Biotech Inc. held by the Corporation were distributed to its shareholders. By articles of amendment filed on April 3, 2003, the name of the Corporation was changed to Hawker Resources Inc. and a new class of non-voting equity shares was created. On December 30, 2003, each of Pointwest and its wholly-owned subsidiary, Myriad Corporation, and the Corporation amalgamated pursuant to the provisions of the *Business Corporations Act* (Alberta) under the name Hawker Resources Inc. On December 31, 2003, 1053639 Alberta Ltd., a wholly-owned subsidiary of the Corporation, and the Corporation amalgamated pursuant to the provisions of the *Business Corporations Act* (Alberta) under the name Hawker Resources Inc. On March 17, 2004, Zorin Exploration Ltd., a wholly owned subsidiary of the Corporation, was dissolved into the Corporation. On April 28, 2004, the shareholders of the Corporation approved the reclassification of the class A shares into Common Shares and the removal of the class A shares from the authorized capital of the Corporation. By articles of amendment filed on July 7, 2005, the name of the Corporation was changed to Iteration Energy Ltd.

The head office and registered office of the Corporation is located at 700, 700 - 2nd Street S.W., Calgary, Alberta, T2P 2W1.

GENERAL DEVELOPMENT

Business of the Corporation

Iteration is an Alberta based corporation engaged in the business of exploring for and developing oil and natural gas reserves in western Canada and acquiring oil and natural gas properties. Iteration currently owns approximately 193,200 net acres of undeveloped land focused primarily in Alberta, Saskatchewan and British Columbia. As of December 31, 2006 the Corporation had approximately 6,050 boed of production. At that time, there was approximately an additional 350 boed completed behind pipe, waiting on tie in.

Iteration intends to continue building an asset base in its main focus areas in northeast British Columbia, Western Alberta, east central Alberta and southwest Saskatchewan by means of acquisition, farm-ins and land sale opportunities.

As at December 31, 2006, the Corporation employed 29 people, none of which are unionized.

History

Completion of Private Placement-2,300,000 Flow-Through Common Shares

On December 6, 2006, the Corporation completed a bought deal private placement of 2,300,000 flow-through Common Shares at a price of \$5.25 per share for gross proceeds of \$12,075,000.

Acquisition of East Central Alberta Assets and Prospectus Offering

Pursuant to a purchase and sale agreement dated June 6, 2006, on June 27, 2006, with an effective date of April 1, 2006, the Corporation purchased certain petroleum and natural gas properties and related assets in east central Alberta from an unrelated oil and gas company. The gross purchase price was \$42,325,000, subject to adjustments. The adjusted purchase price was \$41,168,000. The Corporation assumed an asset retirement obligation of \$2,510,000 associated with this acquisition. The acquisition was initially funded by bank debt. The Corporation commenced reporting production from this acquisition July 1, 2006.

Pursuant to a short form prospectus dated June 22, 2006, the Corporation issued 6,200,000 subscription receipts for gross proceeds of \$25,110,000 on June 28, 2006. Each subscription receipt was converted into one Common Share upon the closing of the acquisition of the east central Alberta assets on June 27, 2006. The net proceeds of the offering were applied to reduce bank debt of the Corporation incurred in connection with the acquisition.

Acquisition of North East British Columbia Properties

Pursuant to two purchase and sale agreements dated December 22, 2005 and March 10, 2006, the Corporation purchased certain petroleum and natural gas properties and related assets in north east British Columbia from unrelated oil and gas companies. The combined gross purchase price was \$8,805,000, subject to adjustments. The transactions closed January 24, 2006 and March 17, 2006. As a result of the acquisitions, the Corporation acquired approximately 170 boed of production and a significant undeveloped land base. The acquisition was funded from available cash.

Establishment of Credit Facility

On April 28, 2006, the Corporation established a \$35 million credit facility (the "Credit Facility") with a Canadian Chartered Bank. The Credit Facility bears interest at the lender's prime rate, is secured by a general security agreement covering all assets, a guarantee and postponement of claim. The Credit Facility is subject to semi annual reviews. A standby fee of 10 basis points is charged on the undrawn portion of the Credit Facility. On June 1, 2006, the Credit Facility was increased to \$50 million, to assist with the acquisition of the East Central Alberta Assets. Subsequent to year end, the Credit Facility was further increased to \$65 million.

Name Change

In connection with the March 21, 2005 acquisition by the Corporation of Iteration Energy Inc., the board of directors of Iteration recommended the change of the name of the Corporation from Hawker Resources Inc. to Iteration Energy Ltd., upon receipt of shareholder approval. Approval of the shareholders was received and the Corporation changed its name effective July 7, 2005.

Disposition of Oil and Gas Property - Lavoy

On March 24, 2005, the Corporation sold its interest in its non-operated Lavoy assets to an arms length third party. The transaction had an effective date of January 1, 2005 and a closing date of March 24, 2005. The assets sold for \$85 million subject to adjustments. After adjustments for net production revenue between the effective date and the date of close, the Corporation realized net proceeds of \$80.8 million, of which \$51 million was applied to pay off the bank debt. The balance of the proceeds was used for the 2005 capital expenditure program.

Transfer of Oil and Gas Assets to Iteration Energy

On March 23, 2005, the Corporation and its wholly owned subsidiary, Iteration Energy Inc, formed Hawker Resources Partnership. The Corporation transferred all of its oil and gas assets, with the exception of seismic, to the Partnership. As a result of the transfer, the Corporation's contribution to the Partnership was valued at \$170,800,000. Iteration Energy Inc. transferred its cash as well as identified oil and gas exploration opportunities to the Partnership. Iteration Energy Inc.'s contribution to the Partnership was valued at \$3,868,000. On August 25, 2005, the partnership changed its name to Iteration Energy.

Acquisition of Iteration Energy Inc.

On March 21, 2005, pursuant to a share purchase agreement, the Corporation acquired all of the shares of Iteration Energy Inc.. Iteration Energy Inc. had approximately \$2,000,000 in cash and a management team with extensive technical and operational expertise in the WCSB. Consideration for the purchase consisted of 5,750,000 Common Shares of the Corporation and 5,000,000 performance warrants. The Common Shares are subject to an escrow agreement pursuant to which one third of the Common Shares were released from escrow on each of March 20, 2006 and March 20, 2007, and the remaining Common Shares will be released from escrow on March 20, 2008. The performance warrants have a term of 42 months and an exercise price of \$2.90. In order to vest, the shares of the Corporation had to trade at an average price of \$4.50 or more for a period of 45 days. The performance warrants vested on May 7, 2005. In conjunction with this transaction, the Corporation granted 4,610,000 stock options with an exercise price of \$2.90 to certain employees of Iteration Energy Inc., which vest over three years and expire after five years. As a condition of the transaction, certain individuals of Iteration Energy Inc. were required to execute employment contracts with the Corporation.

Completion of Private Placement – 2,050,000 Flow-Through Common Shares

On August 6, 2004, the Corporation completed a private placement of 2,050,000 flow-through Common Shares at a price of \$5.15 per share for gross proceeds of \$10,558,000.

Acquisition of Zorin

On March 17, 2004, the Corporation acquired all of the shares of Zorin for an aggregate purchase price of a cash payment of approximately \$2.0 million and the issuance by the Corporation of 1,150,044 Common Shares. Prior to such acquisition, Zorin was a publicly-traded junior oil and natural gas exploration company based in Calgary, Alberta with activities in Alberta, Saskatchewan, Ontario and, through its wholly owned subsidiary, Mar Oil Company, Ohio. Effective March 17, 2004, Zorin was dissolved into the Corporation pursuant to the provisions of the *Business Corporations Act* (Alberta). In January 2005, the Corporation disposed of the Ontario and Ohio properties acquired pursuant to the acquisition of Zorin as well as its wholly owned subsidiary, Mar Oil Company, Ohio to an arms length party. Iteration received as consideration an unsecured promissory note with a maximum \$1,000,000 conditional principal amount, based on the value of the proven reserves as of July 1, 2006, discounted at 15%, on the lands held by Mar Oil Company plus net working interest revenue received on these lands to July 1, 2006. The promissory note was payable in annual instalments, calculated based on cash flow from the lands,

commencing on August 31, 2007. On July 1, 2006, the value of the promissory note was calculated as required pursuant to the valuation criteria and was determined to be nil.

Completion of Private Placement – 2,900,000 Flow-Through Common Shares

On December 5, 2003, the Corporation completed a private placement of 2,900,000 flow-through Common Shares at a price of \$5.25 per share for gross proceeds of \$15,225,000.

Acquisition of Pointwest and Prospectus Offering

On December 30, 2003, the Corporation acquired all of the shares of Pointwest for an aggregate purchase price of approximately \$88 million, inclusive of debt. Pointwest was an oil and natural gas exploration and production company based in Calgary, Alberta with an asset base primarily in north east British Columbia.

Concurrent with the completion of the acquisition of Pointwest, the Corporation closed a short form prospectus equity financing of 11,200,000 Common Shares at a price of \$4.05 per share for gross proceeds of \$43,360,000. The net proceeds from this equity financing were used to partially finance the Corporation's acquisition of all of the shares of Pointwest. The balance of the funds required to complete the acquisition were advanced to the Corporation under an expanded credit facility with a Canadian Chartered Bank. Effective December 30, 2003, each of Pointwest and Myriad Corporation, its wholly-owned subsidiary, was amalgamated with the Corporation pursuant to the provisions of the *Business Corporations Act* (Alberta).

Acquisition of 1053638 Alberta Ltd. ("1053638") and 1053639 Alberta Ltd. ("1053639")

On August 14, 2003, the Corporation acquired all of the shares of 1053638 and 1053639, both of which were seismic data companies, for an aggregate consideration of \$1,500,000. On August 19, 2003, the Corporation subsequently sold all of the shares of 1053638 for \$300,000.

Acquisition of Southward, the Southward Properties and Equity Financing

Acquisition, by Arrangement Agreement, of Southward by 1022971 Alberta Ltd. ("1022971")

In early March 2003, 1022971, an unrelated third party, entered into an agreement with an unrelated third party which provided, that if 1022971 was successful in purchasing all of the shares of Southward, the third party would purchase all of the petroleum and natural gas rights and related assets of Southward, except for a 1% interest in the Southward Properties and 100% of the seismic data relating to the Southward Properties.

