

FAIRBORNE ENERGY LTD.

RISK MANAGEMENT COMMITTEE

MANDATE AND TERMS OF REFERENCE

Role and Objective

The purpose of the Risk Management Committee (the "**Committee**") is to assist the board of directors (the "**Board**") of Fairborne Energy Ltd. ("**Fairborne**" or the "**Corporation**") in fulfilling its responsibility by ascertaining and reviewing matters relating to risk management policies and practices in the context of the principal business, financial, technical and other risks of the Corporation.

Membership of the Committee

1. The Committee will be comprised of at least three (3) Directors or such greater number as the Board may determine from time to time and a majority of the members of the Committee shall be "independent" (as such term is defined for purposes of National Policy 58-201 – Corporate Governance Guidelines).
2. The Board may from time to time designate one of the members of the Committee to be the Chair of the Committee.

Mandate and Responsibilities of the Committee

1. The Committee shall formulate and make recommendations to the Board in respect of risk management issues relating to the Corporation and its subsidiaries, as applicable. Without limiting the generality of the foregoing, the Committee shall have the following duties:
 - (a) to review the principal business risks of the Corporation and the actions taken by the Corporation to mitigate the risks.
 - (b) to review the principal financial risks of the Corporation, including but not limited to changes in commodity prices, interest rates, foreign currency exchange rates and credit.
 - (c) to review guidelines, policies and reports from Management with respect to risk assessment, risk management and major financial risk exposures, including the processes Management uses to assess and manage the Corporation's risk and exposures. If, in the Committee's view, changes in guidelines and policies are desirable, recommend such changes to the Board or Management, as applicable.
 - (d) to review the financial exposures undertaken by the Corporation together with any mitigating strategies, including hedging policies and practices and insurance, and consider these in light of the corporate risk management policies approved from time to time and related internal controls. Such exposures include physical and financial positions in commodities markets; derivatives strategies; capital commitments; sovereign and foreign exchange exposures; and exposure to interest rate fluctuations.
 - (e) to review the activities of the Fairborne's treasury and marketing groups and the financial risks arising from those activities including any proposed authorities of Management from the Board for the hedging of the exposures. Review the adequacy of the policies of

the treasury and marketing groups to address these risks, including key internal controls of treasury and marketing activities and receive reports on any significant breaches of the policies.

- (f) to review a summary report of the hedging activities including a summary of the hedge-related instruments at the end of each quarter before quarterly Board meetings.
- (g) to annually review, and if desirable, recommend changes to the insurance program including coverage for property damage, business interruption, liabilities, and directors and officers.
- (h) to review any other significant financial exposures of the Corporation to the risk of a material financial loss including tax audits or other activities.
- (i) to review the Corporation's financial strategy considering current and future business needs, including, capital markets and the Corporation's credit rating (if any).
- (j) to review the Corporation's capital structure including debt and equity components, current and expected financial leverage, and interest rate and foreign currency exposures and, in the Committee's discretion, make recommendations to the Board for consideration.
- (k) to review and approve the discussion and disclosure of risks in public documents.
- (l) to undertake annually a review of this mandate and make recommendations to the Board and Corporate Governance Committee as to proposed changes.

Meetings and Administrative Matters

1. At all meetings of the Committee every resolution shall be decided by a majority of the votes cast. In case of an equality of votes, the Chairman of the meeting shall be entitled to a second or casting vote.
2. The Chair will preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee that are present will designate from among such members the Chair for purposes of the meeting.
3. A quorum for meetings of the Committee will be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Committee will be the same as those governing the Board unless otherwise determined by the Committee or the Board.
4. Meetings of the Committee should be scheduled to take place at such times as the Chair may determine, but not less than two times a year.
5. Agendas, approved by the Chair, will be circulated to Committee members along with background information on a timely basis prior to the Committee meetings;
6. The Committee may invite such officers, directors and employees of the Corporation as it sees fit from time to time to attend at meetings of the Committee and assist in the discussion and consideration of the matters being considered by the Committee.

7. Minutes of the Committee will be recorded and maintained and circulated to directors who are not members of the Committee or otherwise made available at a subsequent meeting of the Board.
8. The Committee may retain persons having special expertise and may obtain independent professional advice to assist in fulfilling its responsibilities at the expense of the Corporation.
9. Any members of the Committee may be removed or replaced at any time by the Board and will cease to be a member of the Committee as soon as such member ceases to be a director. The Board may fill vacancies on the Committee by appointment from among its members. If and whenever a vacancy exists on the Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, following appointment as a member of the Committee, each member will hold such office until the Committee is reconstituted.
10. Any issues arising from these meetings that bear on the relationship between the Board and management should be communicated to the Chairman of the Board by the Committee Chair.

November 7, 2008