

# **PETROSHALE INC.**

## **NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS**

**to be held at**  
The Metropolitan Centre

**Thursday, May 1, 2014**

**2:00 p.m. (Calgary time)**

## **MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT**

April 1, 2014

**PETROSHALE INC.**  
**NOTICE OF AN ANNUAL & SPECIAL MEETING OF SHAREHOLDERS**

**NOTICE IS HEREBY GIVEN THAT** an annual & special meeting of holders of common shares of PetroShale Inc. will be held at the Metropolitan Centre, Calgary, Alberta at 2:00 p.m. (Calgary time), on Thursday, May 1, 2014, to:

1. consider and receive our audited financial statements for the period ended December 31, 2013, together with the report of the auditors thereon;
2. fix the number of directors to be elected at the meeting at five members;
3. elect five directors;
4. appoint the auditors and authorize our directors to fix their remuneration as such;
5. consider and, if deemed advisable, to pass with or without variation, an ordinary resolution approving certain amendments to the stock option plan including the conversion of the stock option plan from a rolling plan to a fixed plan;
6. to consider and, if deemed advisable, to pass with or without variation, an ordinary resolution approving a new Toronto Stock Exchange compliant stock option plan;
7. consider and, if deemed advisable, to pass with or without variation, an ordinary resolution approving a restricted bonus award incentive plan; and
8. to transact such other business as may be properly brought before the Meeting or any adjournment thereof.

Information relating to matters to be acted upon by the shareholders at the Meeting is set forth in the information circular – proxy statement accompanying this notice.

Only shareholders whose names have been entered in the register of common shareholders at the close of business on April 1, 2014 will be entitled to receive notice of and to vote at the meeting. Each common share entitled to be voted at the meeting will entitle the holder to one vote at the meeting.

**A shareholder may attend the May 1, 2014 meeting in person or may be represented by proxy. Shareholders who are unable to attend the meeting or any adjournment thereof in person are requested to date, sign and return the accompanying form of proxy for use at the Meeting or any adjournment thereof. To be effective, the proxy must be received by Equity Financial Trust Company, 200 University Avenue, Suite 300, Toronto, Ontario M5H 4H1, Attention: Proxy Department not later than forty-eight (48) hours (excluding Saturday, Sundays and statutory holidays) prior to the commencement of the Meeting or any adjournment thereof. You may also fax your completed proxy to 416-595-9593. Notwithstanding the foregoing, the Chairman of the meeting has the discretion to accept proxies received after such deadline.**

**DATED** at Calgary, Alberta, this 1<sup>st</sup> day of April, 2014.

**BY ORDER OF THE BOARD OF DIRECTORS**

(signed) "Nicole E. Bacsalmasi"

Nicole Bacsalmasi  
Corporate Secretary

**PETROSHALE INC.**

**MANAGEMENT PROXY CIRCULAR**  
For the Annual & Special Meeting of Shareholders  
to be held on May 1, 2014

**PROXIES**

**Solicitation of Proxies**

**This information circular - proxy statement is furnished in connection with the solicitation of proxies** for use at the annual and special meeting of our common shareholders to be held at 2:00 p.m. (Calgary time) on Thursday, May 1, 2014, at the Metropolitan Centre, 333, 4<sup>th</sup> Avenue S.W., Calgary, Alberta and at any adjournment thereof. Forms of proxy must be mailed so as to reach or be deposited at the offices of Equity Financial Trust Company, 200 University Avenue, Suite 300, Toronto, Ontario, M5H 4H1, not later than 48 hours (excluding Saturdays, Sundays and statutory holidays) prior to the time set for the meeting or any adjournment thereof.

Only common shareholders of record at the close of business on April 1, 2014, will be entitled to vote at the meeting, unless that shareholder has transferred any shares subsequent to that date and the transferee shareholder, not later than 10 days before the meeting, establishes ownership of the shares and demands that the transferee's name be included on the list of shareholders entitled to vote at the meeting.

The instrument appointing a proxy must be in writing and must be executed by you or your attorney authorized in writing or, if you are a corporation, under your corporate seal or by a duly authorized officer or attorney of the corporation.

The persons named in the enclosed instrument of proxy are our officers. **As a shareholder you have the right to appoint a person or company, who need not be a shareholder, to represent you at the meeting. To exercise this right you should insert the name of the desired representative in the blank space provided in the instrument of proxy and strike out the other name.**

**Advice to Beneficial Holders of Common Shares**

The information set forth in this section is of significant importance to you if you do not hold your common shares in your own name. Only proxies deposited by shareholders whose names appear on our records as the registered holders of common shares can be recognized and acted upon at the meeting. If your common shares are listed in your account statement provided by your broker, then, in almost all cases, those common shares will not be registered in your name on our records. Such common shares will likely be registered under the name of your broker or an agent of that broker. In Canada, the vast majority of such shares are registered under the name of CDS & Co., the registration name for The CDS Clearing and Depository Services Inc., which acts as nominee for many Canadian brokerage firms. Common shares held by your broker or their nominee can only be voted upon your instructions. Without specific instructions, your broker or their nominee is prohibited from voting your shares.

Applicable regulatory policy requires your broker to seek voting instructions from you in advance of the meeting. Every broker has its own mailing procedures and provides its own return instructions which you should carefully follow in order to ensure that your shares are voted at the meeting.

Often, the form of proxy supplied by your broker is identical to the form of proxy provided to registered shareholders. However, its purpose is limited to instructing the registered shareholder how to vote on your behalf. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("Broadridge"). Broadridge mails a scannable voting instruction form in lieu of the form of proxy. You are asked to complete and return the voting instruction form to them by mail or facsimile. Alternately, you can call their toll-free telephone number or go to the voting website provided to vote your shares. They then tabulate the results of all instructions received and provide appropriate instructions respecting the voting of shares to be represented at the meeting. If you receive a

**voting instruction form from Broadridge it cannot be used as a proxy to vote shares directly at the meeting as the proxy must be returned (or otherwise reported as provided in the voting instruction form) to Broadridge well in advance of the meeting in order to have the shares voted.**

These securityholder materials are being sent to both registered and non-registered owners of the securities. If you are a non-registered owner, and the issuer or its agent has sent these materials directly to you, your name and address and information about your holdings of securities, have been obtained in accordance with applicable securities regulatory requirements from the intermediary holding on your behalf.

By choosing to send these materials to you directly, the issuer (and not the intermediary holding on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the request for voting instructions.

### **Revocability of Proxy**

You may revoke your proxy at any time prior to a vote. If you, or the person you give your proxy, attend personally at the meeting, you or such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing executed by you or your attorney authorized in writing or, if you are a corporation, under your corporate seal or by a duly authorized officer or attorney of the corporation. To be effective, the instrument in writing must be deposited either at our head office, at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the meeting on the day of the meeting, or any adjournment thereof.

### **Persons Making the Solicitation**

This solicitation is made on behalf of our management. We will bear the costs incurred in the preparation and distribution of the form of proxy, notice of annual and special meeting and this information circular – proxy statement. In addition to mailing forms of proxy, proxies may be solicited by personal interviews, or by other means of communication, by our directors, officers and employees who will not be remunerated therefor.

### **Exercise of Discretion by Proxy**

The common shares represented by proxy in favour of management nominees will be voted or withheld from voting on any poll at the meeting. Where you specify a choice with respect to any matter to be acted upon, the common shares will be voted on any poll in accordance with the specification so made. **If you do not provide instructions, your common shares will be voted in favour of the matters to be acted upon as set out herein.** The persons appointed under the form of proxy, which we have furnished, are conferred with discretionary authority with respect to amendments or variations of those matters specified in the form of proxy and notice of annual meeting and with respect to any other matters which may properly be brought before the meeting or any adjournment thereof. At the time of printing this information circular – proxy statement, we know of no such amendment, variation or other matter.

## **VOTING SHARES AND PRINCIPAL HOLDERS THEREOF**

We are authorized to issue an unlimited number of common shares, an unlimited number of common non-voting shares and an unlimited number of class "A" preferred shares, without nominal or par value. As at April 1, 2014 there were 22,507,574 common shares, 6,700,000 non-voting common shares and no class "A" preferred shares issued and outstanding. As a holder of common shares you are entitled to one vote for each common share you own.

Based on information supplied to them, to the knowledge of our directors and officers, as at April 1, 2014, no person or company beneficially owns, or controls or directs, directly or indirectly, more than 10% of our common shares other than Mr. M. Bruce Chernoff who owns, controls or directs, directly or indirectly 10,000,000 common shares being approximately 44% of the common shares currently issued and outstanding.

## MATTERS TO BE ACTED UPON AT THE MEETING

### Election of Directors

As of the date hereof, our board of directors consists of five members. Management is soliciting proxies, in the accompanying applicable form of proxy, for an ordinary resolution in favour of fixing our board at five members, and in favour of the election as directors of the following: M. Bruce Chernoff, James Fair, Brett Herman, Ken McCagherty and Jacob Roorda.

Each director elected will hold office until the next annual meeting of our shareholders or until his successor is duly elected or appointed, unless his office is earlier vacated.

It is the intention of our management designees, if named as proxy, to vote **FOR** the election of the proposed nominees to our board of directors unless otherwise directed. Management does not contemplate that any of the nominees will be unable to serve as a director. In the event that a vacancy among such nominees occurs because of death or for any reason prior to the meeting, the form of proxy will not be voted with respect to such vacancy.

The following is a brief description of the proposed nominees, including their principal occupation for the past five years, all positions and offices with us (or a subsidiary of ours) held by them and the number of common shares that they have advised are beneficially owned or controlled or directed, by them directly or indirectly as at April 1, 2014.

Name, Residence and Office(s) held	Principal Occupation or Employment for the Last Five Years	Became a Director/ Officer	Common Shares
<b>M. Bruce Chernoff</b> <sup>(2)(3)</sup> Alberta, Canada <i>Director and Chief Executive Officer</i>	Our Executive Chairman and Chief Executive Officer; President of Caribou Capital Corp., a private investment company, since 1999.	August 31, 2012	10,000,000
<b>James D. Fair</b> Michigan, USA <i>Director</i>	Independent businessman. During the period of October 31, 2013 to November 25, 2013, Mr. Fair was our Interim Chief Executive Officer and Interim President.	March 8, 2012	411,471
<b>Brett Herman</b> <sup>(1)(3)</sup> Alberta, Canada <i>Director</i>	President and Chief Executive Officer of TORC Oil & Gas Ltd. since April 2010. Prior thereto, President and Chief Executive Officer of Result Energy Inc. from November 2009 to April 2010.	March 8, 2012	200,000
<b>Ken McCagherty</b> <sup>(1)(2)</sup> Alberta, Canada <i>Director</i>	President and Chief Executive Officer of Westbrick Energy Ltd., a private oil and gas company since October 2010. Prior thereto, President and Chief Executive Officer of West Energy Ltd., a public oil and gas company.	November 25, 2013	-
<b>Jacob Roorda</b> <sup>(1)(2)(3)</sup> Alberta, Canada <i>Director</i>	Managing director of Windward Capital Limited, a private investment company. Vice Chairman of Canoe Financial Corp. from May 2010 to October 2011; President and CEO of Canoe Financial Corp. from October 2008 to May 2010.	March 8, 2012	387,070

Notes:

- (1) Member of our Audit Committee.
- (2) Member of our Reserves Committee.
- (3) Member of our Compensation Committee.

### *Additional Disclosure Relating to Proposed Directors*

Except as otherwise disclosed herein, none of our directors (nor any personal holding company of any of such persons) is, as of the date hereof, or was within ten years before the date hereof, a director, chief executive officer or

chief financial officer of any company (including us), that was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "**Order**") that was issued while the director was acting in the capacity as director, chief executive officer or chief financial officer; or was subject to an Order that was issued after the director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Except as otherwise disclosed herein, none of our directors (nor any personal holding company of any of such persons) is, as of the date hereof, or has been within the ten years before the date hereof, a director or executive officer of any company (including us) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. In addition, none of our directors (nor any personal holding company) or any such person has, within the ten years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director other than Mr. Roorda who was formerly a director of TXCO Resources Ltd. which filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Western District of Texas on April 18, 2009 and formerly director of Argosy Energy Inc. when it entered receivership pursuant to an order of the Court of Queen's Bench of Alberta on May 30, 2013 at the request of its lenders.

None of our directors (nor any personal holding company of any of such persons) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

As of the date hereof, our directors and officers beneficially own or control or direct, directly or indirectly, approximately 11,359,412 common shares representing approximately 50% of our outstanding common shares. These directors and officers also hold an aggregate of 1,715,206 options to acquire common shares at a weighted average exercise price of approximately \$1.11 per common share.

### **Appointment of Auditors**

Management is soliciting proxies, in the accompanying form of proxy, in favour of the appointment of the firm of KPMG LLP, Chartered Accountants as our auditors, to hold office until the next annual meeting of our shareholders and to authorize the directors to fix their remuneration as such. KPMG LLP has been our auditors since August 2012.

### **Approval of Amended Stock Option Plan**

At the meeting, shareholders will be asked to vote on an ordinary resolution to approve our amended stock option plan, including the conversion of the stock option plan from a rolling plan to a fixed plan. Currently, the amended stock option plan provides that the aggregate number of common voting shares reserved for issuance under the stock option plan (together with any common shares reserved for issuance under our other incentive plans) shall not exceed 10% of the issued and outstanding common shares. This is what is referred to as a "rolling plan".

Our board has approved the conversion of our stock option plan from a rolling plan to a fixed number plan, as well as other administrative and clerical amendments. As a "fixed" plan, the aggregate number of common shares that may be reserved for issuance under option grants under our stock option plan may not exceed 4,400,000, which includes the 2,150,206 common shares reserved for outstanding stock options under the existing stock option plan as at April 1, 2014. This maximum amount, if approved by the shareholders at the meeting, represents approximately 20% of our issued and outstanding common shares as at April 1, 2014. If any option granted under the amended stock option plan shall expire, terminate or be cancelled for any reason without the common shares issuable

thereunder having been issued in full or if any common shares are issued pursuant to any option granted under the amended stock option plan, any such common shares shall [not] be available for the purposes of the granting of further options under the amended stock option plan. Options may be granted in excess of the limits set forth in this paragraph provided that prior to the receipt of the requisite approval, as provided in the amended stock option plan, such options may not be exercised until such approval has been received.

In addition to amendments required to convert our stock option plan from a rolling plan to a fixed plan, our board has approved various administrative amendments to create consistency in the language of the plan. The amended stock option plan is subject to the approval of the TSX Venture Exchange.

The policies of the TSX Venture Exchange require us to obtain shareholder approval of our stock option plan on an annual basis and seek shareholder approval for certain amendments to our stock option plan. Accordingly, at the meeting, shareholders will be asked to vote on an ordinary resolution to approve our amended stock option plan, a copy of which is attached as Appendix "C".

Our amended stock option plan provides that our board may from time to time, in its discretion, grant to our directors, officers, employees, management company employees and consultants, and those of our subsidiaries, partnerships, trusts and other controlled entities, an option to purchase common shares.

Pursuant to the stock option plan, our board determines the exercise price per common share and the number of common shares that may be allotted to each director, officer, employee, management company employee and consultant and all other terms and conditions of the options, subject to the rules of the TSX Venture Exchange. The exercise price per common share is subject to minimum pricing restrictions set by the TSX Venture Exchange. Prior to granting options to an employee, management company employee or consultant, our board is required to make a good faith determination that the proposed recipient of the options is, at the date of the grant, a bona fide employee, management company employee or consultant, as the case may be, of us or one of our subsidiaries.