On March 16, 2003, 1022971 entered into an arrangement agreement with Southward which contemplated that 1022971 and Southward would implement an arrangement (the "Arrangement") in accordance with the *Business Corporations Act* (Alberta), whereby, amongst other things, shareholders of Southward would transfer all of the shares to 1022971 in consideration of \$4.77 per share.

On April 28, 2003 the Arrangement was approved by the shareholders and option holders of Southward and also by the Court of Queen's Bench of Alberta. On April 30, 2003, 1022971 acquired all of the shares of Southward in accordance with the provisions of the Arrangement. Immediately thereafter, Southward sold its oil and gas properties, excluding a 1% undivided interest in the Southward Properties and a 100% interest in seismic data, to an unrelated third party, for consideration of \$164,631,000.

Acquisition and disposition of 1022971 by Corporation

On March 31, 2003, the Corporation acquired all of the shares of 1022971 for nominal consideration.

All of the shares of 1022971 (including its wholly-owned subsidiary, Southward, and all other subsidiaries) were sold for nominal consideration by the Corporation to an unrelated third party on June 30, 2003.

Acquisition of Southward Properties by Corporation

In mid-March 2003, the Corporation was granted an option to purchase an undivided interest of up to 49% in the Southward Properties at a purchase price, subject to adjustment, of \$1,369,000 for each 1% undivided interest in the Southward Properties.

On June 30, 2003, the Corporation exercised the option to purchase and, accordingly, acquired the 49% interest in the Southward Properties, and concurrently purchased a further 1% undivided interest in the Southward Properties. At this time, the non-cash working capital of Southward was conveyed to the Corporation.

Name change to Hawker Resources Inc.

At the annual and special meeting of the shareholders of the Corporation held on April 3, 2003 a new board of directors was elected and the shareholders approved, among other things, to change the name of the Corporation to Hawker Resources Inc.

Significant Acquisitions and Dispositions

Each of the significant acquisitions and dispositions of the Corporation are disclosed above under "General Development – History".

Business Strategy

Vision. The Corporation's primary ongoing business objective is to continue as a full cycle oil and gas company with a dual focus on exploration and development activities and on an active acquisition strategy.

Drilling Program. Management intends to employ an active exploration program to seek out additional areas to add to the Corporation's production and opportunity inventory.

Responsible Fiscal Management. The Corporation strives to add value through its drilling and exploration activities and carefully manages its costs, thereby positioning itself to add to its inventory of opportunities and undeveloped land holdings.

Prudent Use of Equity. Management recognizes that equity must be used prudently, and it intends to rely heavily on operational revenues and, to the extent necessary, debt financing to satisfy liquidity requirements. The Corporation will attempt to minimize the dilution that would be caused to existing shareholders if large amounts of equity were issued.

PRINCIPAL PROPERTIES

Summary of Properties

The following is a description of the Corporation's principal properties on production or under development.

Boundary Lake

Iteration has an average 86% working interest in and is operator of 53,800 gross acres (45,500 net acres) at North Boundary, which is located 55 kilometres northeast of Fort St. John in British Columbia. The Corporation also holds a 100% working interest in the gas processing facility that is able to handle approximately 24mmcf/d of gas. Compression can be added to expand the facility beyond this level. Hydrocarbons are produced from eight different Cretaceous and Triassic reservoir zones at depths of up to 1,400 metres. Production averaged 2,410 boed in 2006, with an exit rate of approximately 2,240 boed. During 2006, there were 8.4 net gas wells, 1.0 net oil wells and 2.6 dry holes drilled along with 6.0 recompletions. An extensive 3D seismic program was completed in March 2006. This augmented the existing 2D and 3D seismic data base and allowed the Corporation to high grade the remaining 2006 drilling program.

Other British Columbia

Other significant properties in British Columbia include Bernadet, Squirrel and Rigel. Iteration has an average 85% working interest and has an interest in 40,100 gross acres (25,700 net acres) of land in such properties. Hydrocarbons are produced from various Cretaceous and Triassic reservoir zones at depths of up to 1,400 metres. Production averaged 195 boed in 2006, with an exit rate of approximately 600 boed. During 2006, there were 3.5 net gas wells drilled along with 1.7 recompletions.

Western Alberta

Significant properties in western Alberta include Wild River, Elmworth and Valhalla. Iteration has an average 72% working interest in this area and has an interest in 30,600 gross acres (21,800 net acres) of land. The Corporation is operator for the Elmworth and Valhalla properties. Most of the 2006 production was from the Nisku formation at Wild River at a depth of 3,700 metres. Production averaged 575 boed in 2006, with an exit rate of approximately 530 boed. During 2006, there were 1.3 net gas wells drilled.

Eastern Alberta

Significant properties in eastern Alberta include the properties acquired in June, 2006 at Atmore, Lac La Biche, Charron, Portage and Algar. This area also includes the Lloydminster, Cold Lake and Big Bend properties. Iteration has an average 83% working interest in these properties and has an interest in 146,600 gross acres (121,700 net acres) of land. The Corporation is operator for the majority of the properties in the area. In addition to the working interests, the Corporation also has significant interests in facilities in the area. Hydrocarbons are produced from several different Cretaceous sands and from the underlying Devonian carbonates at depths of up to 1200 metres. Production averaged 1,100 boed in 2006, with an exit rate of approximately 2,520 boed. During 2006, there were 7.0 net gas wells, 6.0 net oil wells and 1.0 dry holes drilled along with 7.0 recompletions.

Southern Alberta

The Corporation's significant property in southern Alberta is Granlea. Iteration has an average 58% working interest in this area and has an interest in 64,800 gross acres (37,200 net acres) of land. The Corporation is operator for this area. In addition to the working interests, the Corporation also has significant interests in facilities in the area. Hydrocarbons are produced from the Bow Island and Second White Specs formation at depths of up to 1,000 metres. Production averaged 145 boed in 2006, with an exit rate of approximately 160 boed. During 2006, there were 3.7 net gas wells drilled.

Southwest Saskatchewan

The Corporation's significant property in southwest Saskatchewan is Staynor. Iteration has an average 53% working interest in its Saskatchewan properties and has an interest in 118,900 gross acres (62,100 net acres) of land. The Staynor property is prospective for several Cretaceous shallow gas zones. There were no wells on production during 2006 at this property. During 2006, there was 1.0 net gas wells drilled.

Drilling Activity

The following table sets forth the number of gross and net exploratory and development wells in which the Corporation has participated during 2006.

	Year Ended December 31	
	2006	
	Gross Wells ⁽¹⁾	Net Wells ⁽²⁾
Exploratory		
Natural Gas	10	6.8
Crude Oil	2	1.3
Dry and Abandoned ⁽³⁾	3	2.6
Total Exploratory	<u>15</u>	<u>10.7</u>
Development		
Natural Gas	21	18.0
Crude Oil	6	5.8
Dry and Abandoned ⁽³⁾	1	1.0
Total Development	<u>28</u>	<u>24.8</u>
Total Drilling Activity	<u>43</u>	<u>35.5</u>

Notes:

- (1) "Gross wells" means the total number of wells in which the Corporation has an interest.
- (2) "Net wells" means the number of gross wells multiplied by the Corporation's working interest therein.
- (3) "Dry well" means a well which is not a productive well or a service well. A productive well is a well which is capable of producing oil and gas in commercial quantities or in quantities considered by the operator to be sufficient to justify the costs required to complete, equip and produce the well. A service well means a well such as a water or gas-injection, water-source or water-disposal well. Such wells do not have marketable reserves of crude oil or natural gas attributed to them but are essential to the production of the crude oil and natural gas reserves.

Location of Wells

The following table sets forth the Corporation's interest in producing wells and wells capable of production as at December 31, 2006.

Property	Wells			
	Producing		Shut-in ⁽³⁾	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
Boundary Lake	51.0	42.1	6.0	6.0
Other British Columbia	15.0	7.0	4.0	3.0
Western Alberta	6.0	3.0	3.0	1.8
Eastern Alberta	128.0	98.6	30.0	24.9
Southern Alberta	36.0	19.6	25.0	12.7
Southwest Saskatchewan	0.0	0.0	7.0	6.6
Total	<u>236.0</u>	<u>170.3</u>	<u>75.0</u>	<u>55.0</u>

Notes:

- (1) "Gross wells" means the total number of wells in which the Corporation has an interest.
- (2) "Net wells" means the number of gross wells multiplied by the Corporation's working interest therein.
- (3) "Shut-in wells" are wells which are capable of economic production or which the Corporation considers capable of production but which, for a variety of reasons, including but not limited to lack of markets or development, are not currently on production.

Land Holdings

The following table summarizes the undeveloped land of the Corporation as at December 31, 2006.

Property	Gross Acres ⁽¹⁾	Net Acres ⁽²⁾
Boundary Lake	23,700	21,600
Other British Columbia	24,500	18,000
Western Alberta	21,300	15,500
Eastern Alberta	66,100	55,900
Southern Alberta	34,400	22,200
Southwest Saskatchewan	115,100	60,000
Total	285,100	193,200

Notes:

- (1) "Gross Acres" means the total acres in which the Corporation has an interest.
(2) "Net Acres" means the total acres in which the Corporation has an interest multiplied by the working interest therein.

Production History

The following table describes the Corporation's average daily production volumes (before deduction of royalties payable to others), prices received, royalties paid, production costs and the resulting netbacks for each fiscal quarter in its most recently completed financial year and the year ended December 31, 2006.

	2006				
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	Annual Average
Production					
Total					
Natural Gas (mcf/d)	21,075	21,363	27,758	29,216	24,498
NGLs	180	184	142	155	168
Oil	100	180	179	188	167
Total (boed)	3,792	3,924	4,947	5,212	4,418
Boundary Lake					
Natural Gas (mcf/d)	21,075	21,363	27,758	29,216	24,498
NGLs	180	184	142	155	168
Oil	100	180	179	188	167
Total (boed)	3,792	3,924	4,947	5,212	4,418
Realized prices - Corporate					
Oil and NGLs (\$/bbl)	64.03	59.37	65.76	54.84	58.03
Natural gas (\$/mcf)	8.46	5.44	6.16	6.03	6.42
Total (\$/boe)	51.61	34.91	39.22	37.41	40.03
Production revenue (\$/boe) ⁽¹⁾	51.61	34.91	39.22	37.41	40.03
Royalties (\$/boe) ⁽¹⁾	(12.60)	(7.05)	(7.06)	(6.62)	(8.04)
Transportation (\$/boe) ⁽¹⁾	(1.23)	(0.37)	(0.87)	(0.87)	(0.81)
Operating expense (\$/boe) ⁽¹⁾	(6.85)	(6.55)	(9.57)	(9.23)	(7.78)
General and admin expense (\$/boe)	(2.31)	(1.81)	(2.94)	(2.61)	(2.54)
	28.62	19.13	18.78	18.08	20.86

(1) Prior to 2007 the Corporation only tracked blended rates per boe for these items as 93% of production was natural gas.

