

**ENERVEST NATURAL RESOURCE FUND LTD.**

**Proxy Voting Policies & Procedures**

**June 1, 2005**

## **INTRODUCTION**

EnerVest Natural Resource Fund Ltd. (“EnerVest”) is an open-end mutual fund corporation which invests primarily in the Canadian oil and gas industry. Canadian Imperial Bank of Commerce is the custodian of EnerVest’s assets. EnerVest Funds Management Inc. is EnerVest’s manager and Cypress Capital Management Ltd. is EnerVest’s investment manager.

EnerVest has developed policies and procedures to describe how it intends to vote on some commonly raised or potentially contentious issues. Our intention is to invest in the natural resource industry. EnerVest’s emphasis will be on common shares of oil and gas exploration and development companies, (“Base Funds”).

As part of our obligations to shareholders and in support of strong corporate governance we exercise voting rights in the best interests of our shareholders. An important way we participate in the corporate governance process is by voting for securityholder resolutions that are likely to enhance securityholder value and by opposing resolutions that are likely to dilute or diminish securityholder value.

Cypress Capital Management Ltd. (“Cypress”) is EnerVest’s investment manager. Cypress subscribes to an institutional shareholder service through Fairvest Corporation. Fairvest Corporation provides corporate governance research and proxy voting services to institutional investors. EnerVest will, from time to time, review the proxy voting recommendations of Fairvest Corporation for certain of EnerVest’s holdings.

Although these policies and procedures contain specific voting recommendations, these are not rigid positions and we may consider extenuating circumstances that might call for a different vote than a specific guideline suggests. In such instances we will consider each proposal on a case by case basis. These policies and procedures are reviewed on a regular basis.

## **STANDING POLICY**

EnerVest’s standing policy for proxy voting are based on several key general principles, including:

1. Corporate Management is accountable to the Board of Directors. The Board of Directors is accountable to and reports to the securityholders. The Board of Directors is responsible for maximizing long-term growth of securityholder value.

The Board of Directors should reinforce these concepts in making its management appointments and by appropriately defining the separate roles of Board members and management.

2. The proxy vote is an important asset of EnerVest. Stakeholders with fiduciary obligations are obligated to exercise their ownership rights by voting proxies diligently in order to optimize the long-term value of their investments.
3. Ownership rights should not be subordinated. Minority securityholders should not be treated differently from controlling securityholders. All securityholders have a right to receive proper notice of corporate actions and to vote on issues that have a material impact on their investments.
4. The interests of all stakeholders, (investors, management, directors and employees), are best served when their goals converge with the long-term economic objectives of the corporation or

business. Proper allocation of the rewards are important to the establishment and maintenance of long-term value.

### **Specific Standing Policies for Routine Matters**

#### **I. Board of Directors**

In proxy voting matters pertaining to the nomination and election of board members and the establishment and operation of board committees, EnerVest uses the following specific policies as a guideline in reaching a decision:

1. It is imperative that Boards of Directors are independent from management and insiders in general in order to ensure that Boards are able to represent securityholders without potential of conflict. Our voting is structured to encourage independence through:
  - a) the majority of the Board of Directors is composed of independent, unrelated directors;
  - b) all Boards should have, at a minimum, audit and corporate governance committees. These committees should be composed of a majority of independent, unrelated directors and should be lead by an independent director. Committee members should possess appropriate skills and expertise relative to the mandate of the committee on which they serve;
  - c) the Chairman of the Board of Directors and the Chief Executive Officer should be different individuals; and
  - d) the Board of Directors should be nominated individually and therefore we do not support any slate voting of the Board.
2. We look for Boards of Directors that are diverse, experienced, competent and motivated to represent their companies and businesses:
  - a) Boards should be of appropriate size to ensure its orderly and effective operations;
  - b) Board members should be adequately compensated (which may include stock options) to ensure commitment to their role and responsibilities;
  - c) all Boards should attempt to draw members from different backgrounds and expertise that provide useful and relevant industry experience; and
  - d) there should be an established internal process for evaluating the contributions of current Board members and for nominating new Board members.

#### **II. Auditors**

We will generally support the choice of auditors recommended by the Board of Directors, specifically by the audit committee of those Directors.

However it is important to have auditors remain independent of the company or the business. We would vote against management's recommendation if the auditors were changed without suitable explanation.