The option plan provides that options may be exercisable for up to a maximum of ten (10) years from the date of grant, but our board has the discretion to grant options that are exercisable for a shorter period. Other than options granted to certain persons, options granted under the stock option plan do not require vesting provisions, although our board may attach a vesting period or periods to individual grants as it deems appropriate. Options under the stock option plan are non-assignable. If prior to the exercise of an option, the holder ceases to be a director, officer, employee, management company employee or consultant, the option will expire within a reasonable period following the date of such cessation, as set forth in the applicable option agreement.

Subject to the policies of the TSX Venture Exchange, the amended stock option plan prescribes various limits to the number of common shares that can be reserved for issuance for specific grants made under the amended stock option plan. These limits include: (a) the aggregate number of common shares reserved for issuance under options granted to any one eligible person shall not exceed 5% of our issued and outstanding common shares in any twelve month period; (b) the aggregate number of common shares reserved for issuance under options granted to any one consultant or an individual engaged in Investor Relations Activities (as such term is defined by the policies of the TSX Venture Exchange) shall not exceed 2% of our issued and outstanding common shares in any twelve month period with no more than one quarter of such options vesting in any three month period; and (C) subject to receipt of disinterested shareholder approval, the number of common shares reserved for issuance under options granted to our executive officers and directors shall not exceed 10% of our issued and outstanding common shares.

In the event of any change of control (as defined in the amended option plan), all unexercised and unvested outstanding options granted under the stock option plan vest and become immediately exercisable. Our board may in its sole discretion, deliver prior notice to an option holder of a change of control, with a minimum seven (7) day period to purchase all or a portion of the number of common shares to which the option holder is entitled. Any options that are not exercised at the expiry of such period terminate and expire, unless such change of control is not completed.

For further information on the stock option plan and grants made thereunder see "*Incentive Awards*" below, and the full text of the amended stock option plan which is attached as Appendix "C".

If the resolution to approve the amended stock option plan is not passed by shareholders: (a) the amended stock option plan will terminate; (b) we will revert to our existing "rolling" plan; and (c) any options that were granted under the amended plan that could not be granted under the existing plan will terminate. The options granted under our existing "rolling" stock option plan will continue unaffected. AS of the date hereof, there are no options granted under the amended stock option plan.

Our amended stock option plan is designed to motivate all employees to focus on our long-term growth and success. All of our directors, officers, consultants, employees and other service providers and those of our subsidiaries, partnerships, trusts and other controlled entities are eligible to receive options under our stock option plan. A copy of the amended stock option plan, highlighting the amendments to the existing stock option plan is set forth in Appendix "D" attached hereto and forming part of this Management Proxy Circular.

Pursuant to the policies of the TSX Venture Exchange, the plan amendments require us to obtain shareholder approval. At the meeting, shareholders will be asked to consider, and if though appropriate, pass the following resolution:

**"BE IT RESOLVED**, as an ordinary resolution of the shareholders of PetroShale Inc. (the "**Corporation**") that:

1. the amended stock option plan as disclosed in the information circular – proxy statement of the Corporation dated April 1, 2014 be and is hereby approved, ratified and confirmed;
2. all existing stock options shall be subject to the provisions of the amended stock option plan;
3. any director or officer of the Corporation be authorized on behalf of the Corporation to make any amendments to the stock option plan as may be required by regulatory authorities, without further approval of the shareholders of the Corporation, in order to ensure regulatory approval of the stock option plan, as amended; and
4. any director or officer of the Corporation be and is hereby authorized and directed to do such things and to execute and deliver all such instruments, deeds and documents, and any amendments thereto, as may be necessary or advisable in order to give effect to the foregoing resolutions, and to complete all transactions in connection therewith."

In accordance with the policies of the TSX Venture Exchange, approval of the amendments to the stock option plan requires approval of the majority of the votes cast at the meeting, in person or by proxy, excluding shares held by insiders that hold outstanding options under the stock option plan. Such insiders currently hold 1,359,412 common shares, and, accordingly at the meeting those 1,359,412 common shares shall be excluded from voting on the foregoing resolution. **Our board unanimously recommends that shareholders vote in favour of this resolution.** The persons designated in the enclosed form of proxy, unless instructed otherwise, intend to vote **FOR** the resolution.

If the amended plan is approved, all currently outstanding options will be subject to the amended plan and our existing "rolling" plan shall terminate.

#### **Approval of New Option Plan**

At the meeting, shareholders will be asked to consider and approve a new stock option plan (the "**New Option Plan**"). The New Option Plan is intended to replace the existing stock option plan or the amended stock option plan; if approved, if our common shares are listed and commence trading on the Toronto Stock Exchange. Our Board is of the view that the New Option Plan will be better suited to us in the event that we obtain a listing on the Toronto



Stock Exchange. The New Option Plan will not come into effect until we obtain a listing on the Toronto Stock Exchange.

The New Option Plan was adopted by our Board on April 1, 2014. A summary of the New Option Plan and an outline of the material differences between the New Option Plan and our existing stock option plan, are set forth below and a full copy of the New Option Plan is attached hereto as Appendix "D".

The number of common shares issuable pursuant to the New Option Plan to any one person will not exceed 10% of our outstanding common shares (which includes: (i) the aggregate number of our issued and outstanding common shares; (ii) common shares issuable upon the exchange of our non-voting common shares; and (iii) other fully paid securities of any of our subsidiaries, partnerships, trusts and other controlled entities exchangeable into common shares, collectively referred to as the "**Total Common Shares**"). The number of common shares reserved for issuance at any time or issued within one (1) year, pursuant to the New Option Plan and all of our other established or proposed share compensation arrangements to insiders will not exceed 10% of our outstanding Total Common Shares, and the number of common shares issuable within one (1) year, pursuant to the New Option Plan and all of our other established or proposed share compensation arrangements to any one insider and such insider's associates shall not exceed 10% of our outstanding Total Common Shares.

All stock options awarded pursuant to the New Option Plan will expire on a date that is three years from the vesting date as determined at the time of the grant, provided however that no stock option may be exercised beyond seven (7) years from the time of the grant.

Stock options will be issued at an exercise price equal to the volume weighted average trading price of our common shares for the five trading days prior to the date of grant. Any stock options which have not been exercised by the expiry date will expire and become null and void. If the expiry date of any stock option falls within any blackout period imposed by our board or within ten business days following the end of any blackout period, then the expiry date of such stock options shall be extended to the date that is ten business days following the end of such blackout period. Unless approved by our board, no stock options may be exercised by an optionee during a blackout period. The New Option Plan does not provide for any financial assistance to be provided by us to facilitate the exercise of a stock option.

If an optionee ceases to be a director, officer, consultant, employee or other service provider, as applicable of us or of any of our subsidiaries, partnerships, trusts or other controlled entity or ceases to be providing active services to us on an ongoing basis for any reason whatsoever, including without limitation resignation, dismissal or otherwise, but excluding the optionee's death, the optionee may, prior to the expiry date and within thirty days from the date of ceasing to be a director, officer or an employee or ceasing to provide services to us on an ongoing basis, exercise the stock options which are vested as of the date such optionholder ceases to provide services, after which time the stock option shall terminate. If an optionee dies prior to the expiry date, the optionee's legal representative may, within six months from the optionee's death and prior to the expiry date, exercise the stock options which are vested as of the date of death, after which time any remaining stock options shall terminate.

Our board can amend or discontinue the New Option Plan or stock options granted thereunder at any time without shareholder approval, provided any amendment to the New Option Plan that requires approval of any stock exchange on which the common shares are listed for trading may not be made without approval of such stock exchange. However, without the prior approval of the shareholders, as may be required by such exchange, we may not make any amendment to the New Option Plan or stock options granted thereunder to: (a) increase the percentage of Common Shares issuable on exercise of outstanding stock options at any time; (b) extend the term of any outstanding stock option beyond the original expiry date of such stock option unless such extension is due to a blackout period being in effect; (c) permit an optionee to transfer or assign stock options to a new beneficial holder, other than for estate settlement purposes; (d) reduce the exercise price of any outstanding stock options or in respect of the cancellation or re-issuance of stock options; (e) increase the maximum limit on the number of securities that may be issued to insiders; or (f) amend the amendment clause. In addition, no amendment to the New Option Plan or stock options granted pursuant to the New Option Plan may be made without the consent of the optionee, if it adversely alters or impairs any stock option previously granted to such optionee under the New Option Plan.

The following table outlines the material differences between the amended stock option plan and the proposed New Option Plan.

Existing Stock Option Plan	New Option Plan
Rolling plan with a maximum number of common shares being reserved for issuance pursuant to options being equal to 10% of our issued and outstanding common shares.	Rolling plan with a maximum number of common shares being reserved for issuance pursuant to option being equal to 10% of our Total Common Shares.
<i>Note: If the amended stock option plan is approved by shareholders at the meeting the option plan will be a fixed number plan with the maximum number of common shares being reserved for issuance pursuant to options being 4,400,000.</i>	
Limit on the number of common shares reserved for issuance to consultants performing investor relations activities of 2% of the issued and outstanding common voting shares.	Not included, TSX Venture Exchange requirement only.
Limit on the number of common shares reserved for issuance to insiders within a twelve month period of 5% of the issued and outstanding common voting shares. No separate limit for non-management directors.	Limit on the number of common shares reserved for issuance to insiders pursuant to the New Option Plan or any other share compensation arrangements within a twelve month period of 10% of the Total Common Shares
Maximum term of any option is ten years.	Maximum term of any option is seven years. Other than pursuant to the blackout provisions, the term cannot be extended without shareholder approval.
Extension of option term in the event than an option expires during or within ten days following the end of a blackout period.	Extension of option term in the event than an option expires during or within ten days following the end of a blackout period.
The Board determines, in its sole discretion, the vesting terms of an option.	The Board determines, in its sole discretion, the vesting terms of an option.
Generic amendment terms.	Specific amendment provision, outlining the amendments which require shareholder approval.

No stock options will be granted under the New Option Plan until our common shares are listed and trading on the facilities of the Toronto Stock Exchange. At such time our board will terminate the stock option plan then existing. When the New Option Plan is in effect, we will reserve for issuance under the New Option Plan that number of common shares as is equal to 10% of our issued and outstanding Total Common Shares. The number of common shares reserved under the New Option Plan will increase if and as our issued and outstanding Total Common Shares increases so as to maintain the 10% reservation above-mentioned.

At the meeting, shareholders will be asked to consider the following ordinary resolution approving the New Option Plan:

**"BE IT RESOLVED**, as an ordinary resolution of the shareholders of PetroShale Inc. (the "**Corporation**") that:

1. the stock option plan (the "**New Option Plan**") of the Corporation substantially in the form attached as Appendix "E" to the information circular – proxy statement of the Corporation dated April 1, 2014 is hereby authorized and approved;
2. the form of the New Option Plan may be amended in order to satisfy the requirements or requests of any regulatory authorities without requiring further approval of the shareholders of the Corporation; and

3. any director or officer of the Corporation be and is hereby authorized and directed to do such things and to execute and deliver all such instruments, deeds and documents, and any amendments thereto, as may be necessary or advisable in order to give effect to the foregoing resolutions, and to complete all transactions in connection therewith."

In order to be passed, the foregoing ordinary resolution must be approved by a simple majority of the votes cast by shareholders who vote in person or by proxy at the meeting. Our board recommends that shareholders vote **FOR** the resolution. Our management designees intend to vote **FOR** the resolution, unless a shareholder specifies otherwise in the proxy.

### **Approval of Restricted Bonus Award Incentive Plan**

At the meeting, shareholders will be asked to consider and approve a restricted bonus award incentive plan (the "**Award Plan**"). The Award Plan was adopted by our Board on April 1, 2014. A summary of the Award Plan is set forth below and a full copy of the Award Plan is attached hereto as Appendix "E".

The purpose of the Award Plan is to issue bonus awards in order to: (i) retain and attract qualified directors, officers, consultants, employees and other services providers, as applicable, for us or our subsidiaries, partnerships, trusts and other controlled entities; and (ii) promote a proprietary interest in us by such persons and to encourage such persons to remain in our employ or service and put forth maximum efforts for the success of our affairs or the affairs of our subsidiaries, partnerships, trusts and other controlled entities.

The Award Plan provides that our board may from time to time, in its discretion, grant to our directors, officers, employees, management company employees and consultants, and those of our subsidiaries, partnerships, trusts and other controlled entities, a bonus award in an amount equal to a notional number of common shares multiplied by the fair market value our common shares, being the volume weighted average trading price of our common shares for the five (5) trading days prior to the date of grant.

The number of common shares issuable pursuant to the Award Plan to any one person will not exceed 2% of our outstanding Total Common Shares. In addition, the number of common shares reserved for issuance within one (1) year, pursuant to the Award Plan and all of our other established or proposed share compensation arrangements to insiders will not exceed 10% of our outstanding Total Common Shares, and the number of common shares issuable within one (1) year, pursuant to the Award Plan and all of our other established or proposed share compensation arrangements to any one insider and such insider's associates shall not exceed 10% of our outstanding Total Common Shares.

All common shares awarded pursuant to the Award Plan will expire on the 15<sup>th</sup> of December of the third year following the year of the grant. If a service provider is on a leave of absence before any of the payment dates, the expiration date will be extended by the portion of the leave of absence that is in excess of three months. If there is a "change of control" as defined in the Award Plan, the payment date for all Common Shares awarded pursuant to the bonus award that has not yet been paid, shall be the effective date of the change of control. All bonus awards granted pursuant to the Award Plan are not assignable.

On the payment date of the bonus award to a service provider, the Corporation, in its sole and absolute discretion, shall have the option of settling the bonus award payable to the service provider by any of the following methods: (i) payment in cash; (ii) in the event that our common shares are listed on the Toronto Stock Exchange, payment in common shares acquired by us on the Toronto Stock Exchange; or payment in common shares issued from our treasury. A recipient of a bonus award does not have any right to demand to be paid in or receive common shares in respect of the bonus award, at any time.

If a service provider ceases to be a director, officer, consultant, employee or other service provider, as applicable of us or our subsidiaries, partnerships, trusts and other controlled entities, or ceases to be providing active services to us on an ongoing basis for any reason whatsoever, including without limitation resignation, dismissal or otherwise, but excluding the service provider's death or disability, all outstanding bonus award agreements and bonus awards issued to the service provider will be terminated and all rights to receive payment of the bonus award shall be

forfeited thirty days from the date of ceasing to be a director, officer or an employee or ceasing to provide services to us on an ongoing basis. If a service provider dies prior to the payment date of an award, the service provider's legal representative may, within six months from the service provider's death and prior to the expiry date, receive payment of the bonus award.