SELECTED RESERVE INFORMATION

The statement of reserves data and other oil and gas information set forth below is dated February 27, 2007 and has an effective date of December 31, 2006. The reserves data set forth below is derived from the McDaniel Report which was prepared on February 23, 2007 in accordance with the standards contained in the COGE Handbook and the reserves definitions contained in NI 51-101 and the COGE Handbook. The reserves data conforms with the requirements of NI 51-101. Additional information not required by NI 51-101 has been presented to provide continuity and additional information which Iteration believes is important to the readers of this information.

The following tables set forth certain information relating to the oil and natural gas reserves of the Corporation's properties and the present value of the estimated future net cash flow associated with such reserves as at December 31, 2006. The information set forth below is derived from the McDaniel Report which has been prepared in accordance with the standards contained in the COGE Handbook and the reserves definitions contained in NI 51-101 and the COGE Handbook. **All evaluations and reviews of future net cash flow are stated prior to any provision for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimated future net cash flow shown below is representative of the fair market value of the Corporation's properties. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of crude oil, NGLs and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, NGLs and natural gas reserves may be greater than or less than the estimates provided herein.**

The Corporation has established a Reserves Committee, the majority of whom are independent directors, which reviews the qualifications and appointment of the independent qualified reserves evaluator. The Reserves Committee also reviews the procedures for providing information to the evaluators. All booked reserves are based upon annual evaluation and review by the independent qualified reserves evaluator.

Disclosure provided in respect of boe may be misleading, particularly if used in isolation. A boe conversion rate of 6 mcf:1 bbl is based on an energy equivalency method primarily applicable at the burner tip and does not represent a value equivalency at the well head.

In accordance with the requirements of NI 51-101, the Report on Reserves Data by an Independent Qualified Reserves Evaluator in Form 51-101 F2 and the Report of Management and Directors on Oil and Gas Disclosure in Form 51-101 F3 are attached as Appendices "A" and "B" hereto, respectively.

All of the Corporation's reserves are on shore in Canada. For all of the following disclosure, the tables may not add due to rounding.

SUMMARY OF OIL AND GAS RESERVES AND NET PRESENT VALUES OF FUTURE NET REVENUE as of December 31, 2006

CONSTANT PRICES AND COSTS

RESERVES CATEGORY	RESERVES									
	LIGHT AND MEDIUM OIL		HEAVY OIL		NATURAL GAS		NATURAL GAS LIQUIDS		TOTAL	
	Gross (mdbl)	Net (mdbl)	Gross (mdbl)	Net (mdbl)	Gross (mmcf)	Net (mmcf)	Gross (mdbl)	Net (mdbl)	Gross (mboe)	Net (mboe)
Proved										
Developed Producing	76.4	75.9	69.9	61.7	30,170.0	23,881.2	167.8	132.2	5,342.4	4,250.0
Developed Non-Producing	11.3	11.3	-	-	5,731.2	4,406.4	8.1	6.3	974.7	752.0
Undeveloped	-	-	90.0	79.1	3,298.9	2,596.7	4.6	3.7	644.4	515.6
Total Proved	87.7	87.2	159.9	140.9	39,200.1	30,884.2	180.6	142.2	6,961.5	5,517.6
Probable	75.4	66.4	97.0	86.0	21,937.6	17,118.4	83.6	65.4	3,912.3	3,070.9
Total Proved Plus Probable	163.1	153.6	256.9	226.9	61,137.7	48,002.6	264.2	207.5	10,873.8	8,588.4

**NET PRESENT VALUES OF FUTURE NET REVENUE
as of December 31, 2006**

RESERVES CATEGORY	CONSTANT PRICES AND COSTS									
	BEFORE INCOME TAXES DISCOUNTED AT (%/year)					AFTER INCOME TAXES DISCOUNTED AT (%/year)				
	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)
Proved										
Developed Producing	110,637	99,262	90,424	83,316	77,455	110,637	99,263	90,425	83,317	77,455
Developed Non-Producing	16,315	13,466	11,431	9,921	8,763	16,315	13,465	11,432	9,921	8,763
Undeveloped	8,823	7,261	6,106	5,207	4,485	8,823	7,261	6,105	5,207	4,485
Total Proved	135,775	119,989	107,961	98,444	90,703	135,775	119,989	107,962	98,445	90,703
Probable	77,849	60,877	49,483	41,353	35,302	67,011	51,810	41,787	34,738	29,554
Total Proved Plus Probable	213,624	180,866	157,444	139,797	126,005	202,786	171,799	149,749	133,183	120,257

**TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
as of December 31, 2006**

CONSTANT PRICES AND COSTS								
Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Development Costs (M\$)	Well Abandonment Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Income Taxes (M\$)	Future Net Revenue After Income Taxes (M\$)
Proved Reserves	260,152	48,183	59,129	9,785	7,280	135,775	-	135,775
Proved Plus Probable Reserves	404,657	76,018	91,136	16,504	7,374	213,625	10,838	202,786

**FUTURE NET REVENUE
BY PRODUCTION GROUP
as of December 31, 2006**

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE
		BEFORE INCOME TAXES (discounted at 10%/year) (M\$)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	968
	Heavy Oil (including solution gas and other by-products)	2,561
	Natural Gas (including by-products but excluding solution gas from oil wells)	104,434
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	1,790
	Heavy Oil (including solution gas and other by-products)	4,630
	Natural Gas (including by-products by excluding solution gas from oil wells)	151,025

**SUMMARY OF OIL AND GAS RESERVES
AND NET PRESENT VALUES OF FUTURE NET REVENUE
as of December 31, 2006**

FORECAST PRICES AND COSTS

RESERVES CATEGORY	RESERVES									
	LIGHT AND MEDIUM OIL		HEAVY OIL		NATURAL GAS		NATURAL GAS LIQUIDS		TOTAL	
	Gross (mdbl)	Net (mdbl)	Gross (mdbl)	Net (mdbl)	Gross (mmcf)	Net (mmcf)	Gross (mdbl)	Net (mdbl)	Gross (mboe)	Net (mboe)
Proved										
Developed Producing	75.1	74.6	69.9	61.7	30,290.0	23,974.3	168.8	133.0	5,362.2	4,265.1
Developed Non-Producing	11.3	11.3	-	-	5,735.5	4,409.8	8.1	6.3	975.4	752.6
Undeveloped	-	-	90.0	79.1	3,298.9	2,596.7	4.6	3.7	644.4	515.6
Total Proved	86.4	85.9	159.9	140.9	39,324.4	30,980.7	181.6	143.0	6,982.0	5,533.3
Probable	74.7	65.7	97.0	86.0	21,942.9	17,116.2	83.6	65.3	3,912.5	3,069.8
Total Proved Plus Probable	161.2	151.6	256.9	226.9	61,267.3	48,096.9	265.2	208.3	10,894.4	8,603.0

**NET PRESENT VALUES OF FUTURE NET REVENUE
as at December 31, 2006**

FORECAST PRICES AND COSTS

Reserves Category	BEFORE INCOME TAXES DISCOUNTED AT (%/year)					AFTER INCOME TAXES DISCOUNTED AT (%/year)				
	0	5	10	15	20	0	5	10	15	20
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
Proved										
Developed Producing	145,334	128,586	115,993	106,091	98,059	145,333	128,586	115,994	106,092	98,059
Developed Non-Producing	23,599	19,256	16,201	13,960	12,258	22,282	18,138	15,243	13,132	11,539
Undeveloped	12,649	10,290	8,647	7,416	6,448	9,210	7,215	5,878	4,906	4,161
Total Proved	181,582	158,132	140,841	127,467	116,765	176,825	153,939	137,115	124,130	113,759
Probable	110,494	84,386	67,570	55,874	47,324	82,547	61,559	48,484	39,605	33,231
Total Proved Plus Probable	292,076	242,518	208,411	183,341	164,089	259,362	215,498	185,599	163,735	146,990

**TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
as of December 31, 2006**

FORECAST PRICES AND COSTS

Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Development Costs (M\$)	Well Abandonment Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Income Taxes (M\$)	Future Net Revenue After Income Taxes (M\$)
Proved Reserves	326,783	61,582	65,071	10,050	8,498	181,582	4,756	176,825
Proved Plus Probable Reserves	520,065	99,172	102,843	17,023	8,950	292,076	32,713	259,362

**FUTURE NET REVENUE
BY PRODUCTION GROUP
as of December 31, 2006**

FORECAST PRICES AND COSTS

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (M\$)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	991
	Heavy Oil (including solution gas and other by-products)	2,352
	Natural Gas (including by-products but excluding solution gas from oil wells)	137,500
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	1,802
	Heavy Oil (including solution gas and other by-products)	4,311
	Natural Gas (including by-products by excluding solution gas from oil wells)	202,300

Notes:

- (1) "Gross Reserves" include working interest reserves before the deduction of royalties.
- (2) "Net Reserves" include working interest after royalty deductions plus royalty interest reserves.
- (3) The net cumulative cash flow forecasts are after direct lifting costs, freehold royalties, Crown mineral taxes and future investments. An allowance for future well abandonment costs for all working interest wells was included, however, no allowance was made for the abandonment of any facilities.
- (4) "Royalties" refers to royalties paid to others. The royalties deducted from the reserves are based on the percentage royalty calculated by applying the applicable royalty rate or formula. In the case of Crown sliding scale royalties which are dependent on selling prices, the price forecasts for the individual properties in question have been employed.
- (5) "Reserves" are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable, and shall be disclosed. Reserves are classified according to the degree of certainty associated with the estimates.
- (6) "Proved Reserves" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (7) "Probable Reserves" are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- (8) "Developed Reserves" are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
- (9) "Developed Producing Reserves" are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
- (10) "Developed Non-Producing Reserves" are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.
- (11) "Undeveloped Reserves" are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.
- (12) The pricing assumptions used in the McDaniel Report with respect to net cumulative cash flow as well as the inflation rates used for operating costs are set forth below.