### **III. Executive Compensation**

In proxy voting matters pertaining to executive compensation, EnerVest uses the following specific policies as a guideline in reaching a decision:

1. Variable compensation should be directly tied to pre-determined and measurable performance benchmarks that are consistent with long-term creation of securityholder value;
2. Compensation policies should not reward failure;
3. We do not support company loans to employees or directors to purchase securities;
4. Security based compensation as an incentive can be effective in aligning the long-term interests of management and securityholders; and
5. When evaluating stock option plans we consider the following:
  - a) we do not support plans that authorize securities representing more than 10% of the outstanding securities;
  - b) we will oppose stock options that are granted with an exercise price that is less than 100% of the fair market value of the underlying security at the date of the grant;
  - c) we will oppose repricing, replacing or extending or otherwise altering stock options where the stock price falls or underperforms the market; and
  - d) options should not have any voting rights granted to them.
6. We will vote against any excessive golden parachutes or other unreasonably large settlements to departing executives.

### **CIRCUMSTANCES WHEN ENERVEST MAY DEVIATE FROM STANDING POLICY**

EnerVest may deviate from its standing policy for routine matters when the Base Funds carries out unacceptable practices. Each instance where EnerVest deviates from its standing policy will be evaluated on a case by case basis with the intention of voting the proxy in the best interests of EnerVest shareholders.

### **SPECIFIC POLICIES FOR NON-ROUTINE MATTERS**

#### **Takeover Protection**

In proxy voting matters pertaining to takeover protection, EnerVest uses the following specific policies as a guideline in reaching a decision:

1. EnerVest will not generally support defense strategies as they usually serve only to entrench management and discourage potential buyers from offering higher bids in the event a company or business becomes an acquisition target;

2. Generally EnerVest will vote its proxies regarding takeover protection issues according to the following principles:
  - a) proposed takeover protection measures, which could potentially dilute securityholder value, should be approved in advance by a full securityholder vote;
  - b) takeover protection measures should be structured with the goal of maximizing long-term value for all securityholders;
  - c) lock-up agreements should be structured so that competing bids are not prevented;
  - d) partial takeover bids should be offered equally to all securityholders on a pro-rata basis and remain open for a sufficient period of time to allow for informed decisions; and
  - e) adopted takeover protection measures should have a sunset clause not greater than 3 years, after which they must be resubmitted to a security holder vote for renewal.

### **Securityholders Rights**

In proxy voting matters pertaining to securityholders rights, EnerVest uses the following specific policies as a guideline in reaching a decision:

1. **General Policies on Securityholders Rights**

Changes to securityholders rights should be reviewed by a committee of independent directors and then submitted to a securityholder vote.

Any issuance of new securities with rights that exceed those in securities currently outstanding should be offered equally to all securityholders on a pro-rata basis.

2. **Unequal or Subordinate Voting Securities**

Generally EnerVest opposes the creation of securities with unequal or multiple-voting rights. Securities with multiple-voting rights concentrate control among a few individuals and generally are not in the best interests of all securityholders.

3. **Super-Majority Voting Securities**

Super-majority voting rights require a level of securityholder approval above a simple majority. They may range as high as 80% of outstanding securities. Super-majority voting rights can make a securityholder approval all but impossible.

Generally EnerVest will vote against super-majority voting rights that exceed 2/3 (67%) of the outstanding securities.

4. **Linked Proposals**

Linked proposals are resolutions that link 2 issues together.

Generally EnerVest will vote against linked proposals.

5. Security Buybacks – Normal Course Issuer Bids

Common share buybacks can enhance long-term securityholder value. Share buybacks near or below net asset value can often be beneficial to securityholders.

Generally EnerVest supports security buyback plans or normal course issuer bids.

**PROCEDURES IMPLEMENTING PROXY POLICY**

**Proxy Voting Record**

EnerVest has internally appointed an individual who is responsible for collecting, updating and maintaining a Proxy Voting Record.

EnerVest's Proxy Voting Record will comply with National Instrument 81-106 – "Investment Fund Continuous Disclosure".

**Voting Procedures**

As proxies are received at EnerVest's offices they are forwarded to the head of EnerVest's Investor Relations.

Investor Relations will review the proxy and if it falls within EnerVest's Standing Policy for Routine Matters will vote the proxy in accordance with the Standing Policy.

If a proxy contains resolutions that are not covered by the Standing Policy or if circumstances exist that EnerVest may consider deviating from the Standing Policy, Investor Relations will review the proxy with a senior officer of EnerVest.

In addition, Investor Relations or the senior officer may consult with EnerVest's investment manager, Cypress Capital Management Ltd. regarding such proxy. EnerVest may review Fairvest Corporations' recommendation (if one exists) for the proxy. However EnerVest is responsible for voting its proxies and not Cypress and if a conflict arises with Cypress EnerVest will vote the proxy in the best interests of its shareholders.

**Contact Information**

If you have any questions with respect to EnerVest Natural Resource Fund Ltd.'s Proxy Voting Policies and Procedures or if you would like a copy of EnerVest's Proxy Voting Record, please contact our Investor Relations Department at:

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