Our board can amend or discontinue the Award Plan or bonus awards granted thereunder at any time without shareholder approval, provided any amendment to the Award Plan that requires approval of any stock exchange on which the common shares are listed for trading may not be made without approval of such stock exchange. However, without the prior approval of the shareholders, as may be required by such exchange, we may not make any amendment to the Awards Plan or bonus awards granted thereunder to: (a) increase the percentage of common shares issuable on exercise of outstanding bonus awards at any time; (b) extend the term of any outstanding bonus awards beyond the original expiry date of such bonus awards; (c) permit a service provider to transfer or assign bonus awards to a new beneficial holder, other than for estate settlement purposes; (d) increase the maximum limit on the number of securities that may be issued to insiders; or (e) amend the amendment clause. In addition, no amendment to the Award Plan or bonus awards granted pursuant to the Award Plan may be made without the consent of the service provider, if it adversely alters or impairs any bonus award previously granted to such service provider under the Award Plan. We currently do not intend to put the Award Plan into effect until we obtain a listing on the Toronto Stock Exchange. However, we may apply to the TSX Venture Exchange to implement the Award Plan prior to exchange graduation.

At the meeting, Shareholders will be asked to consider the following ordinary resolution approving the Awards Plan:

**"BE IT RESOLVED**, as an ordinary resolution of the shareholders of PetroShale Inc. (the "**Corporation**") that:

1. the restricted bonus award incentive plan (the "**Award Plan**") of the Corporation substantially in the form attached as Appendix "F" to the information circular – proxy statement of the Corporation dated April 1, 2014 is hereby authorized and approved;
2. the form of the Award Plan may be amended in order to satisfy the requirements or requests of any regulatory authorities without requiring further approval of the shareholders of the Corporation; and
3. any director or officer of the Corporation be and is hereby authorized and directed to do such things and to execute and deliver all such instruments, deeds and documents, and any amendments thereto, as may be necessary or advisable in order to give effect to the foregoing resolutions, and to complete all transactions in connection therewith."

In order to be passed, the foregoing ordinary resolution must be approved by a simple majority of the votes cast by Shareholders who vote in person or by proxy at the meeting. Our board recommends that shareholders vote **FOR** the resolution. Our management designees intend to vote **FOR** the resolution, unless a shareholder specifies otherwise in the proxy.

#### **OTHER MATTERS COMING BEFORE THE MEETING**

Management knows of no other matters to come before the meeting other than those referred to in the accompanying notice of annual meeting. Should any other matters properly come before the meeting, the common shares represented by proxy solicited by this information circular – proxy statement will be voted on such matters in accordance with the best judgment of the person voting such proxy.

## INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED ON

None of our directors or officers, or any person who has held such a position since the beginning of the our last completed financial year, nor any nominee for election as a director, nor any associate or affiliate of the foregoing persons, has any substantial or material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the meeting other than as disclosed herein.

## STATEMENT OF EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

Our named executive officers or NEOs for the six months ended December 31, 2013 were Evan Genaud, our Chief Executive Officer (Mr. Genaud resigned as our Chief Executive Officer on October 31, 2013), James D. Fair, our Interim President and Interim Chief Executive Officer, Tristan Farel, our Chief Financial Officer (Messrs. Fair and Farel resigned from their positions on October 31, 2013 and November 25, 2013, respectively), John Fair, President of PetroShale (US), Inc., our wholly owned subsidiary, M. Bruce Chernoff, our Executive Chairman and Chief Executive Officer, and David Rain our Chief Financial Officer (Messrs. Chernoff and Rain were appointed to their positions on November 25, 2013).

Compensation of our named executive officers is reviewed annually by our Compensation Committee and is subsequently approved by the board of directors of the Corporation based on the recommendation of the Compensation Committee in accordance with the Corporation's Compensation Committee Charter. The members of the Compensation Committee are each experienced in compensation issues based on their present or prior involvement at the executive or board level with a variety of organizations. Following the annual general and special meeting of Shareholders of PetroShale held on December 10, 2013, an organizational meeting took place to determine the composition of the Compensation Committee. Following such meeting, the members of the Compensation Committee are Jacob Roorda (as Chairman), Brett Herman and M. Bruce Chernoff. Messrs. Roorda and Herman are considered to be independent directors.

Our compensation program for our NEOs consists principally of a base salary and variable compensation, if any. Named executive officers also participate in our stock option plan as described herein.

Our board's and the Compensation Committee's objective in setting compensation levels is that the aggregate compensation received by named executive officers be generally competitive with the compensation received by persons with similar qualifications and responsibilities who are engaged by other companies of corresponding size and stage of development. The Compensation Committee's primary duties are to review and make recommendations to the board of directors regarding: (i) human resource policies, practices and structures; (ii) compensation policy and guidelines; (iii) management incentive and perquisite plans and any non-standard remuneration plans; (iv) senior management appointments and their compensation; and (v) any other initiatives as the board of directors may request. In setting such levels, the board and the Compensation Committee rely primarily on their own experience and knowledge. The Compensation Committee has not retained the assistance of a compensation consultant.

Our executive compensation program consists of two principal components: (i) base salaries and variable compensation; and (ii) stock options granted pursuant to the stock option plan.

***Base Salaries and Variable Compensation*** – Our view of base salaries is that they should be competitive with industry peers, to the extent that can be determined, and with other public companies at similar stages of development and having similar assets, number of employees, market capitalization and profit margin.

***Options*** – Pursuant to the stock option plan, our board of directors, at its discretion, determines all grants of stock options to NEOs. Such grants are considered incentives intended to align the NEOs and shareholders' interests in the long term. We emphasize stock options in executive compensation as they allow the Named Executive Officers to share in corporate results in a manner that is relatively cost-effective despite the effects of treating stock options as a compensation expense. The Compensation Committee provides recommendations to the board of directors with respect to stock option grants to named executive officers.

**Performance Based Compensation** – Additional performance bonuses and targets are established on an annual basis by our board of directors.

All compensation paid to named executive officers was negotiated with such named executive officers prior to their appointment as such and while such named executive officers were arm's length parties of us.

### Summary Compensation Table

The following table sets forth information concerning the total compensation paid during the period ended December 31, 2013 and the years ended June 30, 2013 and 2012 to the named executive officers.

Name and principal position	Year <sup>(1)</sup>	Salary (\$)	Non-equity incentive plan compensation (\$)		Option-based awards <sup>(5)</sup> (\$)	Share-based awards (\$)	All other compensation	Total compensation (\$)
			Annual incentive plans	Long-term incentive plans				
Evan Genaud President and Chief Executive Officer <sup>(2)</sup>	2013	110,269	-	N/A	-	N/A	275,750	386,019
	2013	37,500	-	N/A	120,000	N/A	-	157,500
	2012	-	-	N/A	-	N/A	-	-
Tristan Farel Chief Financial Officer <sup>(3)</sup>	2013	35,948	-	N/A	-	N/A	-	35,948
	2013	13,000	-	N/A	-	N/A	-	13,000
	2012	-	-	N/A	-	N/A	-	-
John Fair President of PetroShale US <sup>(4)</sup>	2013	99,242	66,162	N/A	-	N/A	-	165,404
	2013	188,316	125,544	N/A	-	N/A	-	313,860
	2012	61,146	40,765	N/A	557,339	N/A	-	659,250
James Fair President and Chief Executive Officer <sup>(6)</sup>	2013	60,000	-	N/A	-	N/A	-	60,000
	2013	120,000	-	N/A	-	N/A	-	120,000
	2012	-	-	N/A	278,761	N/A	-	278,761
M. Bruce Chernoff <sup>(7)</sup> Executive Chairman and Chief Executive Officer	2013	-	-	N/A	-	N/A	-	-
David Rain <sup>(8)</sup> Chief Financial Officer	2013	-	-	N/A	149,805	N/A	-	149,805

Notes:

- (1) Our financial year end was changed from June 30 to December 31 on February 11, 2014. The top line amounts disclosed are for the six month period from July 1, 2013 to December 31, 2013. All other years are fiscal years ending June 30.
- (2) Mr. Genaud was appointed as our President and Chief Executive Officer on May 6, 2013 and resigned on October 31, 2013. Mr. Genaud was paid a \$US250,000 payment in settlement of his employment contract.
- (3) Mr. Farel was appointed our Chief Financial Officer on May 30, 2013 and resigned on November 25, 2013. Mr. Farel's compensation is comprised of consulting fees under an accounting services agreement with Pivot Accounting, LLC, a firm controlled by Mr. Farel, dated May 2, 2013.
- (4) Pursuant to Mr. John Fair's consulting agreement dated August 31, 2012, he is entitled to consulting fees of US\$180,000 per year and an annual bonus of US\$120,000.
- (5) Based on the grant date fair value of the options on the grant date. These amounts are not necessarily reflective of actual amounts that may be realized on exercise. These options have been valued using the Black-Scholes option-pricing model. The fair value of these options was determined using a weighted average risk free interest rate of 1.73% per annum, a weighted average expected life of 5 years, expected weighted average volatility of 114%, an expected weighted average dividend yield of nil and a weighted average forfeiture rate of nil.
- (6) Mr. James Fair was our Interim Chief Executive Officer and Interim President following the resignation of Mr. Genaud on October 31, 2013, until Mr. Chernoff's appointment as Executive Chairman and Chief Executive Officer on November 25, 2013. Mr. James Fair remains as one of our directors.
- (7) Mr. Chernoff was appointed our Executive Chairman and Chief Executive Officer on November 25, 2013.
- (8) Mr. Rain was appointed as our Chief Financial Officer of the Corporation on November 25, 2013.
- (9) All amounts in the above table are in \$CDN, any amounts paid in \$US were converted to \$CDN using the Bank of Canada noon exchange rate in effect as of the date of this circular of \$1.00USD = \$1.103CAD.

## Incentive Plan Awards

### *Outstanding Share-Based and Option-Based Awards*

Our existing stock option plan was previously approved by the shareholders on December 18, 2012 and re-approved on December 10, 2013. The option plan has been established to provide incentives to qualified parties to increase their proprietary interest and thereby encourage their continuing association with us. At the meeting, shareholders will be asked to approve an amended stock option plan as well as two new incentive plans for when our common shares commence trading on the Toronto Stock Exchange. See "*Matters to be Acted upon at the Meeting*".

No share-based awards have been granted to our named executive officers during the period ended December 31, 2013 or at any time prior thereto. Details of options awarded to named executive officers during the period ended December 31, 2013 are set forth in the following table:

Name and Principal Position	Option-Based Awards				Share-Based Awards		
	Number of securities underlying unexercised options (#)	Option Exercise Price (\$)	Option Expiration Date	Value of unexercised in-the-money options (\$) <sup>(1)</sup>	Number of Shares or Units of Shares that have not Vested (#)	Market of Payout Value of Share-Based Awards that have not Vested (#)	Market or Payout Value of Vested Share-Based Awards Not Paid Out or Distributed (\$)
Evan Genaud	-	-	-	-	N/A	N/A	N/A
Tristan Farel	-	-	-	-	N/A	N/A	N/A
John Fair	-	-	-	-	N/A	N/A	N/A
James Fair	-	-	-	-	N/A	N/A	N/A
M. Bruce Chernoff	-	-	-	-	N/A	N/A	N/A
David Rain	265,000	0.70	November, 2018	185,500	N/A	N/A	N/A

Notes:

- (1) Value is calculated upon difference between the exercise price of the options and the closing price of the common shares on the TSX Venture Exchange on December 31, 2013 of \$1.40.

### *Incentive Plan Awards – Value Vested or Earned During the Year*

The following table summarizes the value of options held by named executive officers that vested during the period ended December 31, 2013.

Name	Option-Based Awards – Value Vested During the Period (\$) <sup>(1)</sup>	Share-Based Awards – Value Vested During the Period (\$)	Non-equity Incentive Plan Compensation – Value Vested During the Period (\$)
Evan Genaud	-	N/A	N/A
Tristan Farel	-	N/A	N/A
John Fair	-	N/A	N/A
James Fair	-	N/A	N/A
M. Bruce Chernoff	-	N/A	N/A
David Rain	-	N/A	N/A

Notes:

- (1) Value is calculated upon difference between the exercise price of the options and the closing price of the Common Shares on the TSX Venture Exchange on the vesting date of the option. The value was either less than zero or no options vested during the period.

### **Pension Plan Benefits**

We do not have any defined benefit or defined contribution pension plans in place which provide for payments or benefits at, following, or in connection with retirement.

### **Termination and Change of Control Benefits**

Other than with respect to the employment agreement with Evan Genaud, which is now terminated, there are no compensatory plans, contracts or arrangements with any named executive officer (including payments to be received from us or any subsidiary), which result or will result from the resignation, retirement or any other termination of employment of such named executive officer or from a change of control of us or any subsidiary thereof or any change in such named executive officer's responsibilities following a change in control, where the named executive officer is entitled to payment or other benefits.

### **Compensation Risk Assessment and Mitigation**

The Compensation Committee considers the implications of the risks associated with our compensation policies and practices when determining rewards for its executives and ensures that those policies do not encourage management to take inappropriate or excessive risks. The Compensation Committee does not believe that there are any risks arising from the compensation programs that would be reasonably likely to have a material adverse effect on us.

Our compensation program includes several mechanisms to ensure risk-taking behavior falls within reasonable risk tolerance levels, including:

- a balanced compensation mix between fixed and variable and between short and long-term incentives that defer award value;
- having a cap on short-term incentive awards;
- establishment of performance criteria and corresponding objectives which represent a balance of performance and quality and sustainability of such performance;
- establishment of a compensation package within range of competitive practices (peer group);
- explicit restrictions on hedging of equity awards, if any, by executives; and
- utilizing longer-term incentive plans for diversification and alignment with risk realization periods (option based awards).

Our officers and directors are not permitted to take any derivative or speculative positions in our securities. This is to prevent the purchase of financial instruments that are designed to hedge or offset any decrease in the market value of our securities.

## **DIRECTOR COMPENSATION**

We do not have a standard arrangement pursuant to which our directors are compensated for their services in their capacity as directors except for the granting from time to time of incentive stock options in accordance with the policies of the TSX Venture Exchange. No cash compensation or any other form of compensation was paid to any of our current directors for their services as a director during the period ended December 31, 2013.

We have purchased, at our expense, a directors' and officers' liability insurance policy. This covers our directors and officers against liability incurred by them in their capacities as our directors and officers.



### ***Directors' Summary Compensation Table***

The following table summarizes all compensation provided to our directors, other than directors who were also named executive officers, during the period ended December 31, 2013.

<b>Name</b>	<b>Fees Earned (\$)</b>	<b>Share- Based Awards (\$)</b>	<b>Option- Based Awards <sup>(1)</sup> (\$)</b>	<b>Non-equity Incentive Plan Compensation (\$)</b>	<b>Pension Value (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
James Fair	-	N/A	-	N/A	-	-	-
Brett Herman	-	N/A	27,774	N/A	-	-	27,774
Jacob Roorda	-	N/A	27,774	N/A	-	-	27,774
Ken McCagherty	-	N/A	90,448	N/A	-	-	90,448
John Hagg <sup>(2)</sup>	-	N/A	-	N/A	-	-	-

Notes:

- (1) Based on the grant date fair value of the options on the grant date. These amounts are not necessarily reflective of actual amounts that may be realized on exercise. These options have been valued using the Black-Scholes option-pricing model. The fair value of these options was determined using a weighted average risk free interest rate of 1.73% per annum, a weighted average expected life of 5 years, expected weighted average volatility of 114%, an expected weighted average dividend yield of nil and a weighted average forfeiture rate of nil.
- (2) Mr. Hagg resigned from the Board on November 25, 2013.

The following table sets forth for each of our directors other than directors who are also named executive officers, all option-based awards outstanding for the period ended December 31, 2013. There are no share based awards outstanding.