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS
as of December 31, 2006

FORECAST PRICES AND COSTS

Year	OIL				NATURAL	Edmonton	INFLATION RATES	EXCHANGE RATE
	WTI Cushing Oklahoma (\$US/bbl)	Edmonton Par Price 40 ⁰ API (\$Cdn/bbl)	Hardisty Heavy 12 ⁰ API (\$Cdn/bbl)	Cromer Medium 29,0 ⁰ API (\$Cdn/bbl)	GAS ⁽¹⁾ AECO Gas Price (\$Cdn/GJ)	Cond. & Natural Gasolines (\$Cdn/bbl)		
Historical								
2001	25.97	39.60	25.07	32.22	5.15	42.42	2.6	.646
2002	26.10	39.95	31.65	34.93	3.86	40.65	2.2	.637
2003	31.05	43.15	32.68	37.57	6.32	44.10	2.0	.716
2004	41.40	52.54	37.60	45.94	6.20	55.77	2.0	.770
2005	56.56	68.72	44.83	57.47	8.14	77.30	2.1	.826
2006	66.23	72.80	51.55	61.25	6.25	77.75	2.2	.880
Forecast								
2007	62.50	70.80	49.30	62.20	6.85	72.30	2.0	.870
2008	61.20	69.30	49.60	60.90	7.05	70.80	2.0	.870
2009	59.80	67.70	49.80	59.40	7.40	69.30	2.0	.870
2010	58.40	66.10	49.30	58.00	7.50	67.70	2.0	.870
2011	56.80	64.20	47.90	56.40	7.70	65.80	2.0	.870
2012	58.00	65.60	48.90	57.60	7.90	67.30	2.0	.870
2013	59.10	66.80	49.80	58.70	8.10	68.50	2.0	.870
2014	60.30	68.20	50.80	59.80	8.25	69.90	2.0	.870
2015	61.50	69.50	51.80	61.00	8.45	71.30	2.0	.870
2016	62.70	70.90	52.90	62.20	8.60	72.70	2.0	.870
2017	64.00	72.30	54.00	63.50	8.75	74.10	2.0	.870
2018	65.30	73.80	55.00	64.80	8.95	75.70	2.0	.870
2019	66.60	75.30	56.10	66.10	9.10	77.20	2.0	.870
2020	67.90	76.80	57.20	67.40	9.30	78.70	2.0	.870
2021	69.30	78.30	58.40	68.80	9.50	80.30	2.0	.870
Thereafter	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	2.0	.870

(13) Operating costs were escalated at a rate of 2.0% per year. The exchange rate used for the US/Canadian dollar for 2006 and beyond was 0.870.

(14) For the constant price evaluations, the McDaniel Report used product prices in effect as at December 31, 2006 of \$67.06 Cdn. per bbl of oil (Edmonton Par Light), \$5.93 Cdn. per mmbtu of natural gas (Alberta Spot) and \$48.10 Cdn. per bbl of natural gas liquids (NGL Mix)

(15) McDaniel has estimated total capital costs of \$15,503,000 (\$17,023,000 undiscounted) in order to achieve the future proved plus probable net revenues, of which \$12,680,000 (\$13,299,000 undiscounted) will be incurred in 2007 and \$1,893,000 (\$2,184,000 undiscounted) will be incurred in 2008 based on Forecast prices.

(16) Total burdens include crown, freehold and overriding royalties as well as mineral taxes.

Reconciliation of Net Reserves by Primary Product Type

The following table summarizes the changes in net reserves from December 31, 2005 to December 31, 2006.

Future Prices and Costs

Factors	LIGHT AND MEDIUM OIL			HEAVY OIL			ASSOCIATED AND NON-ASSOCIATED GAS			NATURAL GAS LIQUIDS		
	Proved (mdbl)	Probable (mdbl)	Proved Plus	Proved (mdbl)	Probable (mdbl)	Proved Plus	Proved (mmcf)	Probable (mmcf)	Proved Plus	Proved (mdbl)	Probable (mdbl)	Proved Plus
			Probable (mdbl)			Probable (mdbl)			Probable (mmcf)			Probable (mdbl)
December 31, 2005	54.8	48.1	102.9	0	0	0	19,965.9	6,171.6	26,137.5	159.3	39.9	199.2
Extensions	2.0	2.2	4.2	151.1	80.9	232.1	4,656.9	3,875.6	8,532.5	18.5	17.9	36.4
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	24.8	6.8	31.6	-	-	-	(1,643.3)	(1,299.9)	(2,943.2)	(2.7)	(2.2)	(4.9)
Discoveries	20.2	5.6	25.8	3.7	5.1	8.7	5,099.3	3,870.8	8,970.1	-	-	-
Infill Drilling	-	-	-	0.3	-	0.3	1,427.9	987.4	2,415.3	12.2	6.9	19.1
Acquisitions	24.7	3.0	27.7	-	-	-	8,449.5	3,510.7	11,960.2	5.2	2.8	8.0
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Production	(40.5)	-	(40.5)	(14.2)	-	(14.2)	(6,975.5)	-	(6,975.5)	(49.5)	-	(49.5)
Other ⁽¹⁾	-	-	-	-	-	-	-	-	-	-	-	-
December 31, 2006	85.9	65.7	151.6	140.9	86.0	226.9	30,980.7	17,116.2	48,096.9	143.0	65.3	208.3

Note:

(1) Other includes revisions due to economic factors, pricing, costs, etc.

The following table summarizes the changes in gross reserves from December 31, 2005 to December 31, 2006.

Future Prices and Costs

Factors	LIGHT AND MEDIUM OIL			HEAVY OIL			ASSOCIATED AND NON-ASSOCIATED GAS			NATURAL GAS LIQUIDS		
	Proved (mdbl)	Probable (mdbl)	Proved Plus	Proved (mdbl)	Probable (mdbl)	Proved Plus	Proved (mmcf)	Probable (mmcf)	Proved Plus	Proved (mdbl)	Probable (mdbl)	Proved Plus
			Probable (mdbl)			Probable (mdbl)			Probable (mmcf)			Probable (mdbl)
December 31, 2005	56.1	57.6	113.6	-	-	-	26,348.6	8,048.9	34,397.5	201.2	50.4	251.5
Extensions	1.9	2.2	4.1	168.1	91.3	259.4	6,250.8	4,673.7	10,924.5	16.9	18.1	35.0
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	27.4	6.3	33.9	5.0	-	5.0	(1,678.2)	(1,546.8)	(3,224.9)	(2.4)	(3.1)	(5.5)
Discoveries	19.9	5.6	25.5	4.2	5.7	9.9	6,282.2	5,609.6	11,891.8	6.1	5.4	11.5
Infill Drilling	-	-	-	-	-	-	1,908.9	1,359.9	3,268.8	16.2	10.0	26.3
Acquisitions	24.7	3.0	27.7	-	-	-	9,330.6	3,831.4	13,162.0	5.2	2.8	8.0
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Production	(43.6)	-	(43.6)	(17.4)	-	(17.4)	(8,941.9)	-	(8,941.9)	(61.3)	-	(61.3)
Other ⁽¹⁾	-	-	-	-	-	-	-	-	-	-	-	-
December 31, 2006	86.4	74.7	161.2	159.9	97.0	256.9	39,501.0	21,976.7	61,477.8	181.9	83.6	265.5

Note:

(1) Other includes revisions due to economic factors, pricing, costs, etc.

Future Net Revenue Reconciliation

RECONCILIATION OF CHANGES IN NET PRESENT VALUES OF FUTURE NET REVENUE DISCOUNTED AT 10% PER YEAR

NET PROVED RESERVES

CONSTANT PRICES AND COSTS

PERIOD AND FACTOR	2006 (M\$)
Estimated Future Net Revenue at Beginning of Year	108,709
Oil and Gas Sales and Transfers of Oil and Gas Produced, Net of Production Costs and Royalties	(37,956)
Net Changes in Prices, Production Costs and Royalties Related to Future Production	(62,377)
Development Costs During the Period	48,294
Changes in Estimated Future Development Costs	(55,857)
Changes Resulting from Extensions, Infill Drilling and Improved Recovery\	28,073
Changes Resulting from Discoveries	24,127
Changes Resulting from Acquisitions of Reserves	23,918
Changes Resulting from Dispositions of Reserves	-
Net Change resulting from Technical Revisions	(15,506)
Accretion of Discount	14,095
Net Change in Income Taxes	32,242
All Other Changes	-
Estimated Future Net Revenue at End of Year	107,762

Additional Information Relating to Reserves Data

Undeveloped Reserves

The following table summarizes the gross volumes of undeveloped reserves that were first attributed in each of the two most recent financial years. The Corporation did not have any proved or probable undeveloped reserves in 2005.

Year	Proved Undeveloped Reserves At Forecast Costs and Prices				Probable Undeveloped Reserves At Forecast Costs and Prices			
	Crude Oil Light and Medium (mbbls)	Heavy Oil (mbbls)	NGLs (mbbls)	Natural Gas (mmcf)	Crude Oil Light and Medium (mbbls)	Heavy Oil (mbbls)	NGLs (mbbls)	Natural Gas (mmcf)
2006	-	90.0	4.6	3,298.9	-	45.0	9.9	5,607.9
2005	-	-	-	-	-	-	-	-

Significant Factors or Uncertainties

The process of evaluating reserves is inherently complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, geological evaluation, engineering data, prices and economic conditions. Iteration's reserves have been evaluated by McDaniel, an independent engineering firm. The factors and assumptions used in the evaluation include among others: (i) historical production in the area compared with production rates from analogous producing areas; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) success of future development activities; (vi) marketability of production; (vii) effects of government regulations; and (viii) other government levies imposed over the life of the reserves.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions. Revisions

to reserve estimates can arise from changes in year-end prices, reservoir performance and geologic conditions or production. These revisions can be either positive or negative.

For additional details of significant economic factors and uncertainties affecting the reserves of Anderson, see "Risk Factors" and "Industry Conditions".

Future Development Costs

The following table outlines future development costs deducted in the estimation of Iteration's future net revenue, attributable to the following reserves categories.

Reserve Category	2007 (\$ M)	2008 (\$ M)	2009 (\$ M)	2010 (\$ M)	Thereafter (\$ M)
Proved Reserves (Constant Prices and Costs)	8,700	590	25	-	470
Proved Reserves (Forecast Prices and Costs)	8,874	614	27	-	536
Proved plus Probable Reserves (Forecast Prices and Costs)	13,299	2,184	350	108	1,082

Future development costs are expected to be funded out of a combination of existing cash on hand, cashflow from operations and the Corporation's \$50,000,000 credit facility which was established during the year with a Canadian Chartered Bank. The Credit Facility was increased to \$65,000,000 subsequent to year end.

OTHER OIL AND GAS INFORMATION

Oil and Gas Properties and Wells

As at December 31, 2006, the Corporation had an interest in 239 gross (172.5 net) producing and 83 gross (61.4 net) non-producing oil and natural gas wells as follows:

Wells	PRODUCING		SUSPENDED		STANDING		ABANDONED	
	Gross⁽¹⁾	Net⁽²⁾	Gross⁽¹⁾	Net⁽²⁾	Gross⁽¹⁾	Net⁽²⁾	Gross⁽¹⁾	Net⁽²⁾
Gas	231.0	166.2	32.0	21.5	34.0	24.9	11.0	8.6
Oil	5.0	4.3	9.0	8.6	-	-	-	-
TOTAL	236.0	170.3	41.0	30.1	34.0	24.9	11.0	8.6

Notes:

- (1) "Gross" wells means the number of wells in which the Corporation has a working interest or a royalty interest that may be convertible to a working interest.
- (2) "Net" wells means the aggregate number of wells obtained by multiplying each gross well by the Corporation's percentage working interest therein.

Properties with No Attributed Reserves

The following table sets forth, as at December 31, 2006, the gross and net acres of unproved properties held by the Corporation and the net area of unproved properties for which the Corporation expects its rights to explore, develop and exploit to expire during the next year:

UNPROVED PROPERTIES			
<i>(acres)</i>			
LOCATION	Gross	Net	Net Area to Expire in 2007
Saskatchewan	115,000	59,900	300
Alberta	125,000	96,900	5,000
British Columbia	45,000	36,300	20,500
TOTAL	285,000	193,200	25,800

Forward Contracts

Pursuant to the exercise of the option to purchase an undivided 49% interest in the Southward Properties, the Corporation acquired an interest in a forward sales contract with respect to production from the Southward Properties. This represents approximately 0.1% of the Corporations 2006 exit production rate.

Transaction Type	Volume (mcf/d)	Contract Price (mcf/d)	Expiry
Cogeneration Fuel Supply	35	\$2.170 - \$2.396	October 31, 2009

Abandonment and Reclamation Costs

The Corporation estimates the costs associated with abandonment and reclamation for surface leases, wells and facilities based on a review of engineering studies, industry guidelines, and management's estimate on a site by site basis. The Corporation expects to incur abandonment and reclamation costs for 225 net wells.

Based on Total Proved reserves, the following table summarizes the expected abandonment and reclamation costs to be incurred by the Corporation.

\$'000's	<u>Constant Pricing</u>		<u>Forecast Pricing</u>	
	NPV 0%	NPV 10%	NPV 0%	NPV 10%
Total abandonment and reclamation costs, net of estimated salvage value	7,280	3,992	8,498	4,518
Abandonment and reclamation costs not deducted in estimating future net revenue	-	-	-	-
Portion forecast to be paid during the next three years	1,552	1,243	1,647	1,318

Costs Incurred

During 2006, the Corporation incurred the following costs before property dispositions:

Property Acquisitions, Dispositions and Capital Expenditures

Nature of Costs	2006 (\$M)
Property Acquisition Costs	
Proved	50,836
Unproved	6,331
Geological exploration costs	6,186
Drilling and completion costs	44,124
Plant and equipment costs	6,594
Total	114,071

Exploration and Development Activities

The following table summarizes the results of exploration and development activities for the year ended December 31, 2006.

	Gross	Net
Development Wells		
Gas	21	18.0
Oil	6	5.8
Service	-	-
Dry	1	1.0
Exploratory Wells		
Gas	10	6.8
Oil	2	1.3
Service	-	-
Dry	3	2.6
Total Wells	43	35.5

The Corporation intends to continue to develop its principal properties as well as continue its grassroots exploration program to establish new core areas in Alberta and British Columbia. The Corporation will continue to target oil and natural gas properties with multiple horizons in the WCSB. The 2007 exploration and development activities are heavily weighted to the winter months at the start of the year, with a projected capital program of \$38 million expected to result in exit rate of approximately 6,900 boed by break up late in March/early April 2007. The capital program and drilling activity for the rest of the year will be finalized based on the commodity prices in the summer months. Financing of these activities will be from internally generated cash flow, existing cash reserves of the Corporation and the revolving Credit Facility, which was increased to \$65 million subsequent to year end.

Production Estimates

The following tables summarize the volume of Total Proved and Proved plus Probable production and Proved plus Probable production of the Corporation and in respect of Boundary Lake, as estimated by McDaniel for 2007, using constant and forecast prices and costs.

	ESTIMATED PRODUCTION			
	Constant Prices and Costs		Forecast Prices and Costs	
	Proved	Proved plus probable	Proved	Proved plus probable
Total				
Natural Gas (mmcf)	11,583	13,264	11,583	13,261
NGLs (mbbls)	53	59	53	59
Light, Medium and Heavy Crude Oil (mbbls)	71	86	71	86
Total production (mboe)	2,055	2,356	2,055	2,355
Boundary Lake				
Natural Gas (mmcf)	3,793	4,187	3,791	4,184
NGLs (mbbls)	48	52	48	52
Light, Medium and Heavy Crude Oil (mbbls)	25	29	25	29
Total production (mboe)	705	779	705	779

BORROWINGS

At December 31, 2006, the Corporation had bank borrowings outstanding of \$28,640,000 pursuant to its Credit Facility of \$50,000,000. A general security agreement and a guarantee and postponement of claim have been provided as security. Under the terms of the Credit Facility, the Corporation may borrow via:

- i) prime based loans bearing interest at the lender's prime bank rate;
- ii) bankers acceptances, bearing interest at the banker's acceptance rate plus an acceptance fee of 87.5 basis points per annum;
- iii) LIBOR based loans in US currency bearing interest at the LIBOR rate plus 87.5 basis points per annum; and
- iv) letters of guarantee and letters of credit, bearing interest on the face amount at 87.5 basis points per annum, for financial guarantees, and 58.3 basis points per annum, for non-financial guarantees.

The facility requires monthly payments of interest only, calculated in arrears. In addition, there is a standby fee, calculated at 10 basis points per annum on the undrawn balance. For the year ended December 31, 2006, the effective rate of interest on the bank indebtedness outstanding was 6% per annum. The Credit Facility is subject to customary terms and conditions for borrowings of this nature, including adequate insurance coverage over assets, restrictions on the sale of assets without the prior written consent of the lender and restrictions on mergers, amalgamations, or business combinations without the prior written consent of the lender. Subsequent to year end, the Corporation increased the amount available under the Credit Facility to \$65,000,000.

INDUSTRY CONDITIONS

Canadian Government Regulation

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government. It is not expected that any of these controls or regulations will affect the operations of Iteration in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and Iteration is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry.

Pricing and Marketing – Oil

In Canada, the producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The price depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products and the balance between supply and demand. Oil exports may be made pursuant to export contracts with terms not exceeding one year in the case of light crude, and not exceeding two years in the case of heavy crude, provided that an order approving any such export has been obtained from the National Energy Board. Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export license from the National Energy Board and the issue of such a license requires the approval of the Governor in Council.

Pricing and Marketing – Natural Gas

In Canada, the price of natural gas sold in inter-provincial and international trade is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the National Energy Board and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to meet certain criteria prescribed by the National Energy Board and the Government of Canada. Natural gas exports for a term of less than two years or for a term of two to 20 years (in quantities of not more than 10,648 mmcf/d), must be made pursuant to a National Energy Board order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or a larger quantity requires an exporter to obtain an export license from the National Energy Board and the issue of such a license requires the approval of the Governor in Council.

The governments of Alberta, British Columbia and Saskatchewan also regulate the volume of natural gas which may be removed from those provinces for consumption elsewhere based on such factors as reserve availability, transportation arrangements and market considerations.

The North American Free Trade Agreement

On January 1, 1994, the North American Free Trade Agreement ("NAFTA") became effective among the governments of Canada, the United States of America and Mexico. NAFTA carries forward most of the material energy terms contained in the Canada-U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports to the United States or Mexico will be allowed provided that any export restrictions do not: (i) reduce the proportion of energy resource exported relative to domestic use (based upon the proportion prevailing in the most recent 36 month period), (ii) impose an export price higher than the domestic price, and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum export or import price requirements.

NAFTA also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements, which is important for Canadian natural gas exports.

Royalties and Incentives

In addition to federal regulation, each Province has legislation and regulations that govern land tenure, royalties, production rates, sulphur, environmental protection and other matters. The royalty regime is a significant factor in the profitability of oil, NGLs, and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Crown royalties are determined by government regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date and the type or quality of the petroleum product produced.

From time to time the governments of Canada, Alberta, British Columbia and Saskatchewan have established incentive programs which have included royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and natural gas exploration or enhanced planning projects. These programs can be changed by the various governments from time to time.

Other royalties and royalty like interests are, from time to time, carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties or net profits or net carried interests.

Land Tenure

Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licenses and permits for varying terms from two years and on conditions set forth in provincial legislation, including requirements to perform specific work or make payments. Oil and natural gas located in such Provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulation pursuant to provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances produced or utilized in association with oil and gas industry operations. In addition, legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage and the imposition of material fines and penalties.

Environmental legislation in the Province of Alberta has been consolidated into the *Alberta Environmental Protection and Enhancement Act* and the *Oil and Gas Conservation Act* which impose stricter environmental standards, require more stringent compliance, reporting and monitoring obligations and significantly increase the penalties that can be imposed.

British Columbia's Environmental Assessment Act consolidated the review of major energy projects into a single environmental assessment process with public participation.

Worker Safety

Oilfield operations must be carried out in accordance with safe work procedures, rules and policies contained in provincial safety legislation. Such legislation requires that every employer ensures the health and safety of all persons at any of its work sites and all workers engaged in the work of that employer, and that every employer ensure that all of its employees are aware of their duties and responsibilities under the applicable legislation. Such legislation also provides for accident reporting procedures.