<b>Name</b>	<b>Option-Based Awards</b>				<b>Share-Based Awards</b>		
	<b>Number of securities underlying unexercised options (#)</b>	<b>Option Exercise Price (\$)</b>	<b>Option Expiration Date</b>	<b>Value of unexercised in-the- money options <sup>(1)</sup> (\$)</b>	<b>Number of Shares or Units of Shares that have not Vested (#)</b>	<b>Market of Payout Value of Share- Based Awards that have not Vested (#)</b>	<b>Market or Payout Value of Vested Share- Based Awards Not Paid Out or Distributed (\$)</b>
Brett Herman	110,868	1.50	September 1, 2017	-			
	49,132	0.70	November 25, 2018	34,392	N/A	N/A	N/A
Jacob Roorda	110,868	1.50	September 1, 2017	-			
	49,132	0.70	November 25, 2018	34,392	N/A	N/A	N/A
James D. Fair	221,736	1.50	September 1, 2017	-	N/A	N/A	N/A
Ken McCagherty <sup>(2)</sup>	160,000	0.70	November 25, 2018	112,000	N/A	N/A	N/A
John Hagg <sup>(3)</sup>	-	-	-	-	N/A	N/A	N/A

Notes:

- (1) Value is calculated upon difference between the exercise price of the options and the closing price of the Common Shares on the TSX Venture Exchange on December 31, 2013 of \$1.40.
- (2) Mr. McCagherty was appointed to the Board on November 25, 2013.
- (3) Mr. Hagg resigned from the Board on November 25, 2013.

***Incentive Plan Awards – Value Vested or Earned During the Year***

The following table summarizes the value of options held by directors, other than directors who are also named executive officers, which vested during the period ended December 31, 2013.

<b>Name</b>	<b>Option-Based Awards – Value Vested During the Period <sup>(1)</sup> (\$)</b>	<b>Share-Based Awards – Value Vested During the Period (\$)</b>	<b>Non-equity Incentive Plan Compensation – Value Vested During the Period (\$)</b>
Brett Herman	-	N/A	N/A
Jacob Roorda	-	N/A	N/A
James D. Fair	-	N/A	N/A
Ken McCagherty <sup>(2)</sup>	-	N/A	N/A
John Hagg <sup>(3)</sup>	-	N/A	N/A

Notes:

- (1) Value is calculated upon difference between the exercise price of the options and the closing price of the common shares on the TSX Venture Exchange on the vesting date of the option. The value was either less than zero or no options vested during the period.
- (2) Mr. McCagherty was appointed to the Board on November 25, 2013.
- (3) Mr. Hagg resigned from the Board on November 25, 2013.

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

The following table sets out information for the period ended December 31, 2013 with respect to compensation plans under which our common shares are authorized for issuance.

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
Equity compensation plans approved by securityholders	2,000,206	1.12	230,549
Equity compensation plans not approved by securityholders	-	-	-
Total	2,000,206	1.12	230,549

**INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

None of our executive officers, directors, employees and former executive officers, directors and employees or any proposed nominee for election as a director or any associate of any director, officer or proposed nominee is or has been indebted to us at any time during the last completed financial year.

## INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as disclosed elsewhere herein and set forth below, none of our directors, officers, principal shareholders, or informed persons (as defined in National Instrument 51-102), and no associate or affiliate of any of them, has or has had any material interest in any transaction since the commencement of our most recently completed financial year or in any proposed transactions which has materially affected or would materially affect us.

Mr. M. Bruce Chernoff, through an entity substantially beneficially owned by him, acquired a controlling interest in our common shares in connection with a concurrent private placement which closed immediately before the reverse takeover transaction with Algonquin Oil & Gas Limited (the "**Arrangement**") by way of plan of arrangement. Mr. Chernoff was not a member of our board or management during the time of the Arrangement or private placement. Currently Mr. Chernoff holds approximately 10,000,000 Common Shares, representing approximately 44% of our issued and outstanding common shares.

On November 25, 2013 we secured a \$20 million revolving acquisition facility provided by entities beneficially owned by M. Bruce Chernoff and one other shareholder, who, as of the date hereof, own collectively approximately 53% of our outstanding common shares, and 100% of our outstanding non-voting common shares.

## MANAGEMENT CONTRACTS

None of our management functions are, to any substantial degree, performed by a person or company other than our directors or executive officers (or private companies controlled by them, either directly or indirectly).

## AUDIT COMMITTEE

The charter of our audit committee (the "**Audit Committee**") is attached to this management proxy circular as Appendix "A".

### Composition of the Audit Committee

The current members of the Audit Committee are Messrs. McCagherty, Herman and Roorda. Each of the members of the Audit Committee is independent and is financially literate.

### Relevant Education and Experience

Mr. McCagherty's education and experience relevant to the performance of his responsibilities as an Audit Committee member are derived from his thirty (30) years of experience in the energy industry as President and Chief Executive Officer and as a director of various oil and gas companies, and his training as a Professional Engineer.

Mr. Herman's education and experience relevant to the performance of his responsibilities as an Audit Committee member are derived from his professional training as a chartered accountant and over 20 years of experience as either a Chief Financial Officer or President and Chief Executive Officer of various oil and gas firms.

Mr. Roorda's education and experience relevant to the performance of his responsibilities as an Audit Committee member are derived from his thirty-two (32) years of experience in the energy and financial services industry. Mr. Roorda has been a director and officer of several public companies and was the Managing Director of investment banking at Research Capital Corp. Mr. Roorda is a Professional Engineer and has a MBA from the University of Calgary.

### Reliance on Certain Exemptions

At no time since the commencement of our most recently completed financial year has the Corporation relied on the exemption in Section 2.4 of Multilateral Instrument 52-110 – *Audit Committees* ("**MI 52-110**") (De Minimis Non-audit Services), or an exemption from MI 52-110, in whole or in part, granted under Part 8 of MI 52-110.

### Audit Committee Oversight

At no time since the commencement of our most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the board of directors of the Corporation.

### Pre-Approval Policies and Procedures

The Audit Committee must pre-approve all non-audit services to be provided to the Corporation by the external auditors. The Audit Committee may delegate to one or more members of the board of directors, the authority to pre-approve non-audit services, provided that the member report to the Audit Committee at the next scheduled meeting such pre-approval and the member complies with such other procedures as may be established by the Audit Committee from time to time.

### External Auditor Service Fees (By Category)

The aggregate fees billed by the Corporation's external auditors in each of the last two fiscal years for audit fees are as follows:

Financial Year Ending	Audit Fees	Audit Related Fees	Tax Fees	All Other Fees
2013 <sup>(1)</sup>	\$83,653	-	-	-
2013	\$71,000	-	\$1,000	-
2012	\$50,000	-	-	-

Notes:

- (1) The Corporation's financial year end was changed from June 30 to December 31 on February 11, 2014. The amounts disclosed are for the six month period ended December 31, 2013.

### Exemption

We are relying on the exemption provided in Section 6.1 of MI 52-110 and, as such, we are exempt from Parts 3 (Composition of the Audit Committee) and 5 (Reporting Obligations) of MI 52-110.

## CORPORATE GOVERNANCE DISCLOSURE

Effective June 30, 2005, as amended effective December 31, 2007 and March 17, 2008, National Instrument 58-101 – *Disclosure of Corporate Governance Practices* ("NI 58-101") and National Policy 58-201 – *Corporate Governance Guidelines* ("NP 58-201") were adopted in each of the provinces and territories of Canada. NI 58-101 requires issuers to disclose the corporate governance practices that they have adopted. NP 58-201 provides guidance on corporate governance practices.

Our board of directors believes that good corporate governance improves corporate performance and benefits all shareholders. The following sets out our approach to corporate governance and addresses our compliance with NI 58-101.

### Board of Directors

Directors are considered to be independent if they have no direct or indirect material relationship with us. A "material relationship" is a relationship which could, in the view of our board, be reasonably expected to interfere with the exercise of a director's independent judgment.

Our management has been delegated the responsibility for meeting defined corporate objectives, implementing approved strategic and operating plans, carrying on our business in the ordinary course, managing cash flow, evaluating new business opportunities, recruiting staff and complying with applicable regulatory requirements. Our board facilitates its independent supervision over management by reviewing and approving long-term strategic,

business and capital plans, material contracts and business transactions, and all debt and equity financing transactions. Through the audit committee, our board examines the effectiveness of our internal control processes and information systems.

The independent members of our board are Brett Herman, Ken McCagherty and Jacob Roorda. M. Bruce Chernoff is a non-independent director since he is also our President and Chief Executive Officer and a significant shareholder. James Fair is a non-independent director since he has previously held executive positions with us during the last three years. A majority of our board is independent.

Although our independent directors do not hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance, in accordance with the mandate of the board as well, at the end of or during each meeting of our board, the members of our management who are present at such meeting leave the meeting in order that the independent directors can discuss any necessary matters without management being present. Since the beginning of our most recently completed financial year, our independent directors have held two such meetings.

### **Board Mandate**

The mandate of our board is attached as Appendix "A".

### **Position Descriptions**

Our board has approved written position descriptions or terms of reference for our chairman and the chairman of each of our audit committee, our corporate governance and compensation committee and our reserves committee.

The following directors are presently directors of other reporting issuers (or the equivalent):

<b>Director</b>	<b>Names of Other Issuers</b>
M. Bruce Chernoff	Maxim Power Corp., TORC Oil & Gas Ltd., Calmena Energy Services Inc., Artek Exploration Ltd.
James Fair	None
Brett Herman	TORC Oil & Gas Ltd.
Ken McCagherty	None
Jacob Roorda	Northcliff Resources Ltd.

### **Orientation and Continuing Education**

While we do not currently have a formal orientation and educational program for new recruits to our board, we provide such orientation and education on an informal basis. We provide new board members with our corporate policies, historical information about us, as well as information on our performance and our strategic plan with an outline of the general duties and responsibilities entailed in carrying out their duties. Our board believes that these procedures are a practical and effective approach in light of our particular circumstances, including our size and limited turnover of the directors and the experience and expertise of the members of our board.

No formal continuing education program currently exists for our directors; however, we encourage directors to attend, enrol in or participate in courses and/or seminars dealing with financial literacy, corporate governance and related matters. Each director has the responsibility for ensuring that he maintains the skill and knowledge necessary to meet his obligations as a director.

## **Ethical Business Conduct**

Our board has adopted a Code of Business Conduct and Ethics (the "**Code**"), a copy of which is available to review at [www.sedar.com](http://www.sedar.com). It is expected that each of our officer's and director's will confirm his or her understanding, acceptance and compliance of the Code on an annual basis. Any reports of variance from the Code will be reported to our board.

Our board has also adopted a Whistleblower Policy which provides employees with the ability to have procedures in place to address the confidential, anonymous submission by employees of concerns regarding accounting, internal accounting controls or auditing matters, or to address the receipt, retention and treatment of concerns regarding accounting, internal accounting controls or auditing matters. Our board believes that providing a forum for employees to raise concerns about ethical conduct and treating all complaints with the appropriate level of seriousness fosters a culture of ethical conduct.

In accordance with the *Business Corporations Act* (Alberta), directors who are party to, or are a director or officer of a person which is a party to, a material contract or material transaction or a proposed material contract or a proposed material transaction with us are required to disclose the nature and extent of their interest and not to vote on any resolution to approve the contract or transaction. In addition, in certain cases, an independent committee of our board may be formed to deliberate on such matters in the absence of the interested party.

## **Nomination of Directors**

Our board considers its size each year when it considers the number of directors to recommend to the shareholders for election at the annual meeting of shareholders, taking into account the number required to carry out our board's duties effectively and to maintain a diversity of views and experience.

Our corporate governance and compensation committee acts as the nominating committee of our board and reviews the size and composition of our board and nominating functions are then performed by the board as a whole. However, this policy is reviewed annually. Our corporate governance and compensation committee, which is responsible for nominating directors, is comprised of a majority of independent directors.

## **Board Committees**

Our board has three committees: an Audit Committee, a Corporate Governance and Compensation Committee and a Reserves Committee.

### **Audit Committee**

Our audit committee is currently comprised of Brett Herman (Chairman), Ken McCagherty and Jacob Roorda. All of the members of our audit committee are independent (as such term is defined in National Instrument 51-110 – *Audit Committees*) and financially literate. A copy of our audit committee mandate is attached as Appendix "A".

### **Compensation Committee**

Our corporate governance and compensation committee is currently comprised of Jacob Roorda (Chairman), Brett Herman and M. Bruce Chernoff. A majority of our compensation committee is "independent" (as such term is defined in NI 58-101). The primary responsibility of this committee is to assist our board in fulfilling its responsibility by reviewing matters relating to our human resource policies and compensation of our directors, officers and employees.

Subject to the powers and duties of the board, the committee is required under its charter to perform the following duties:

### ***Compensation Matters***

- reviewing the compensation philosophy and remuneration policy for our employees and to recommend to the board changes to improve our ability to recruit, retain and motivate employees;
- reviewing and recommending to the board compensation to be paid to members of the board;
- reviewing and recommending to the board performance objectives and the compensation package for the Chief Executive Officer;
- reviewing and recommending to the board, on the recommendation of the Chief Executive Officer, the compensation and benefits package for our senior management positions;
- reviewing management's recommendations for proposed stock option or share purchase plans and make recommendations in respect thereof to the board;
- determining and recommending for approval of the board in conjunction with the Chief Executive Officer bonuses to be paid to our officers and employees and to establish targets or criteria for the payment of such bonuses, if appropriate; and
- preparing and submitting a report of the committee for inclusion of annual disclosure required by applicable securities laws to be made by us including the report required to be included in our information circular – proxy statement.

### **Reserves Committee**

The members of our reserves committee are Ken McCagherty (Chairman), Jacob Roorda and M. Bruce Chernoff. A majority of the members of our reserves committee are "independent" (as such term is defined in NI 58-101).

Our board has delegated to the reserves committee responsibility for matters set forth in respect of the responsibilities of the board in relation to National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). These responsibilities include, but are not limited to:

- reviewing our procedures relating to the disclosure of information with respect to oil and gas activities including reviewing its procedures for complying with its disclosure requirements and restrictions set forth under NI 51-101 and applicable securities requirements;
- reviewing our procedures for providing information to the independent evaluator;
- meeting, as considered necessary, with management and the independent evaluator to determine whether any restrictions placed by management affect the ability of the evaluator to report without reservation on the Reserves Data (as defined in NI 51-101) (the "**Reserves Data**") and to review the Reserves Data and the report of the independent evaluator thereon (if such report is provided);
- reviewing the appointment of the independent evaluator and, in the case of any proposed change to such independent evaluator, determining the reason therefor and whether there have been any disputes with management;
- providing a recommendation to the board as to whether to approve the content or filing of the statement of the Reserves Data and other information that may be prescribed by applicable securities requirements including any reports of the independent engineer and of management in connection therewith;
- reviewing our procedures for reporting other information associated with oil and gas producing activities; and

- generally reviewing all matters relating to the preparation and public disclosure of estimates of our reserves.

**Assessments**

Our corporate governance and compensation committee is responsible for assessing the effectiveness of our board as a whole, the committees of our board, the appointments to those committees and the mandates thereof. While no formal evaluation has been conducted to date, the committee has relied on informal evaluation of the effectiveness through both formal and informal communications with board members and through participation with other board members on committees and matters relating to the board. This methodology has been both responsive and practical given the size of our board.

**ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available through the internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at [www.sedar.com](http://www.sedar.com). Financial information on the Corporation is provided in the comparative financial statements and management discussion and analysis of the Corporation which can also be accessed at [www.sedar.com](http://www.sedar.com).

The delivery of this Management Proxy Circular has been approved by the directors of the Corporation.



**APPENDIX "A"**  
**to the Management Proxy Circular of PetroShale Inc.**

**AUDIT COMMITTEE CHARTER**

**POLICY STATEMENT**

It is the policy of PetroShale Inc. (the "**Corporation**") to establish and maintain an Audit Committee (the "**Committee**"), composed of independent directors, to assist the Board of Directors (the "**Board**") in carrying out their oversight responsibility for the Corporation's external audit, internal controls, disclosure, financial reporting and risk management.

The Committee's function is one of oversight only and shall not relieve management of its responsibilities. The Corporation's external auditor shall report directly to the Committee.

**COMPOSITION OF THE COMMITTEE**

- (a) The Committee shall consist of three (3) directors.
- (b) Each director appointed to the Committee by the Board shall be independent as such term is defined in Section 1.4 of Multilateral Instrument 52-110.
- (c) Each member of the Committee shall be financially literate as such term is defined in Section 1.6 of Multilateral Instrument 52-110 and at least one (1) member shall have accounting or related financial management expertise.
- (d) The Board shall appoint the members of the Committee and may seek the advice and assistance of the Nominating and Corporate Governance Committee in identifying qualified candidates. The Board shall appoint one (1) member of the Committee to be the Chair of the Committee.
- (e) A director appointed by the Board to the Committee shall be a member of the Committee until replaced by the Board or until his or her resignation. A member shall cease to be a member of the Committee upon ceasing to be a director of the Corporation.
- (f) The Secretary of the Corporation shall be the Secretary of the Committee.

**MEETINGS OF THE COMMITTEE**

- (a) The Committee shall convene a minimum of four (4) times each year at such time and places as may be designated by the Chair of the Committee and whenever a meeting is requested by the Board, a member of the Committee, the external auditors, or a senior officer of the Corporation.
- (b) Notice of each meeting of the Committee shall be given to each member and to the external auditors, who shall be entitled to attend each meeting of the Committee and shall attend whenever requested to do so by a member of the Committee or the Secretary of the Committee.
- (c) Notice of a meeting of the Committee shall:
  - (i) Be in writing.
  - (ii) State the nature of the business to be transacted at the meeting in reasonable detail.
  - (iii) To the extent practicable, be accompanied by copies of documentation to be considered at the meeting.

- (iv) Be given at least forty-eight (48) hours' notice preceding the time stipulated for the meeting or such shorter period as the members of the Committee may permit.
- (d) A quorum for the transaction of business at a meeting of the Committee shall consist of two (2) members of the Committee.
- (e) A member of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities, provided it permits all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.
- (f) In the absence of the Chair of the Committee, the members of the Committee shall choose one of the members present to be Chair of the meeting and, in the absence of the Secretary of the Committee, the members shall choose one of the persons present to be the Secretary of the meeting.
- (g) The Committee may invite the Chairman of the Board, other directors, senior management of the Corporation and other parties to attend meetings of the Committee; however, the Committee may meet separately with the external auditors or with invited management.
- (h) At each regular meeting of the Committee, the agenda shall include an opportunity for the members of the Committee to meet in-camera.
- (i) Minutes shall be kept of all meetings of the Committee and shall be signed by the Chair and the Secretary of the meeting.
- (j) Minutes of the meetings of the Committee shall be retained by the Secretary of the Corporation and shall be available, on request, to any member of the Board.

#### **DUTIES AND RESPONSIBILITIES OF COMMITTEE MEMBERS**

- (a) Committee members shall have and maintain a sufficient knowledge of company operations and changes in operations including the principal risks, systems and abilities of key personnel involved in financial reporting and disclosure processes to reasonably discharge their duties.
- (b) Committee members have an obligation to remain independent of the affairs of the Corporation and shall disclose any circumstances that create a conflict of interest with his or her role as a Committee member or may appear to create a conflict of interest.

#### **DUTIES AND RESPONSIBILITIES OF THE COMMITTEE**

- (a) The Committee's primary duties and responsibilities are to:
  - (i) Select and recommend the nomination and compensation of the external auditors.
  - (ii) Oversee the independence, work and performance of the Corporation's external auditors.
  - (iii) Review the principal risks that could impact the financial reporting of the Corporation and monitor how management is dealing with such risks.
  - (iv) Monitor the integrity of the Corporation's disclosure and financial reporting process and its system of internal controls regarding financial reporting and accounting compliance.
  - (v) Oversee the resolution of any disagreements among external auditors, management and the internal auditing department, if any.

- (vi) If requested by the Board and permitted by applicable law and policies, review and approve unaudited quarterly financial statements or other public disclosure documents containing financial information.
- (b) The Committee shall annually select and recommend to the Board the nomination of an external auditor, recommend the replacement of the current external auditor when circumstances warrant it and monitor the independence, work and performance of the external auditors. This shall include:
- (i) Considering the views of management in respect of the nomination of the external auditors.
  - (ii) Reviewing and recommending, for approval by the Board, the terms of the external auditors' engagement and audit plan, including the reasonableness of the proposed audit fees.
  - (iii) Pre-approving any engagement for non-audit services to be provided by the external auditors' firm or its affiliates, together with estimated fees. This shall involve considering the potential impact of such services on the independence of the external auditors.
  - (iv) When there is to be a change of external auditors, reviewing all issues and providing documentation related to the change, including the information to be included in the Notice of Change of Auditors and documentation called for under National Instrument 51-102 as defined in Section 4.11 and the planned steps for an orderly transition.
  - (v) Reviewing all reportable events, including disagreements, unresolved issues and consultations with external auditors, as defined by applicable securities policies, on a routine basis, whether or not there is to be a change of external auditors.
  - (vi) The Committee shall meet with the external auditors apart from management at each regular meeting to receive assessments relating to audit scope limitations, management cooperation and any issues relating to financial competencies.
- (c) In carrying out its primary duties and responsibilities, the Committee shall:
- (i) Review the annual audit plan with the external auditors and with management.
  - (ii) Discuss with management and the external auditors any proposed changes in major accounting policies or principles, the potential impact of significant risks and uncertainties on future operations, and key estimates and judgments of management that may be material to financial reporting.
  - (iii) Review with management and with the external auditors significant financial reporting issues arising during the most recent fiscal period and the resolution or proposed resolution of such issues.
  - (iv) Review any problems experienced or concerns expressed by the external auditors in performing an audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management.
  - (v) Review periodically with management the Corporation's disclosure controls and procedures as such term is defined in Multilateral Instrument 52-109 and monitor the certification process set out therein.
  - (vi) Review audited annual financial statements and related documents in conjunction with the report of the external auditors and obtain an explanation from management of all significant variances between comparative reporting periods.

- (vii) Consider and review with management, the internal control memorandum or management letter containing the recommendations of the external auditors and management's response, if any, including an evaluation of the adequacy and effectiveness of the internal financial controls of the Corporation and subsequent follow-up to any identified weaknesses.
  - (viii) Review with management and the external auditors the quarterly unaudited financial statements before release to the public.
  - (ix) Before release, review and if appropriate, recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information including any press release, annual report, annual information form, management discussion and analysis of operations, prospectus (and all documents which may be incorporated by reference into such prospectus) and all other securities offering documents of the Corporation.
  - (x) Review periodically with management the internal procedures implemented to review any other public disclosure of financial information extracted or derived from the Corporation's financial statements.
  - (xi) Approve the hiring of any partners, employees or former partners and employees of the Corporation's present and former external auditor.
- (d) In addition, the Committee shall:
- (i) Oversee the receipt, review and follow-up of questions, concerns or complaints pursuant to the Corporation's Code of Business Conduct and Ethics and the procedures set out in Appendix "A" thereto.
  - (ii) Review with management, at least annually, the financing strategy and funding plans of the Corporation.
  - (iii) The Committee shall periodically review the manner of delegation and limits of authority that management has implemented throughout the Corporation.
  - (iv) The Committee shall schedule periodic updates on changes in accounting principles, regulations and emerging issues that may be relevant to the Corporation.
  - (v) Review the amount and terms of any insurance to be obtained or maintained by the Corporation with respect to risks inherent in its operations and potential liabilities incurred by the directors or officers in the discharge of their duties and responsibilities.
  - (vi) In conjunction with the Nominating and Corporate Governance Committee, monitor financial and accounting personnel succession planning within the Corporation and review the appointments of the Chief Financial Officer and any key financial managers who are involved in the financial reporting process.
  - (vii) Inquire into and determine the appropriate resolution of any conflict of interest in respect of audit or financial matters.
  - (viii) Periodically review with management the need for an internal audit function.
  - (ix) Quarterly, review any legal matter that could have a significant impact on the Corporation's financial statements, and any enquiries received from regulators, or government agencies.
  - (x) Report to the Board, at the earliest opportunity after each meeting, the results of its activities and

any reviews undertaken and make recommendations to the Board as deemed appropriate. In particular, the Committee shall make recommendations to the Board in connection with: (i) the appointment of external auditors; (ii) approval of financial statements, MD&A and related disclosure documents; and (iii) changes in significant accounting policies.

- (xi) Bi-annually assess the performance of the Committee.

#### **RESOURCES AND AUTHORITY**

- (a) The Committee will be provided with resources commensurate with the duties and responsibilities assigned to it by the Board including administrative support. If deemed necessary by the Committee, it will have the discretion to institute investigations of improprieties or suspected improprieties, including the standing authority to retain independent counsel or advisors and to set their compensation.
- (b) The Committee shall have the authority to:
  - (i) Inspect any and all of the books and records of the Corporation, its subsidiaries and affiliates.
  - (ii) Discuss with any officer of the Corporation, its subsidiaries and affiliates, the Chief Financial Officer and senior staff of the Corporation, any affected party and the external auditors, such accounts, records and other matters as any member of the Committee considers necessary and appropriate.
  - (iii) Communicate directly with the internal and external auditors.
  - (iv) Retain independent external advisors.

Approved by the Board of Directors May 29, 2012.

**APPENDIX "B"**  
**to the Management Proxy Circular of PetroShale Inc.**

**MANDATE  
OF THE  
BOARD OF DIRECTORS**

The Board of Directors (the "**Board**") of PetroShale Inc. (the "**Corporation**") is responsible for the stewardship of the Corporation, and any subsidiaries and partnerships of PetroShale Inc. (collectively, "**PetroShale**"). In discharging its responsibility, the Board will exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances and will act honestly and in good faith with a view to the best interests of PetroShale. In general terms, the Board will:

- in consultation with the chief executive officer of the Corporation (the "**CEO**"), define the principal objectives of PetroShale;
- supervise the management of the business and affairs of PetroShale with the goal of achieving PetroShale's principal objectives as defined by the Board;
- discharge the duties imposed on the Board by applicable laws; and
- for the purpose of carrying out the foregoing responsibilities, take all such actions as the Board deems necessary or appropriate.

Without limiting the generality of the foregoing, the Board will perform the following duties:

**Strategic Direction and Capital and Financial Plans**

- require the CEO to present annually to the Board a longer range strategic plan and a shorter range business plan for PetroShale's business, which plans must:
  - be designed to achieve PetroShale's principal objectives;
  - identify the principal strategic and operational opportunities and risks of PetroShale's business; and
  - be approved by the Board as a pre-condition to the implementation of such plans;
- review progress towards the achievement of the goals established in the strategic, operating and capital plans;
- identify the principal risks of PetroShale's business and take all reasonable steps to ensure the implementation of the appropriate systems to manage these risks;
- approve the annual operating and capital plans;
- approve acquisitions and dispositions in excess of which require approval pursuant to expenditure limits established by the Board;
- approve the establishment of credit facilities; and
- approve issuances of additional common shares, other securities and other instruments to the public.

### **Monitoring and Acting**

- monitor PetroShale's progress towards achieving its goals, and to revise and alter its direction through management in light of changing circumstances;
- monitor overall human resources policies and procedures, including compensation and succession planning;
- appoint the CEO and determine the terms of the CEO's employment with PetroShale;
- ensure systems are in place for the implementation and integrity of PetroShale's internal control and management information systems;
- evaluate the performance of the CEO on an ongoing basis through the in camera session held at the end of each regularly scheduled Board meeting;
- in consultation with the CEO, establish the limits of management's authority and responsibility in conducting PetroShale's business;
- in consultation with the CEO, appoint all officers of PetroShale and approve the terms of each officer's employment with PetroShale;
- develop a system under which succession to senior management positions will occur in a timely manner;
- approve any proposed significant change in the management organization structure of PetroShale;
- approve all retirement plans for officers and employees of PetroShale;
- in consultation with the CEO, establish a disclosure policy for PetroShale;
- generally provide advice and guidance to management; and
- approve all matters relating to a takeover bid for the securities of PetroShale.

### **Finances and Controls**

- review PetroShale's systems to manage the risks of PetroShale's business and, with the assistance of management, PetroShale's auditors and others (as required), evaluate the appropriateness of such systems;
- monitor the appropriateness of PetroShale's capital structure;
- ensure that the financial performance of PetroShale is properly reported to shareholders, other security holders and regulators on a timely and regular basis;
- in consultation with the CEO, establish the ethical standards to be observed by all officers and employees of PetroShale and use reasonable efforts to ensure that a process is in place to monitor compliance with those standards;
- require that the CEO institute and monitor processes and systems designed to ensure compliance with applicable laws by PetroShale and its officers and employees;
- require the CEO institute, and maintain the integrity of, internal control and information systems, including maintenance of all required records and documentation;
- approve material contracts to be entered into by the Corporation;

- recommend to shareholders of PetroShale a firm of chartered accountants to be appointed as PetroShale's auditors;
- ensure PetroShale's oil and gas reserve report fairly represents the quantity and value of corporate reserves in accordance with generally accepted engineering principles and applicable securities laws; and
- take reasonable actions to gain reasonable assurance that all financial information made public by PetroShale (including PetroShale's annual and quarterly financial statements) is accurate and complete and represents fairly the Corporation's financial position and performance.

### **Governance**

- selecting nominees for election to the Board;
- facilitate the continuity, effectiveness and independence of the Board by, amongst other things:
  - appointing a Chairman of the Board;
  - appointing from amongst the directors an audit committee and such other committees of the Board as the Board deems appropriate;
  - defining the mandate of each committee of the Board;
  - ensuring that processes are in place and are utilized to assess the effectiveness of the Chairman of the Board, the Board as a whole, each committee of the Board and each director; and
  - establishing a system to enable any director to engage an outside advisor at the expense of PetroShale;
- review annually the composition of the Board and its committees and assess Directors' performance on an ongoing basis, and propose new members to the Board; and
- review annually the adequacy and form of the compensation of directors.

### **Delegation**

- the Board may delegate its duties to, and receive reports and recommendations from, any committee of the Board to the extent permitted by the *Business Corporations Act* (Alberta).