RISK FACTORS

Exploration, Development and Production Risks

Oil and gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Corporation will be able to continue to locate satisfactory properties for acquisition or to participate in other ventures or be able to identify and reach agreement with suitable partners. Moreover, if such acquisitions or partners are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such opportunities uneconomic. There is no assurance that commercial quantities of oil and natural gas will be discovered or acquired by the Corporation.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions

include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Insurance

The Corporation's involvement in the exploration for and development of oil and gas properties may result in the Corporation becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although prior to drilling the Corporation will obtain insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position, results of operations or prospects.

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil and natural gas are commodities whose prices are determined based on North American supply, demand, foreign exchange rates of the Canadian dollar relative to other world currencies, and other factors, all of which are beyond the control of the Corporation. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of the Corporation's oil and gas reserves. The Corporation might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Corporation's future net production revenue, causing a reduction in its oil and gas acquisition and development activities.

The level of bank borrowings available to the Corporation is, in part determined by the borrowing base of the Corporation. A sustained material decline in prices from historical average prices could limit or reduce the Corporation's borrowing base, thereby reducing the debt financing available to the Corporation.

The marketability and price of oil and natural gas, which may be acquired or discovered by the Corporation, will be affected by numerous factors beyond its control. The Corporation may be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by the Corporation. The ability of the Corporation to market its natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. The Corporation may also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, operational problems with such pipelines and facilities, and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Substantial Capital Requirements; Liquidity

The Corporation anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. The Corporation's cash flow from its properties may not be sufficient to fund its ongoing activities and implement its business plan. As a result, from time to time, the Corporation may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. If the Corporation's future revenues from its future reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. There can be no assurance that debt or equity financing

will be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. Moreover, future activities may require the Corporation to alter its capitalization significantly. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations or prospects.

Competition

The Corporation competes for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than the Corporation. The Corporation's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies, individual producers and operators. The Corporation's ability to increase reserves in the future will depend not only on its ability to explore and develop the properties to be acquired, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery.

The Corporation's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators, its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions, federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects (See "Industry Conditions – Environmental Regulation").

Reserves Replacement

The Corporation's future oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on the Corporation successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on the Corporation's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Corporation's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Reliance on Operators and Key Employees

To the extent the Corporation is not the operator of its oil and gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the success of the Corporation will be largely dependent upon the performance of its management and key employees. The Corporation does not have any key man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could

have a material adverse effect on the Corporation. In assessing the risk of an investment in the Common Shares, potential investors should recognize that they are relying on the ability and integrity of the management of the Corporation.

Corporate Matters

To date, the Corporation has not paid any dividends on its outstanding Common Shares. However, the board of directors of the Corporation may make a determination to pay dividends in the future if circumstances permit. Any decision to pay dividends will be made by the board of directors of the Corporation on the basis of the Corporation's earnings, financial requirements and other conditions existing at the time.

Certain of the directors and officers of the Corporation are also directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of the Corporation and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under, the *Business Corporations Act* (Alberta).

Permits and Licenses

The operations of the Corporation may require licenses and permits from various governmental authorities. The time required to obtain these licenses and permits can be impacted by various area stakeholders. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development of its projects.

Additional Funding Requirements

The Corporation's cash flow from its properties may not be sufficient to fund its ongoing activities and implement its business plan. From time to time, the Corporation may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's future revenues from its future reserves decreases as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Corporation's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or be available on favorable terms.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of Western Canada. The Corporation is not aware that any claims have been made in respect of its property and assets. However, if a claim arose and was successful, this could have an adverse effect on the Corporation and its operations.

Issuance of Debt

The Corporation's activities may be financed partially or wholly with debt, which may increase the Corporation's debt levels above industry standards. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time could impair the Corporation's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Availability of Drilling Equipment, Access Restrictions and Cost Inflation

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. Demand for this equipment will also result in inflationary pressures with respect to the costs of acquiring these services.

Title Defects

Although title reviews will generally be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews may not discover unforeseen title defects that could adversely affect Iteration's title to the property or entitlement to revenue from the property.

Uncertainty of Reserve Information

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived from exploration and production activities, including many factors that are beyond the control of the Corporation. The reserve and cash flow information set forth in this Annual Information Form represent estimates only. The reserves and estimated future net cash flow from the Corporation's properties have been independently evaluated effective December 31, 2006 by McDaniel. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Corporation. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material. The foregoing evaluations are based in part on the assumed success of activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived therefrom contained in such evaluations will be reduced to the extent that such activities do not achieve the level of success assumed in the evaluations.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". In October, 2006, the Government of Canada introduced the *Clean Air Act*, which, if passed, will, among other environmental initiatives, require greenhouse gas emission reductions for various industrial activities, including oil and gas exploration and production. It is anticipated that greenhouse gas emitters will be allowed to meet their emission reduction targets in a number of ways, including perhaps most notably, the trading of credits with other emitters that have exceeded their reduction targets.

The Corporation's exploration and production facilities and other operations emit greenhouse gases, making it possible that the Corporation will be subject to such future federal legislation. Additionally, provincial emission reduction requirements, such as those contained in Alberta's *Climate Change and Emissions Managements Act* (partially in force), may also require the reduction of emissions or emissions intensity from the Corporation's operations and facilities. The direct and indirect costs of these regulations may adversely affect the business of the Corporation.

Government Regulation and Taxation

Oil and gas operations are subject to extensive Canadian federal, provincial and local laws and regulations governing exploration, development, transportation, production, exports, labour standards, occupational health, waste disposal, protection and redemption of the environment, hazardous materials, toxic substances, taxation and other matters. It is believed that the Corporation is in substantial compliance with all applicable laws and regulations. Amendments to current laws and regulations governing oil and gas operations and the more stringent implementation thereof are actively considered from time to time and the implementation thereof could have a material adverse impact on the Corporation. In addition, taxation laws and regulations as well as the current administrative practices of both the federal and provincial tax authorities may be amended or construed in such a way that is detrimental to the Corporation or its activities. The Alberta government is currently conducting a review of the royalty regime for the oil and gas industry.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following is a summary of selected financial information for the period indicated.

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(\$000s except per share amounts)		
Total Production Revenue, net of royalties	51,570	52,446	59,751
Net Income (Loss)	(4,416)	3,820	(1,488)
per share - basic	(0.08)	0.08	(0.03)
per share - diluted	(0.08)	0.08	(0.03)
Total Assets	233,824	181,646	202,267
Bank indebtedness	28,640	-	-
Long-Term Debt	-	-	50,275

Average Prices Realized

	2006				
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	Annual Average
Oil and NGLs (\$/bbl)	64.03	59.37	65.76	54.84	58.03
Natural gas (\$/mcf)	8.46	5.44	6.16	6.03	6.42
Total (\$/boe)	51.61	34.91	39.22	37.41	40.03

MANAGEMENT'S DISCUSSION AND ANALYSIS

The information contained in the Management's Discussion and Analysis dated March 21, 2007 relating to the Corporation's consolidated financial statements for the year ended December 31, 2006 is incorporated herein by reference and forms an integral part of this Annual Information Form.

MARKET FOR SECURITIES

The outstanding Common Shares of the Corporation are listed and posted for trading on the TSX under the symbol "ITX".

The following table sets forth the monthly price ranges and volumes of trading of the common shares on the TSX during 2006.

<u>Period 2006</u>	<u>High \$</u>	<u>Low \$</u>	<u>Volume</u>
January	6.89	5.85	4,312,200
February	6.00	4.90	4,124,000
March	4.97	4.44	2,841,600
April	5.19	4.55	2,483,700
May	4.90	4.28	3,604,600
June	4.49	3.74	3,147,200
July	4.70	3.65	1,750,800
August	4.66	4.30	1,554,200
September	4.40	3.65	1,012,000
October	4.40	3.55	1,349,600
November	4.45	4.05	2,100,100
December	4.40	4.20	2,782,200

DESCRIPTION OF CAPITAL STRUCTURE

The Corporation is authorized to issue an unlimited number of Common Shares and an unlimited number of Preferred Shares, issuable in series ("Preferred Shares"), of which only Common Shares are issued or outstanding as at the date hereof. The following is a summary of the rights, privileges and restrictions of the Common Shares and Preferred Shares.

Common Shares

The holders of Common Shares shall be entitled to receive notice of, and to one vote per share at, every meeting of the shareholders of the Corporation, receive such dividends as the directors may from time to time declare and to share equally in the assets of the Corporation remaining upon liquidation of the Corporation, after the creditors of the Corporation have been satisfied.

Preferred Shares

The Preferred Shares, which are issuable in one or more series, have such rights, privileges, restrictions and conditions as the board of directors of the Corporation may by resolution determine. The Preferred Shares of each series shall, with respect to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution or winding-up of the Corporation, be entitled to preference over the Common Shares, and over any other shares of the Corporation ranking, by their terms, junior to the Preferred Shares. If any cumulative dividend or amount payable on the return of capital, in respect of a series of Preferred Shares is not paid in full, all series of Preferred Shares shall participate ratably in respect of accumulated dividends and return of capital.

DIVIDENDS

The Corporation has not paid any dividends to date. Any decision to pay dividends in the future will depend upon the earnings and financial position of the Corporation and such other factors which the board of directors may consider appropriate in the circumstances.