### **Composition**

- the Board should be composed of at least 4 individuals elected by the shareholders at the annual meeting;
- a majority of Board members should be "independent" directors (within the meaning of National Instrument 58-101) and free from any business or other relationship that could impair the exercise of independent judgment;
- members should have or obtain sufficient knowledge of PetroShale and the oil and gas business to assist in providing advice and counsel on relevant issues; and
- board members should offer their resignation from the Board to the Chairman of the Board following:
  - change in personal circumstances which would reasonably interfere with the ability to serve as a director; and
  - change in personal circumstances which would reasonably reflect poorly on PetroShale (for example, finding by a Court of fraud, or conviction under Criminal Code or securities legislation).



### **Meetings**

- the Board shall meet at least four times per year and/or as deemed appropriate by the Board Chair;
- the Board shall meet at the end of its regular quarterly meetings without members of management being present;
- minutes of each meeting shall be prepared;
- the CEO and Chief Financial Officer shall be available to attend all meetings of the Board upon invitation by the Board; and
- Vice-Presidents and such other staff as appropriate to provide information to the Board shall attend meetings at the invitation of the Board.

### **Authority**

- the Board shall have the authority to review any corporate report or material and to investigate activity of PetroShale and to request any employees to cooperate as requested by the Board; and
- the Board may retain persons having special expertise and/or obtain independent professional advice to assist in fulfilling its responsibilities at the expense of PetroShale.

**APPENDIX "C"**  
**to the Management Proxy Circular of PetroShale Inc.**

**AMENDED STOCK OPTION PLAN**

1. **PURPOSE:** The purpose of this Stock Option Plan (the "**Plan**") is to enable Petroshale Inc. (the "**Corporation**") and its subsidiaries or affiliates to attract and retain directors, officers, Employees, Management Company Employees and Consultants who will contribute to the Corporation's success by their ability, ingenuity and industry, and to enable such persons to participate in the long-term success and growth of the Corporation by giving them a proprietary interest in the Corporation in the form of options to purchase common voting shares (the "**Shares**") of the Corporation (the "**Stock Options**").

Capitalized terms in the Plan that are not otherwise defined herein shall have the meaning set out in the policies of the TSX Venture Exchange (the "**TSXV**"), including without limitation, "**Consultant**", "**Employee**", "**Insider**", "**Investor Relations Activities**" and "**Management Company Employee**".

2. **ELIGIBILITY:** Stock Options may be granted under the Plan to directors, officers, Employees, Management Company Employees or Consultants (or a corporation wholly owned by such person), and such other service providers as may be permitted by regulatory authorities, whether full or part time, of the Corporation or of any person or company that controls or is controlled by the Corporation or that is controlled by the same person or company that controls the Corporation (an "**Affiliated Entity**"), (collectively, the "**Eligible Persons**") provided, however, that Stock Options may be conditionally granted to persons who are prospective directors, officers or Employees of, or Consultants or service providers to, the Corporation or an Affiliated Entity, but no such grant shall become, by its terms, effective earlier than the date as of which the board of directors of the Corporation (the "**Board**") approves the grant or the date as of which the prospective Eligible Persons becomes a director, officer or Employee of, or a Consultant or service provider to (as the case may be), the Corporation.

Prior to granting Stock Options to Employees, Consultants or Management Company Employees, the Board shall make a good faith determination that the proposed recipient of Stock Options is, at the date of grant, a *bona fide* Employee, Consultant or Management Company Employee, as the case may be, of the Corporation.

For the purposes of this Section 2, a person or company shall be considered to control another person or company if the first person or company provides, directly or indirectly, the principal direction or influence over the business and affairs of the second person or company by virtue of (i) ownership or direction of voting securities of the second person or company, (ii) a written agreement or indenture, (iii) being or controlling the general partner of a limited partnership, or (iv) being a trustee of a trust.

3. **ADMINISTRATION:** The Plan shall be administered by the Board, or any committee of the Board appointed for that purpose, which shall have full authority to interpret the Plan and to make such rules and regulations and establish such procedures as they deem appropriate for the administration of the Plan. A decision of the majority of persons comprising the Board in respect of any matter hereunder shall be binding and conclusive for all purposes and upon all persons. The Board is authorized and directed to do all things and execute and deliver all instruments, undertakings and applications as they in their absolute discretion consider necessary for the implementation of the Plan.

4. **SHARES SUBJECT TO THE PLAN:** The total number of Shares which are reserved and set aside for issuance under this Plan, and under all other management options

**outstanding and employee stock purchase plans, if any, shall not in the aggregate exceed 4,400,000 Shares, subject to the applicable rules and regulations of all regulatory authorities to which the Corporation is subject, including the TSXV. All Shares issued pursuant to the Plan will be issued as fully paid Shares. Any Stock Options granted under the Plan which are cancelled, terminated or expire, will remain available for granting under the Plan at the current Market Price (as defined below), subject to regulatory approval.**

Subject to policies of the TSXV:

- (a) the aggregate number of Shares reserved for issuance to any one Eligible Person, whether under this Plan or any other share option agreement, option for services or share purchase plan of the Corporation, shall (unless the Corporation has obtained disinterested shareholder approval), not exceed five percent (5%) of the aggregate number of issued and outstanding Shares of the Corporation in any twelve (12) month period; and
- (b) in the case of Eligible Persons who are Consultants, the aggregate number of Shares reserved for issuance to any one Consultant, whether under this Plan or any other share option agreement, option for services or share purchase plan of the Corporation, shall not exceed two percent (2%) of the aggregate number of issued and outstanding Shares of the Corporation in any twelve (12) month period; and
- (c) the aggregate number of Shares reserved for issuance to any one Eligible Person who is granted options as a Consultant or Employee engaged in Investor Relations Activities shall not exceed two percent (2%) of the issued and outstanding Shares in any twelve (12) month period and shall vest in stages over twelve (12) months with no more than one quarter of the Stock Options vesting in any three (3) month period; and
- (d) the Corporation must obtain disinterested shareholder approval of Stock Options if a stock option plan, together with all of the Corporation's previously established and outstanding stock option plans or grants, could result at any time in: (i) the number of Shares reserved for issuance under stock options granted to Insiders exceeding ten percent (10%) of the issued Shares; or (ii) the grant to Insiders, within a twelve (12) month period, of a number of Stock Options exceeding ten percent (10%) of the issued Shares.

5. **PARTICIPATION:** Stock Options shall be granted under the Plan only to Eligible Persons as shall be designated from time to time by the Board and shall be subject to the approval by such regulatory authorities as may have jurisdiction. Approval of the Plan also constitutes shareholder approval of Stock Options that may be granted under the Plan as provided herein.

6. **OPTION AGREEMENTS:** Each Stock Option shall be evidenced by a written agreement (an "**Option Agreement**"), containing such terms and conditions, not inconsistent with the Plan, as the Board may, in its discretion, determine. Each Option Agreement shall be executed by the Corporation and the Eligible Person. Option Agreements may differ among Eligible Persons.

7. **TERMS AND CONDITIONS OF OPTIONS:** Subject to the provisions of Section 10 herein, the terms and conditions of each Stock Option granted under the Plan shall include the following, as well as such other provisions, not inconsistent with the Plan as may be deemed advisable by the Board:

- (a) **Option Price:** The option price of an Stock Option granted under the Plan shall be fixed by the Board but shall be not less than the Market Price (as defined herein) or such lesser price as may be permitted pursuant to the rules of any regulatory authority having jurisdiction over the Shares

issued which rules may include provisions for certain discounts in respect to the option price. For the purpose of this paragraph, the "**Market Price**" means the last per share closing price of the Shares on the TSXV before the date of grant of a Stock Option.

- (b) **Reduction in Option Price:** The option price of a Stock Option granted under the Plan to an Insider of the Corporation shall not be reduced without prior approval from the disinterested shareholders of the Corporation.
- (c) **Payment:** The full purchase price payable for shares under a Stock Option shall be paid in cash or certified funds upon the exercise thereof. A holder of a Stock Option shall have none of the rights of a shareholder until the Shares are paid for and issued.
- (d) **Term of Option:** Stock Options may be granted under this Plan for a period not exceeding ten (10) years. Any Stock Options granted pursuant hereto, to the extent not validly exercised, will terminate on the date of expiration specified in the option agreement (the "**Expiration Date**"), subject to earlier termination as provided in Sections 8, 10 and 12 below.

In the event that the Expiration Date of a Stock Option falls within a Black-Out Period (as defined below) or within five (5) business days after a Black-Out Period (not including Black-Out Periods imposed due to a cease trade order), the Expiration Date of such Stock Options shall be ten (10) business days from the date any Black-Out Period ends.

"**Black-out Period**" means a period of time determined by the Corporation, pursuant to the Corporation's policies, during which certain designated persons may not trade in any securities of the Corporation.

- (e) **Vesting:** Subject to Section 4(c), the Board shall determine, at its sole discretion, the vesting terms of a Stock Option.
- (f) **Exercise of Option:** Subject to the provisions contained in Sections 8, 10 and 12 below, no Stock Option may be exercised unless the holder of the Stock Option is at the time of exercise an Eligible Person. This Plan shall not confer upon the holder of a Stock Option any right with respect to continuation of employment by the Corporation. Leave of absence approved by an officer of the Corporation authorized to give such approval shall not be considered an interruption of employment for any purpose of the Plan. Subject to the provisions of the Plan, a Stock Option may be exercised from time to time by delivery to the Corporation of written notice of exercise specifying the number of Shares with respect to which the Stock Option is being exercised and accompanied by payment in full, by cash or certified cheque, of the purchase price of the Shares then being purchased.
- (g) **Non-transferability of Stock Option:** No Stock Option shall be assignable or transferable by the holder thereof, except to a corporation wholly owned by the Eligible Person, other than by will or the laws of descent and distribution.
- (h) **Applicable Laws or Regulations:** The Corporation's obligation to sell and deliver Shares under each Stock Option is subject to such compliance by the Corporation and any Eligible Person as the Corporation deems necessary or advisable with regards to any laws, rules and regulations of Canada and any provinces and/or territories thereof applying to the authorization, issuance, listing or sale of securities and is also subject to the acceptance for listing of the Shares which may be issued upon the exercise thereof by each stock exchange upon which Shares of the Corporation are then listed for trading.

8. **TERMINATION OF EMPLOYMENT AND DEATH:** If an Eligible Person ceases to be a director, officer, Employee, Management Company Employee or Consultant of the Corporation or an Affiliated Entity for any reason, the Stock Options held by such Eligible Person must expire within a reasonable period following the date of such cessation as set forth in the applicable Option Agreement.

Upon the death of an Eligible Person, such Eligible Person's heirs or administrators shall only be entitled to exercise the Stock Option, or any portion thereof, for a period not exceeding one year from the Eligible Person's death.

9. **ADJUSTMENTS IN SHARES SUBJECT TO THE PLAN:** The aggregate number and kind of Shares available under the Plan and the exercise price of any Stock Options granted under the Plan shall be appropriately adjusted in the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering or any other change in the corporate structure or shares of the Corporation. In any of such events, the Board may determine the adjustments to be made in the number and kind of Shares covered by Stock Options theretofore granted or to be granted and in the option price for said Stock Options.

10. **CHANGE OF CONTROL TRANSACTIONS AND UNSOLICITED OFFERS:** Notwithstanding the other provisions of this Plan, and unless otherwise determined by the Board, in the event of: (i) any Change of Control Transaction, or (ii) an Unsolicited Offer, all unexercised and unvested outstanding Stock Options granted under this Plan shall vest and become immediately exercisable in respect of any and all Shares for which the holder of Stock Options has not exercised the Stock Options (immediately prior to the effective time of such Change of Control or on the date the Unsolicited Offer is made, as applicable), notwithstanding that an agreement relating to the grant of Stock Options states that those Stock Options are exercisable only during a later period or year.

In addition to the foregoing, if the Board approves any Change of Control Transaction, the Board may, in its sole discretion, deliver prior notice of such Change of Control Transaction in writing to the Eligible Persons who have been granted Stock Options and may provide such Eligible Persons with a seven (7) day period from the giving of such notice (or such longer period as may be determined by the Board and as may be specified in such notice) to purchase all or a portion of the number of Shares to which such Eligible Persons are entitled pursuant to the unexercised Stock Options. Any number of the Stock Options not exercised at the expiry of such period shall, if so specified in such notice, terminate and expire notwithstanding any other provisions contained herein, unless such Change of Control Transaction is not completed.

Any Stock Option remaining unexercised following the earlier of the withdrawal of an Unsolicited Offer and the expiry of such Unsolicited Offer in accordance with its terms again becomes subject to the original terms of the agreement relating to the grant of Stock Options as if the Unsolicited Offer had not been made.

**"Change of Control Transaction"** means the occurrence of any of:

- (i) the purchase or acquisition of Shares and/or securities convertible into Shares or carrying the right to acquire Shares ("**Convertible Securities**") as a result of which a person, group of persons or persons acting jointly or in concert, or persons associated or affiliated within the meaning of the *Business Corporations Act* (Alberta) with any such person, group of persons or any of such persons acting jointly or in concert (collectively the "**Persons**") beneficially own or exercise control or direction over Shares and/or Convertible Securities such that, assuming only the conversion of the Convertible

Securities beneficially owned by the Persons thereof, would have the right to cast more than fifty percent (50%) of the votes attached to all Shares; or

- (ii) approval by the shareholders of the Corporation of: (i) an amalgamation, arrangement, merger or other consolidation or combination of the Corporation with another corporation or other entity pursuant to which the shareholders of the Corporation immediately thereafter do not own securities of the successor or continuing corporation or other entity which would entitle them to cast more than fifty (50%) percent of the votes attaching to all of the shares in the capital of the successor or continuing corporation or other entity which may be cast to elect directors of that corporation or other entity to manage the Corporation; (ii) a liquidation, dissolution or winding-up of the Corporation; or (iii) the sale, lease or other disposition of all or substantially all of the assets of the Corporation;

provided that (A) a Change of Control Transaction shall not be deemed to occur in the case of an internal reorganization that does not result in a change in the shareholders or management of the Corporation, and (B) in the event there is any question as to whether a Change of Control Transaction has occurred in any circumstances, the Board shall determine the matter and any such determination of the Board shall be final and conclusive for the purposes of the Plan.

"**Offer**" means an offer made generally to the holders of Shares in one or more jurisdictions to acquire, directly or indirectly, the Shares and which is in the nature of a "takeover bid" as defined in the *Securities Act* (Alberta) and, where the Shares are listed and posted for trading on a stock exchange, not exempt from the formal bid requirements of the *Securities Act* (Alberta).

"**Unsolicited Offer**" means an Offer in respect of which neither the Board nor management of the Corporation solicited, sought out, or otherwise arranged for the offeror party to make such Offer.

11. **WITHHOLDING TAXES:** Management of the Corporation shall make withholdings from Eligible Persons granted Stock Options under the Plan as necessary to comply with its obligations under tax legislation.