DIRECTORS AND EXECUTIVE OFFICERS

The name, municipality of residence, position with the Corporation and principal occupation of each of the directors and executive officers of the Corporation are as follows:

Name and Municipality of Residence	Position with the Corporation	Director or Officer Since	Present Occupation and Positions Held During the Last Five Years
Pat Breen, P. Eng. ⁽³⁾⁽⁴⁾ <i>Calgary, Alberta</i>	Director	July 5, 2005	President, Foremost Income Fund since October 2003. President, Universal Industries Ltd., from November 2000 to August 2003. Prior thereto, Mr. Breen was District Manager, Lloydminster for Husky Energy Inc.
Dallas Droppo, Q.C. ⁽¹⁾⁽²⁾⁽⁴⁾ <i>Calgary, Alberta</i>	Director	July 5, 2005	Partner, Blake, Cassels and Graydon LLP, Barristers and Solicitors
James T. Grenon ⁽²⁾⁽³⁾ <i>Calgary, Alberta</i>	Chairman and Director	July 5, 2005	President, TOM Capital Associates Inc. (Private investment company)
Michael J. Hibberd ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾ <i>Calgary, Alberta</i>	Director	July 5, 2005	President, MJH Services Inc. since 1995. Corporate Finance Advisors
Robert Waters, C.A. ⁽¹⁾ <i>Calgary, Alberta</i>	Director	July 5, 2005	Senior Vice-President and Chief Financial Officer, Enerplus Resources Fund since December, 2001. Prior thereto, Vice-President Finance and Chief Financial Officer, Pengrowth Energy Trust since June, 1998.
Brian Illing, P. Geol. <i>Airdrie, Alberta</i>	President and Chief Executive Officer and Director	March 21, 2005	President and Chief Executive Officer. President, Iteration Energy Inc. from September 2004 to March 2005. Mr. Illing held various positions with Canadian Natural Resources Ltd. ("CNRL") from August 1993 to September 2003, including Executive Vice-President Exploration
Sean Johnson, C.A. <i>Calgary, Alberta</i>	Chief Financial Officer	June 13, 2005	Chief Financial Officer of Iteration Energy Ltd. since June 13, 2005. Prior thereto, Vice President Finance and Administration, US Properties Group since January 1, 2002. Prior thereto, Vice President Finance and Administration, WAM Development Group.
Mark Ariss <i>Calgary, Alberta</i>	Vice President Exploration East	March 21, 2005	Vice President Exploration, Iteration Energy Inc. March 2005. Prior thereto, Mr. Ariss was an Exploration Manager with CNRL from 1998 to February 2005.
Jane Mactaggart <i>Calgary, Alberta</i>	Vice President Exploitation	March 21, 2005	Vice President Exploitation, Iteration Energy Inc. from February 2005 to March 2005. Prior thereto, Ms. Mactaggart held various positions, including Exploitation Manager with CNRL from June 1999 to February 2005.
Carmen McKay-Illing <i>Airdrie, Alberta</i>	Vice President Corporate Affairs	March 21, 2005	Vice President Corporate Affairs, Iteration Energy Inc. from September 2004 to March 2005. Prior thereto, from January 2004 to July 2004, Ms. McKay-Illing was a consultant to CNRL. From March 1992 to January 2004, Ms. McKay-Illing held various positions in the Exploration and Operations Planning departments of CNRL.
Kevin Stromquist	Vice President	March 21, 2005	Vice President Exploration, Iteration Energy

Name and Municipality of Residence	Position with the Corporation	Director or Officer Since	Present Occupation and Positions Held During the Last Five Years
<i>Calgary, Alberta</i>	Exploration West		Inc. from November 2004 to March 2005. Senior Vice President of Exploration CNRL from September 2003 to October 2004. Prior thereto, Mr. Stromquist was Exploration Manager for northeast British Columbia for CNRL.
Anthony F.W. Grenon <i>Calgary, Alberta</i>	Corporate Secretary	March 21, 2005	President, A.F.W. Grenon Professional Corporation and a Managing Director, TOM Capital Associates Inc. (private investment company).

Notes:

- (1) Member of Audit Committee.
- (2) Member of Corporate Governance Committee.
- (3) Member of Reserves Committee.
- (4) Member of Compensation Committee.

At the date of this Annual Information Form, there are six directors of the Corporation. At the next annual meeting of shareholders, shareholders of Iteration will be asked to re-elect as directors the six current directors listed in the above table to serve until the close of the next annual meeting of shareholders, or until their respective successors are duly elected or appointed.

As at March 21, 2007, the directors and executive officers of the Corporation beneficially owned, directly or indirectly, or exercised control or direction over an aggregate 6,161,900 Common Shares, representing 10.7% of the 57,774,047 issued and outstanding Common Shares. The directors and executive officers of the Corporation also beneficially owned, directly or indirectly, or exercised control or direction over an aggregate 5,000,000 warrants, representing 100% of issued and outstanding warrants.

AUDIT COMMITTEE INFORMATION

The disclosure regarding the Corporation's Audit Committee, required under Multilateral Instrument 52-110 Audit Committee, by certain of the Canadian securities regulatory authorities is contained in Appendix "C" to this Annual Information Form.

CONFLICTS OF INTEREST

Certain of the directors and officers of the Corporation are directors and officers of other private and public companies. Some of these private and public companies may, from time to time, be involved in business transactions or banking relationships which may create situations in which conflicts might arise. Any such conflicts shall be resolved in accordance with the procedures and requirements of the relevant provisions of the *Business Corporations Act* (Alberta), including the duty of such directors and officers to act honestly and in good faith with a view to the best interests of the Corporation.

LEGAL PROCEEDINGS

Management is not aware of any material litigation outstanding, threatened or pending by or against the Corporation. Pursuant to a purchase and sale agreement, the Corporation has indemnified the purchaser of a former subsidiary company for up to \$1,000,000 of income tax and legal expenses incurred with respect to specifically identified income tax returns. The Corporation recently received a letter from the purchaser advising that CRA has proposed adjustments to the income tax returns to which the indemnity relates and requesting the Corporation participate in responding to the proposal from CRA. The Corporation has agreed to fund up to \$25,000 towards the cost of preparing the response to CRA but remains of the view that its financial exposure to the indemnified obligations is not material.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed elsewhere in this Annual Information Form, none of the directors, officers or principal shareholders of the Corporation, and no associate or affiliate of any of them, has or has had any material interest in any transaction which materially affects the Corporation.

REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent for the Common Shares of the Corporation is Computershare Trust Company of Canada, with offices in Calgary, Alberta and Toronto, Ontario.

MATERIAL CONTRACTS

There are no contracts entered into during the most recently completed financial year outside the ordinary course of business that are material to the Corporation and its subsidiaries.

INTERESTS OF EXPERTS

Ernst & Young LLP Chartered Accountants Calgary, Alberta has prepared the auditor's report on the consolidated financial statements of the Corporation for the year ended December 31, 2006. Ernst & Young LLP has confirmed it is independent in accordance with the rules of professional conduct of the Institute of Chartered Accountants of Alberta.

McDaniel & Associates Consultants Ltd. has prepared the Evaluation of Oil & Gas Reserves report as at December 31, 2006. McDaniel & Associates has confirmed it is an Independent Qualified Reserves Evaluator.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration, principal holders of the Corporation's securities and securities authorized for issue under equity compensation plans, is contained in the Corporation's Management Information Circular for the annual meeting of shareholders to be held on May 14, 2007. Additional financial information is provided in the Corporation's comparative Audited Consolidated Financial Statements and Management's Discussion and Analysis for the year ended December 31, 2006. Additional information relating to the Corporation is on SEDAR at www.sedar.com.

APPENDIX “A”

**FORM 51-101F2
REPORT ON RESERVES DATA
BY
INDEPENDENT QUALIFIED RESERVES
EVALUATOR**

Report on Reserves Data

February 27, 2007

Iteration Energy Ltd.
700, 700 - 2nd Street S.W.
Calgary, Alta.
T2P 2W1

Attention: The Board of Directors of Iteration Energy Ltd.

Re: **Form 51-101F2
Report on Reserves Data by an Independent Qualified Reserves Evaluator
of Iteration Energy Ltd. (the “Company”)**

Dear Sir:

To the Board of Directors of Iteration Energy Ltd. (the “Company”):

1. We have evaluated the Company’s reserves data as at December 31, 2006. The reserves data consists of the following:
 - (a) proved and proved plus probable oil and gas reserves estimated as at December 31, 2006 using forecast prices and costs and the related estimated future net revenue; and
 - (b) proved and proved plus probable oil and gas reserves estimated as at December 31, 2006 using constant prices and costs and the related estimated future net revenue.
2. The reserves data are the responsibility of the Company’s management. Our responsibility is to express an opinion on the reserves data based on our evaluation. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the “COGE Handbook”) prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).
3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us, for the year ended December 31, 2006, and identifies the respective portions thereof that we have evaluated, audited and reviewed and reported on to the Company's management:

Preparation Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue \$M (before income taxes, 10% discount rate)			
		Audited	Evaluated	Reviewed	Total
February 27, 2007	Canada	-	208,411	-	208,411

5. In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.
6. We have no responsibility to update our report for events and circumstances occurring after the preparation date.
7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

MCDANIEL & ASSOCIATES CONSULTANTS LTD.

"signed by P. A. Welch"

P. A. Welch, P. Eng.
President & Managing Director

Calgary, Alberta

APPENDIX "B"

FORM 51-101F3 REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE

This is the form referred to in item 3 of section 2.1 of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). This form does not apply in British Columbia.

1. Terms to which a meaning is ascribed in NI 51-101 have the same meaning in this form. (Note 1)
2. The report referred to in item 3 of section 2.1 of NI 51-101 shall in all material respects be as follows:

Report of Management and Directors on Reserves Data and Other Information

Management of Iteration Energy Ltd. (the "Corporation") is responsible for the preparation and disclosure of information with respect to the Corporation's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

- (a) proved and proved plus probable oil and gas reserves estimated as at December 31, 2006 using forecast prices and costs; and
 - (b) the related estimated future net revenue; and
 - (c) proved oil and gas reserves estimated as at December 31, 2006 using constant prices and costs; and
 - (d) the related estimated future net revenue.
3. An independent qualified reserves evaluator has evaluated the Corporation's reserves data. The reports of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.
 4. The Reserves Committee of the board of directors of the Corporation has:
 - (e) reviewed the Corporation's procedures for providing information to the independent qualified reserves evaluator;
 - (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
 - (c) reviewed the reserves data with management and the independent qualified reserves evaluator.
 5. The Reserves Committee of the board of directors has reviewed the Corporation's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserves Committee approved:
 - a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;

Note

¹

For the convenience of readers, Appendix 1 to Companion Policy 51-101CP sets out the meanings of terms that are printed in italics in sections 1 and 2 of this Form or in NI 51-101, Form 51-101F1, Form 51-101F2 or the Companion Policy.