12. **AMENDMENTS AND TERMINATION OF PLAN:** The Corporation retains the right to amend from time to time or to suspend, terminate or discontinue the terms and conditions of the Plan and the Stock Options granted hereunder by resolution of the Board. Any amendments shall be subject to the prior consent of any applicable regulatory bodies, including the TSXV, as may be required. Any amendment to the Plan shall take effect only with respect to Stock Options granted after the effective date of such amendment, provided that it may apply to any outstanding Stock Options with the mutual consent of the Corporation and the Eligible Persons to whom such Stock Options have been granted. The Board shall have the power and authority to approve amendments relating to the Plan or to Stock Options, without further approval of the shareholders, to the extent that such amendment:

- (a) is for the purpose of curing any ambiguity, error or omission in the Plan or to correct or supplement any provision of the Plan that is inconsistent with any other provision of the Plan;
- (b) is necessary to comply with applicable law or the requirements of the TSXV;
- (c) is an amendment to the Plan respecting administration and eligibility for participation under the Plan;

- (d) changes the terms and conditions on which Stock Options may be or have been granted pursuant to the Plan including the re-pricing of such Stock Options and changes to the vesting provisions and Expiration Date;
- (e) alters, extends or accelerates the terms of vesting applicable to any Stock Options;
- (f) changes the termination provisions of a Stock Option or the Plan which does not entail an extension beyond the original Expiration Date; or
- (g) is an amendment to the Plan of a "housekeeping nature";

provided that in the case of any alteration, amendment or variance referred to in paragraph (a) or (b) of this Section 12 the alteration, amendment or variance does not:

- (i) amend the number of Shares issuable under the Plan;
- (ii) add any form of financial assistance by the Corporation for the exercise of any Stock Options;
- (iii) result in a material or unreasonable dilution in the number of outstanding Shares or any material benefit to an Eligible Person; or
- (iv) change the class of eligible participants to the Plan which would have the potential of broadening or increasing participation by Insiders of the Corporation;

and further provided that:

- (v) any Stock Options granted prior to the acceptance and approval of such amendments by the TSXV shall be conditional upon such approval and acceptance being given and no such Stock Options may be exercised unless and until such approval and acceptance are given. Without limiting the generality of the foregoing, but subject to any required regulatory approval of any regulatory authority or stock exchange, the Board may amend the exercise price, the Expiration Date and the termination provisions of Stock Options granted pursuant to the Plan, without shareholder approval, provided that if the Board proposes to reduce the exercise price or extend the Expiration Date of a Stock Option held by an Eligible Person who is an Insider of the Corporation at the time of the amendment (unless the extension is pursuant to any Black-Out Period that may be in effect), such amendment will require disinterested shareholder approval.

13. **PRIOR PLANS:** On the effective date of this Plan (as set out in Section 14) this Plan shall replace any other stock option plan previously enacted by the Corporation.

14. **EFFECTIVE DATE AND DURATION OF PLAN:** This Plan shall be effective as at May 1, 2014 subject to receipt of all necessary shareholder and regulatory approvals.

Any Stock Options granted prior to such approvals shall be conditional upon such approvals being given and no such Stock Options may be exercised until such approvals are given.

**APPENDIX "D"**  
**to the Management Proxy Circular of PetroShale Inc.**

**NEW STOCK OPTION PLAN**

The Board of Directors of PetroShale Inc. ("**PetroShale**") has adopted this stock option plan (the "**Plan**") governing the issuance of Stock Options (as defined herein) of PetroShale to Service Providers (as defined herein).

**1. Purposes**

The principal purposes of the Plan are as follows:

- (a) to retain and attract qualified Service Providers that PetroShale and the PetroShale Entities require; and
- (b) to promote a proprietary interest in PetroShale by such Service Providers and to encourage such persons to remain in the employ or service of PetroShale and the PetroShale Entities and put forth maximum efforts for the success of the affairs of PetroShale and the business of the PetroShale Entities.

**2. Definitions**

As used in this Plan, the following words and phrases shall have the meanings indicated:

- (a) "**Black-Out Expiration Term**" means ten (10) Business Days from the date that any Black-Out Period ends;
- (b) "**Black-Out Period**" means a period of time imposed by the Board pursuant to the policies of PetroShale upon certain Service Providers during which those persons may not trade in any securities of PetroShale;
- (c) "**Board**" has the meaning set forth in **Section 3** hereof;
- (d) "**PetroShale Entities**" means, collectively, any of PetroShale's subsidiaries, partnerships, trusts or other controlled entities;
- (e) "**Business Day**" means a day other than a Saturday, Sunday or a day when banks in the City of Calgary, Alberta are not generally open for business;
- (f) "**Cessation Date**" means the date that is the earlier of:
  - (i) the date the Optionee ceases to be a Service Provider actively engaged in carrying out regular and normal duties for PetroShale or a PetroShale Entity; or
  - (ii) the date of termination of any contractual agreement between PetroShale or a PetroShale Entity and a Service Provider; or
  - (iii) the date the Optionee has been provided with written notice of termination referred to in (ii) above; or
  - (iv) in the case of a director, the date of resignation of that director; or
  - (v) the date of the Service Provider's death or disability, as the case may be.

For greater certainty, a transfer of employment or services between PetroShale and a PetroShale Entity or between PetroShale Entities shall not be considered an interruption or termination of the active employment of an employee or the active provision of regular and normal duties of a Service Provider for any purpose of the Plan;



(g) **"Change of Control"** means:

- (i) a successful "take-over bid" as defined in Multilateral Instrument 62-104 or any replacement or successor provisions ("**MI 62-104**"), which is not exempt from the take-over bid requirements of MI 62-104, pursuant to which the "offeror" as a result of such take-over bid, beneficially owns, directly or indirectly, in excess of 50% of the outstanding Total Common Shares;
- (ii) the issuance to or acquisition by any person, or group of persons acting in concert, directly, or indirectly, including through an arrangement, merger or other form of reorganization of PetroShale, of Common Shares of PetroShale which in the aggregate total 50% or more of the then issued and outstanding Total Common Shares;
- (iii) the winding up or termination of PetroShale or the sale, lease or transfer of all or substantially all of the directly or indirectly held assets of PetroShale to any other person or persons (other than pursuant to an internal reorganization or in circumstances where the business of PetroShale is continued;

provided that notwithstanding the application of any of the foregoing, a **"Change of Control"** shall be deemed to not have occurred:

- (iv) pursuant to an arrangement, merger or other form of reorganization of PetroShale where the holders of the outstanding voting securities or interests of PetroShale immediately prior to the completion of the reorganization will hold more than 50% of the outstanding voting securities or interests of the continuing entity upon completion of the reorganization;
- (v) if pursuant to the issuance to or acquisition by any person, or group of persons acting in concert, directly or indirectly of Common Shares of PetroShale which in the aggregate total 50% or more of the then issued and outstanding Total Common Shares but which issuance does not result in a change to the majority composition of the Board; or
- (vi) if a majority of the Board determines that in substance an arrangement, merger or reorganization has not occurred or the circumstances are such that a Change of Control should be deemed to not have occurred and any such determination shall be binding and conclusive for all purposes of the Plan;

(h) **"Common Shares"** means common shares of PetroShale;

(i) **"disability"** means:

- (i) a Service Provider who has been placed on long term disability under PetroShale's long term disability plan or, if such Service Provider is not covered by PetroShale's long term disability plan, would meet the requirements to be placed on long term disability under PetroShale's long term disability plan if covered; and
- (ii) PetroShale has not made a determination to designate the Service Provider's status as being on a Leave of Absence;

(j) **"Exchange"** means the Toronto Stock Exchange or, if the Common Shares are not then listed and posted for trading on the Toronto Stock Exchange, on such stock exchange in Canada on which such shares are listed and posted for trading as may be selected for such purpose by the Board;

(k) **"Expiry Date"** means, in connection with each Stock Option made pursuant to the Plan, the latest date upon which Common Shares awarded thereunder may be exercised by the Optionee. Any Stock Options which have not been exercised by the applicable Expiry Date shall expire and become null and void;

- (l) **"Fair Market Value"** with respect to a Common Share, as at any date means the weighted average of the prices at which the Common Shares traded on the Exchange (or, if the Common Shares are not then listed and posted for trading on the Exchange or are then listed and posted for trading on more than one stock exchange, on such stock exchange on which the Common Shares are then listed and posted for trading as may be selected for such purpose by the Board in its sole discretion) for the five (5) trading days on which the Common Shares traded on the said exchange immediately preceding such date. In the event that the Common Shares are not listed and posted for trading on any stock exchange, the Fair Market Value shall be the fair market value of the Common Shares as determined by the Board in its sole discretion, acting reasonably and in good faith. If initially determined in United States dollars, the Fair Market Value shall be converted into Canadian dollars at an exchange rate selected and calculated in the manner determined by the Board from time to time acting reasonably and in good faith;
- (m) **"Grant Date"** means the grant date for a Stock Option;
- (n) **"Insider"** has the meaning set forth in the applicable rules of the Exchange for this purpose;
- (o) **"Leave of Absence"** means a period of time designated as a "leave of absence" by the Board which is in excess of three (3) months;
- (p) **"Leave Expiration Term"** means ten (10) Business Days from the date that any Leave of Absence ends;
- (q) **"Market Price"**, on any date, shall be the volume weighted average trading price of the Common Shares on the Exchange for the five trading days prior to the Grant Date (or, if the Common Shares are not then listed and posted for trading on the Exchange, on such stock exchange in Canada on which such Common Shares are listed and posted for trading as may be selected for such purpose by the Board) and provided that in the event that the Common Shares are not listed and posted for trading on any stock exchange, the Exercise Price shall be determined by the Board in its sole discretion;
- (r) **"Optionee"** has the meaning set forth in **Section 4** hereof;
- (s) **"Other Incentive Plan"** means PetroShale's restricted bonus award incentive plan dated effective •, as amended from time to time;
- (t) **"Service Provider"** means certain directors, officers, consultants, employees and other service providers, as applicable of PetroShale and any PetroShale Entities;
- (u) **"Stock Option"** means options to purchase Common Shares granted hereunder;
- (v) **"Stock Option Agreement"** has the meaning set forth in **Section 6** hereof;
- (w) **"Shareholder"** means a holder of Common Shares;
- (x) **"Total Common Shares"** means the aggregate number of issued and outstanding Common Shares (including Common Shares issuable upon exchange of non-voting common shares of PetroShale and other fully paid securities of the PetroShale Entities exchangeable into Common Shares); and
- (y) **"Vesting Date"** means, with respect to any Stock Option, the date upon which the right to receive Common Shares awarded thereunder may be exercised by the holder of such Stock Option.

### 3. **Administration**

- (a) The Plan shall be administered by the Board of Directors of PetroShale (the **"Board"**) or such committee of the Board as the Board considers appropriate, provided that the Board shall have the authority in its sole discretion to administer the Plan and to exercise all the powers and authorities either specifically granted to

it under the Plan or necessary or advisable in the administration of the Plan subject to and not inconsistent with the express provisions of this Plan and of **Section 9** hereof.

- (b) For greater certainty and without limiting the discretion conferred on the Board pursuant to this **Section 3**, the Board's decision to approve the grant of a Stock Option to any Service Provider in any period shall not require the Board to approve the grant of a Stock Option to any Service Provider in any other period; nor shall the Board's decision with respect to the size or terms and conditions of a Stock Option in any period require it to approve the grant of a Stock Option of the same or similar size or with the same or similar terms and conditions to any Service Provider in any other period. The Board shall not be precluded from approving the grant of a Stock Option to any Service Provider solely because such Service Provider may previously have been granted a Stock Option under this Plan or any other similar compensation arrangement of PetroShale or a PetroShale Entity. No Service Provider has any claim or right to be granted a Stock Option.
- (c) The Board may delegate to one or more of its members or to one or more agents such administrative duties as it may deem advisable, and the Board or any person to whom it has delegated duties as aforesaid may employ one or more persons to render advice with respect to any responsibility the Board or such person may have under the Plan.

#### **4. Eligibility and Award Determination**

- (a) In the event that the Common Shares of the Corporation are listed on the Exchange, any grant of Options under the Plan after such date shall be subject to the following restrictions:
  - (i) Stock Options may be granted by the Board from time to time, at its sole discretion, to Service Providers, provided that the aggregate number of Stock Options granted to any single holder of Stock Options shall not exceed 2% of the Total Common Shares. No Service Provider shall have any rights to be granted Stock Options hereunder, except as may be specifically granted by the Board.
  - (ii) The number of Common Shares issued to Insiders within one year pursuant to the Plan, and issuable to Insiders at any time, under the Plan or when combined with all of PetroShale's other security based compensation arrangements, shall not exceed 10% of the Total Common Shares).
  - (iii) Stock Options may be granted in excess of the limits set forth in this **Section 4(a)** provided that prior to the receipt of the approval required pursuant to **Section 9** such Stock Options may not be exercised until such approval has been received.
- (b) In determining the Service Providers to whom Stock Options may be granted ("**Optionees**") and the number of Common Shares to be covered by each Stock Option, the Board may take into account such factors as it shall determine in its sole discretion.

#### **5. Reservation of Common Shares**

- (a) The number of Common Shares reserved for issuance from time to time pursuant to outstanding Stock Options granted and outstanding under the Plan shall not exceed a number of Common Shares equal to: (i) 10% of the Total Common Shares; less (ii) the aggregate number of Common Shares reserved for issuance from time to time under the Other Incentive Plan.
- (b) Any increase in the Total Common Shares will result in an increase in the available number of Common Shares issuable under the Plan and any issuance of Common Shares pursuant to Stock Options will make new grants available under the Plan.
- (c) If any Stock Option granted under this Plan shall expire, terminate or be cancelled for any reason without the Common Shares issuable thereunder having been issued in full or if any Common Shares are issued

pursuant to any Stock Option granted under this Plan, any such Common Shares shall be available for the purposes of the granting of further Stock Options under this Plan.

- (d) Stock Options may be granted in excess of the limits set forth in **Section 5(a)** provided that prior to the receipt of the approval required pursuant to **Section 9** such Stock Options may not be exercised until such approval has been received.