- b) the filing of the reports of the independent qualified reserves evaluator and the independent qualified reserves auditor on the reserves data; and
- c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

(signed) "*Jane Mactaggart*"
Jane Mactaggart
Vice President Exploitation

(signed) "*Brian Illing*"
Brian Illing
President and Chief Executive Officer

(signed) "*Pat Breen*"
Pat Breen
Chairman of the Reserves Committee

(signed) "*James T. Grenon*"
James T. Grenon
Director

March 21, 2007

APPENDIX “C”

ITERATION ENERGY LTD. (the “Corporation”)

AUDIT COMMITTEE DISCLOSURE PURSUANT TO MULTILATERAL INSTRUMENT 52-110

1) **The Audit Committee’s Charter**

Set forth below is the charter of the Audit Committee (the “Committee”) of the board of directors of the Corporation.

(a) Authority

The Committee shall be comprised of no less than three directors of the Corporation, none of whom will be officers or employees of the Corporation or its affiliates. All of the members of the Committee shall be independent directors. The length of term to be served by directors on the Committee will be determined by the board of directors of the Corporation, giving consideration to the benefits of periodic rotation of Committee membership. One of the members of the Committee shall be appointed Chairman by the board of directors. The Chairman of the Committee will appoint a Secretary to the Committee. The Secretary of the Committee may or may not be a member of the Committee. With the approval of the board of directors, the Committee may retain persons having special expertise to assist the Committee in fulfilling its responsibilities. All actions of the Committee will require a vote of a majority of its members present at a meeting of the Committee at which a quorum is present.

(b) Purpose of the Committee

The Committee is responsible for meeting with the auditor of the Corporation and reviewing the quarterly and annual financial reports before the reports are approved by the board of directors. The responsibilities of the Committee are to satisfy, on behalf of the board of directors that:

- i) The Corporations quarterly and annual financial statements are fairly presented in accordance with generally accepted accounting principles and to recommend to the board of directors whether the quarterly and annual financial statements should be approved;
- ii) The information contained in the following financial publications is not significantly incomplete, misleading or erroneous:
 - Annual Report to Shareholders, if prepared
 - Management’s Discussion and Analysis
 - Annual Information Form
 - Quarterly Financial Information
 - Prospectuses
- iii) The Corporation has implemented appropriate systems of internal control over financial reporting, and appropriate systems of internal control to ensure compliance with legal, regulatory and ethical requirements,
- iv) The external audit function has been effectively carried out and any matter that the independent auditor wishes to bring to the attention of the board of directors has been

addressed. The Committee will also recommend to the board of directors the reappointment or appointment of the auditor..

- v) If required, review the Corporation's expense policy and the expense reports of management.
- vi) The internal control policies within the Corporation were unchanged from the previous reporting period.

(c) Composition and Competency of the Committee

Each member of the Committee shall be an independent director and, as such, shall be free from any relationship that may interfere with the exercise of his or her independent judgment as a member of the Committee. All members of the Committee will be financially literate, as determined by the board of directors, in the exercise of business judgment which shall include a working familiarity with basic finance and accounting practices and an ability to read and understand financial statements. At least one member of the Committee shall have an accounting designation or related financial management expertise.

(d) Meetings of the Committee

The Committee shall meet with such frequency and of such intervals, as it shall determine is necessary to carry out its duties and responsibilities. At a minimum, the Committee shall meet at least quarterly with management and the Corporation's external auditor in separate executive sessions to discuss any matters that the Committee or each of these groups or persons believes should be discussed privately. The Committee, in its discretion, may ask members or management or others to attend its meetings, or portions thereof, and to provide pertinent information as necessary. The Committee shall maintain minutes of its meetings and records relating to those meetings and the Committee's activities and provide copies of such minutes to the board of directors.

(e) Duties and Activities of the Committee

The duties and activities of the Committee shall include;

- i) Make recommendations to the board of directors on the appointment of the external auditor of the Corporation.
- ii) Review and approve the Corporation's external auditor's annual engagement letter and audit plans, including the proposed fees contained therein.
- iii) Review the performance of the external auditor and make recommendations to the board of directors regarding their replacement when circumstances warrant. The review shall take into consideration the evaluation made by management of the external auditor's performance. Approve payment of audit fees and pre-approve audit related and other authorized work fees.
- iv) Oversee the independence of the external auditor.
- v) Review and approve, if appropriate, the annual audit plan of the external auditor, including the scope of audit activities, and monitor such plan's progress and results during the year.
- vi) Confirm, through private discussions with the external auditor and management, that no restrictions are being placed on the scope of the external auditor's work.

- vii) Ensure adequacy of financial results and disclosure in the Management Discussion and Analysis.
- viii) Establish the Corporation's whistleblower policy for the submission, receipt, retention and treatment of complaints and concerns regarding accounting and auditing matters, and review of any developments and responses on reports received thereunder.
- ix) Review the adequacy and effectiveness of financial reporting systems and internal control policies and procedures with the external auditor and management. Ensure that the Corporation complies with all new regulations in this regard.
- x) Review with management that the Corporation's administrative, operational and accounting internal controls, including controls and security of computerized information systems are operating in accordance with prescribed policies, procedures and codes of conduct.
- xi) Review with management and the external auditor any material weaknesses affecting internal controls.
- xii) Receive periodic reports from the external auditor and management to assess the impact of significant accounting or financial reporting documents proposed by the CICA, the relevant Canadian Securities commissions, stock exchanges or other regulatory bodies, or any other significant accounting or financial reporting related matters that may have a bearing on the Corporation.
- xiii) Establish and maintain free and open means of communication between the board of directors, the Committee, the external auditor and management.
- xiv) Review with management the list of risks that they have identified and ensure that management has implemented the appropriate systems to monitor, mitigate and report such business risks.
- xv) Review the adequacy of the Corporation's insurance coverage with respect to Directors and Officers Liability, general liability, pollution, business interruption, and well control.
- xvi) Review the disclosure of identified risks in the annual disclosure documents sent to shareholders to ensure that such disclosure meets with regulatory requirements and adequately addresses risks to shareholders.
- xvii) Conduct or authorize investigations into any matters within the Committee's scope of responsibilities including retaining outside counsel or other consultants or experts for this purpose.
- xviii) Discuss press releases regarding earnings and other financial information.
- xix) Review the disclosure made in the Corporation's Annual Report, if prepared, Annual Information Form, and Management's Discussion and Analysis.
- xx) Perform such additional activities, and consider such other matters, within the scope of its responsibilities, as the Committee or board of directors deems necessary or appropriate.

(f) Oversight of Various Financial External Reports

The Committee shall oversee the adequacy of the financial reporting contained in the Annual Report, if prepared, Annual Information Form, Management's Discussion and Analysis, prospectuses and any other document of the same nature.

(g) Internal Functioning of the Committee

Once a year, the Committee shall review the adequacy of its Charter and bring to the attention of the board of directors any required changes. On an annual basis the Committee will also make a critical review of its past performance to ensure that it has assumed its responsibilities and executed all required tasks and will suggest changes if it failed to do so. This review will also cover the performance of individual members.

While the Committee has the duties and responsibilities set forth in this Charter, the Committee is not responsible for planning or conducting the audit, or for determining whether the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Similarly, it is not the responsibility of the Committee to resolve disagreements, if any, between management and the external auditor. While it is acknowledged that the Committee is not legally obligated to ensure that the Corporation comply with all of the laws and regulations, the spirit and intent of this Charter is that the Committee shall take reasonable steps to encourage the Corporation to act in full compliance therewith.

2) **Composition of the Audit Committee**

The members of the Committee are Mr. Robert Waters (Chair), Mr. Michael Hibberd and Mr. Dallas Droppo. Each member of the Committee is independent and financially literate within the meaning of Multilateral Instrument 52-110.

3) **Relevant Education and Experience**

Name (Director Since)	Principal Occupation and Biography
Mr. Robert Waters , BBA, MBA, CA (July 2005)	Senior Vice-President and Chief Financial Officer, Enerplus Resources Fund since December, 2001. Prior thereto, Vice-President Finance and Chief Financial Officer, Pengrowth Energy Trust since June, 1998.
<u>Other Public Directorships</u> None	
Mr. Michael Hibberd , BA, MBA, LLB (July 2005)	President, MJH Services Inc. since 1995. Corporate Finance Advisors. Prior to 1995, Director and Senior V.P. Corporate Finance at Scotia McLeod.
<u>Other Public Directorships</u> AltaCanada Energy Rally Energy Corp. Heritage Oil Corporation Challenger Energy Pan Orient Energy Ram Telecom Inc.	

Mr. Dallas Droppo, BSc, LLB
(July 2005)

Other Public Directorships
Real Resources Inc.
Norex Exploration Services Inc.

Partner/Lawyer, Blake, Cassels and Graydon LLP

Financially literate by virtue of many years of experience in the corporate finance and securities areas of law and as result of attendance at various industry seminars on topics relating to financial statements and audit committees.

4) **Pre-Approval Policies and Procedures**

The Committee has implemented a policy restricting the services that may be provided by the Corporation's auditor and the fees paid to the Corporation's auditor. Prior to the engagement of the Corporation's auditor to perform both audit and non-audit services, the Committee pre-approves the provision of the services. In making their determination regarding non-audit services, the Committee considers the compliance with the policy and the provision of non-audit services in the context of avoiding impact on auditor independence. All audit and non-audit fees paid to Ernst & Young LLP in 2006 and 2005 were approved by the Committee. Based on the Committee's discussions with management and the independent auditor, the Committee is of the view that the provision of the non-audit services by Ernst & Young LLP described above is compatible with maintaining the firm's independence from the Corporation.

5) **External Auditor Service Fees**

The aggregate fees paid by the Corporation to Ernst & Young LLP, the auditor for the Corporation, for professional services rendered during the Corporation's last two fiscal years are as follows:

	2006	2005
Audit fees ⁽¹⁾	149,000	146,925
Audit Related ⁽²⁾	52,900	-
Tax fees ⁽³⁾	7,800	17,559
	209,700	164,484

Notes:

- (1) Audit fees were for professional services rendered by Ernst & Young LLP for the audit of the Corporation's annual financial statements and reviews of the Corporation's quarterly financial statements, and accounting consultations related thereto.
- (2) Audit related fees are for services provided by the Corporation's auditor relating to offerings and related regulator filings.
- (3) Tax fees were for tax compliance, tax advice and tax planning. The fees were for services provided by the Corporation's auditor's tax division.

In addition to the above noted fees paid to Ernst & Young LLP, \$74,250 was paid to Meyers Norris Penny LLP for professional services rendered in connection with the documentation of controls over financial reporting, in compliance with Multilateral Instrument 52-109.