## 6. Terms and Conditions of Stock Options

Each Stock Option granted under the Plan shall be subject to the terms and conditions of the Plan and evidenced by a written agreement between PetroShale and the Optionee (a "**Stock Option Agreement**") which agreement shall set out the number of Common Shares subject to option, the Exercise Price, Vesting Dates and Expiry Dates and, in the event that the Common Shares of the Corporation are listed on the Exchange, shall comply with, and be subject to, the requirements of the Exchange and the following terms and conditions (and with such other terms and conditions as the Board, in its sole discretion, shall establish):

- (a) **Exercise Price of Stock Options** – The Exercise Price of any Stock Option granted pursuant to the Plan shall be fixed by the Board when the Stock Option is granted, provided that such price shall not be less than the Market Price of the Common Shares on the Grant Date.
- (b) **Vesting Dates of Stock Options** – The Vesting Dates in respect of Stock Options issued pursuant to the Plan shall be determined by the Board in its sole discretion and, for greater certainty, the Board may in its sole discretion impose such conditions to the determination of the Vesting Date(s) in respect of the issue of Common Shares pursuant to any Stock Option as it sees prudent, provided however, that:
  - (A) if a Optionee is on a Leave of Absence before any of the Vesting Dates referred to in paragraphs (i), (ii) and (iii) above, such Vesting Date or Vesting Dates shall be extended by that portion of the duration of the period of the Leave of Absence that is in excess of three (3) months;
  - (B) in the event of any Change of Control of PetroShale prior to the Vesting Dates determined in accordance with the above provisions of this **Section 6(b)**, the Vesting Date for all Common Shares awarded pursuant to such Stock Options that have not yet been vested as of such time shall be the effective date of the Change of Control; and
  - (C) notwithstanding any other provision of this Plan, the Board may, in its sole discretion, determine that a Stock Option is vested in relation to all or a percentage of the Common Shares covered thereby for all or any Stock Options at any time and from time to time.
- (c) **Expiry Dates of Stock Options** – Subject to **Section 6(e)** hereof, with respect to any Stock Option, the Expiry Dates in respect of Stock Options issued pursuant to the Plan shall be three years from vesting date determined in **Section 6(b)** unless otherwise determined by the Board in its sole discretion (and, for greater certainty, the Board may in its sole discretion impose additional or different conditions to the determination of the Expiry Date(s) in respect of or the issue of Common Shares pursuant to any Stock Option):

provided however, that:

- (A) the Expiry Date of any Stock Option shall automatically be extended by the full amount of any Leave Expiration Term if the Optionee is on a Leave of Absence at the start of the Leave Expiration Term; provided that if any such extension would cause the Expiry Date of any Stock Option to extend beyond the date that is seven (7) years from the Grant Date (as the same may be extended pursuant to paragraphs (B), (C) or (D) below), such Stock Option shall be terminated on the date that is seven (7) years from the Grant Date and all rights to receive Common Shares thereunder shall be forfeited by the Optionee;

- (B) the Expiry Date of any Stock Option which falls during any Black-Out Period shall automatically be extended by any Black-Out Expiration Term;
  - (C) for greater certainty, the Expiry Date of any Stock Option shall automatically be extended by the period set forth in paragraph (B) above in the case of paragraph (A) above, if a Black-Out Period is in effect at the end of the period referred to in paragraph (A) above;
  - (D) the Expiry Date of any Stock Option shall automatically be extended by that number of days required such that the period ends on Business Day if any of the periods referred to in paragraphs (A), (B) or (C) above fall on a non-Business Day;
  - (E) notwithstanding any other provision of this Plan except **Section 10** hereof, the Board may, in its sole discretion, extend the Expiry Date of any Stock Options at any time and from time to time provided that the Expiry Date of any Stock Option may not be extended beyond the date that is seven (7) years from the Grant Date (as the same may be extended pursuant to paragraphs (B), (C) or (D) above); and
  - (F) for greater certainty, the extensions in paragraphs (A), (B), (C) and (D) shall not be considered an extension of the Expiry Date of a Stock Option for purposes of **Section 10** hereof.
- (d) ***Exercise of Stock Options*** – An Optionee may exercise any vested Stock Options from time to time prior to the Expiry Date of such Stock Option by delivery to PetroShale, at its head office in Calgary, Alberta, a written notice of exercise ("**Exercise Notice**") specifying the number of Common Shares with respect to which the Stock Option is being exercised and accompanied by payment in full of the purchase price of the Common Shares then being purchased. Upon exercise of the Stock Option, PetroShale will cause to be delivered to the Optionee a certificate or certificates, representing such Common Shares in the name of the Optionee or the Optionee's legal personal representative or otherwise as the Optionee may or representative may in writing direct and sent by pre paid mail or delivered to the Grantee as soon as practicable following such exercise. Unless approved by the Board of Directors, no Stock Options may be exercised by an Optionee during a Black-Out Period.
- (e) ***Termination of Relationship as Service Provider*** – Unless otherwise determined by the Board or unless otherwise provided in a Stock Option Agreement pertaining to a particular Stock Option or any written employment or consulting agreement governing a Optionee's role as a Service Provider, the following provisions shall apply in the event that a Optionee ceases to be a Service Provider:
- (i) ***Termination*** – If a Optionee ceases to be a Service Provider for any reason whatsoever, including termination without cause, other than the death or disability of such Optionee (as contemplated under paragraph (ii) below), the Optionee may prior to the Expiry Date and within thirty (30) days following the Cessation Date, exercise the Stock Options which had vested on or prior to the Cessation Date in accordance with **Section 6(b)**, after which time all such Stock Options shall terminate and become null and void and all rights to receive Common Shares thereunder shall be forfeited by the Optionee; provided that, upon the termination of any employee for cause, the Board may, in its sole discretion, determine that all outstanding vested Stock Options shall immediately terminate and become null and void. All Stock Options which have not vested in accordance with **Section 6(b)** at the Cessation Date shall immediately terminate and become null and void.
  - (ii) ***Termination Upon Death or Disability*** – Upon the death or disability of an Optionee prior to the Expiry Date, the Optionee's legal representative may, prior to the earlier of: (i) the Expiry Date; and (ii) the date that is six (6) months from the Cessation Date, exercise the Stock Options which had vested on or before the Cessation Date in accordance with **Section 6(b)**, after which time all such Stock Options shall terminate and become null and void and all rights to receive Common Shares thereunder shall be forfeited by the Optionee. All Stock Options which have not vested in

accordance with **Section 6(b)** at the Cessation Date shall immediately terminate and become null and void.

- (iii) *Extension of Expiration Period* – Subject to **Section 9**, the Board may, in its sole discretion, determine that the Expiry Dates and expiry periods set forth in **Section 6(e)(ii)** and **Section 6(e)(iii)** shall be extended by the time frames set forth in **Section 6(c)**.
- (f) ***Rights as a Shareholder*** – Until the Common Shares granted pursuant to any Stock Option have been issued in accordance with the terms of the Plan, the Optionee to whom such Stock Option has been made shall not possess any incidents of ownership of such Common Shares including, for greater certainty and without limitation, the right to exercise voting rights in respect of such Common Shares. Such Optionee shall only be considered a Shareholder in respect of such Common Shares when such issuance has been entered upon the records of the duly authorized transfer agent of PetroShale.
- (g) ***Effect of Certain Changes*** – In the event:
  - (i) of any change in the Common Shares through subdivision, consolidation, reclassification, amalgamation, merger or otherwise;
  - (ii) that any rights are granted to all Shareholders to purchase Common Shares at prices substantially below the Fair Market Value; or
  - (iii) that, as a result of any recapitalization, merger, consolidation or other transaction, the Common Shares are converted into or exchangeable for any other securities,

then, in any such case, the Board may, subject to any required approval of the Exchange, in the event that the Common Shares of the Corporation are listed on the Exchange, make such adjustments to the Plan, to any Stock Options, the Exercise Price and to any Stock Option Agreements outstanding under the Plan as may be appropriate in the circumstances (including changing the Common Shares covered by each Stock Option into other securities on the same basis as Common Shares are converted into or exchangeable for such securities in any such transaction) to prevent dilution or enlargement of the rights granted to Optionees hereunder.

## 7. **Withholding Taxes**

When a Optionee or other person becomes entitled to receive Common Shares hereunder, PetroShale or a PetroShale Entity shall have the right to require the Optionee or person to remit to PetroShale an amount sufficient to satisfy any withholding tax requirements relating thereto. Unless otherwise prohibited by the Board or by applicable law, satisfaction of the withholding tax obligation may be accomplished by any of the following methods or by a combination of such methods:

- (a) the tendering by the Optionee of a cash payment to PetroShale in an amount less than or equal to the total withholding tax obligation; or
- (b) the withholding by PetroShale or a PetroShale Entity, as the case may be, from the Common Shares otherwise due to the Optionee such number of Common Shares as it determines are required to be sold by PetroShale, as trustee, to satisfy the total withholding tax obligation (net of selling costs). The Optionee consents to such sale and grants to PetroShale an irrevocable power of attorney to effect the sale of such Common Shares and acknowledges and agrees that PetroShale does not accept responsibility for the price obtained on the sale of such Common Shares; or
- (c) the withholding by PetroShale or a PetroShale Entity, as the case may be, from any cash payment otherwise due to the Optionee, including the Settlement Amount, such amount of cash as is required for the amount of the total withholding tax obligation;

provided, however, that the sum of any cash so paid or withheld and the Fair Market Value of any Common Shares so withheld is sufficient to satisfy the total withholding tax obligation.

Optionees (or their beneficiaries) shall be responsible for all taxes with respect to any Stock Options granted under the Plan. The Board and PetroShale make no guarantees to any person regarding the tax treatment of Stock Options or payments made under the Plan and none of PetroShale, any PetroShale Entity, or any of its employees or representatives shall have any liability to a Optionee (or its beneficiaries) with respect thereto.

## **8. Non-Transferability**

Subject to **Section 6(e)(ii)**, the right to receive Common Shares pursuant to a Stock Option granted to a Service Provider may only be exercised by such Service Provider personally. Except as otherwise provided in this Plan, no assignment, sale, transfer, pledge or charge of a Stock Option, whether voluntary, involuntary, by operation of law or otherwise, vests any interest or right in such Stock Option whatsoever in any assignee or transferee and, immediately upon any assignment, sale, transfer, pledge or charge or attempt to assign, sell, transfer, pledge or charge, such Stock Option shall terminate and be of no further force or effect.

## **9. Amendment and Termination of Plan**

This Plan and any Stock Options granted pursuant to the Plan may be amended, modified or terminated by the Board without approval of Shareholders subject to any required approval of the Exchange, in the event that the Common Shares of the Corporation are listed on the Exchange.

If the Common Shares of the Corporation are listed on the Exchange, then notwithstanding the foregoing, the Plan may not be amended without Shareholder approval to:

- (a) make any amendment to the Plan to increase the percentage of Common Shares issuable on exercise of outstanding Stock Options at any time pursuant to **Section 5(a)** hereof;
- (b) extend the Expiry Date of any outstanding Stock Options;
- (c) make any amendment to the Plan that would permit a holder to transfer or assign Stock Options to a new beneficial holder other than in the case of death of the holder;
- (d) make any reduction in the exercise price of a Stock Option or permit a reduction in the exercise price of a Stock Option by the cancellation and immediate re-issue of Stock Options;
- (e) any amendment to increase the number of Common Shares that may be issued to Insiders above the restriction contained in **Section 4(a)**; or
- (f) an amendment to amend this **Section 9**.

In addition, no amendment to the Plan or Stock Options granted pursuant to the Plan may be made without the consent of the Optionee, if it adversely alters or impairs the rights of any Optionee in respect of any Stock Option previously granted to such Optionee under the Plan.

## **10. Merger and Sale**

In the event that PetroShale enters into any transaction or series of transactions whereby PetroShale or all or substantially all of PetroShale's undertaking, property or assets would become the property of any other trust, body corporate, partnership or other person (a "Successor") whether by way of takeover bid, acquisition, reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise, unless prior to or contemporaneously with the consummation of such transaction, PetroShale and the Successor shall execute such instruments and do such things as are necessary, if any, to establish that upon the consummation of such transaction the Successor will have assumed all the covenants and obligations of PetroShale under this Plan and the Stock Option Agreements

outstanding on consummation of such transaction in a manner that substantially preserves and does not impair the rights of the Optionees thereunder in any material respect (including the right to receive shares, securities, cash or other property of the Successor in lieu of Common Shares upon the subsequent vesting of Stock Options). Subject to compliance with this Section 10, any such Successor shall succeed to, and be substituted for, and may exercise every right and power of PetroShale under this Plan and such Stock Option Agreements with the same effect as though the Successor had been named as PetroShale herein and therein and thereafter, PetroShale shall be relieved of all obligations and covenants under this Plan and such Stock Option Agreements and the obligation of PetroShale to the Optionees in respect of the Stock Options shall terminate and be at an end and the Optionees shall cease to have any further rights in respect thereof including, without limitation, any right to acquire Common Shares upon vesting of the Stock Options.

## **11. Take-over Bids**

If, during the term of a Stock Option, a "take-over bid" as defined in Multilateral Instrument 62-104 or any replacement or successor provisions ("MI 62-104"), which is not exempt from the take-over bid requirements of MI 62-104, is made for the Common Shares, PetroShale shall give notice of such take over bid to all Optionees immediately upon becoming aware of such take over bid and in any event at least 14 days before the expiration of such take over bid. Each Optionee shall have the right, whether or not such notice is given to it by PetroShale, to exercise their Stock Options to purchase all of the Common Shares optioned to them which have not previously been purchased, but such Common Shares may only be purchased for tender pursuant to such take over bid. If for any reason such Common Shares are not so tendered or, if tendered, are not, for any reason, taken up and paid for pursuant to the take over bid, any such Common Shares so purchased by an Optionee shall be, and be deemed to be, cancelled and returned to the treasury of PetroShale, shall be added back to the number of Stock Options, if any, remaining unexercised and upon presentation to PetroShale of Common Share certificates representing such Common Shares properly endorsed for transfer back to PetroShale, PetroShale shall refund the Optionee all consideration paid by the Optionee in the initial purchase thereof.

## **12. Miscellaneous**

- (a) ***Effect of Headings*** – The section and subsection headings contained herein are for convenience only and shall not affect the construction hereof.
- (b) ***Compliance with Legal Requirements*** – PetroShale shall not be obliged to issue any Common Shares if such issuance would violate any law or regulation or any rule of any government authority or stock exchange. PetroShale, in its sole discretion, may postpone the issuance or delivery of Common Shares under any Stock Option as the Board may consider appropriate, and may require any Optionee to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Common Shares in compliance with applicable laws, rules and regulations. PetroShale shall not be required to qualify for resale pursuant to a prospectus or similar document any Common Shares awarded under the Plan, provided that, if required, PetroShale shall notify the TSX and any other appropriate regulatory bodies in Canada of the existence of the Plan and the granting of Stock Options hereunder in accordance with any such requirements.
- (c) ***No Right to Continued Employment*** – Nothing in the Plan or in any Stock Option Agreement entered into pursuant hereto shall confer upon any Optionee the right to continue in the employ or service of PetroShale or any PetroShale Entities, to be entitled to any remuneration or benefits not set forth in the Plan or a Stock Option Agreement or to interfere with or limit in any way the right of PetroShale or any PetroShale Entity to terminate a Optionee's employment or service arrangement with PetroShale or any PetroShale Entity.
- (d) ***Ceasing to be a PetroShale Entity*** – Except as otherwise provided in this Plan, Stock Options granted under this Plan shall not be affected by any change in the relationship between or ownership of PetroShale and a PetroShale Entity. For greater certainty, all Stock Options remain valid and exercisable in accordance with the terms and conditions of this Plan and are not affected by reason only that, at any time, any corporation, partnership or trust ceases to be a PetroShale Entity.



- (e) ***Optionee Information*** – Each Optionee shall provide PetroShale with all information (including personal information) required by PetroShale in order to administer the Plan. Each Optionee acknowledges that information required by PetroShale in order to administer the Plan may be disclosed to the Board or its appointed administrator and other third parties in connection with the administration of the Plan. Each Optionee consents to such disclosure and authorizes PetroShale to make such disclosure on the Optionee's behalf.
- (f) ***Expenses*** – Other than as contemplated pursuant to **Section 7**, all expenses in connection with the Plan shall be borne by PetroShale.
- (g) ***Common Shares Duly Issued*** – Common Shares issued upon the exercise of a Stock Option granted hereunder will be validly issued and allotted as fully paid and non-assessable upon payment thereof in accordance with the terms of the Stock Option Agreement and the issuance of Common Shares thereunder will not require a resolution or approval of the Board.

### **13. Governing Law**

The Plan shall be governed by and construed in accordance with the laws in force in the Province of Alberta.

### **14. Effective Date**

This Plan shall take effect on ●, 2014.

**APPENDIX "E"**  
**to the Management Proxy Circular of PetroShale Inc.**

**RESTRICTED BONUS AND INCENTIVE PLAN**

The Board of Directors of PetroShale Inc. ("**PetroShale**") has adopted this restricted bonus award incentive plan (the "**Plan**") governing the issuance of Bonus Awards (as defined herein) of PetroShale to Service Providers (as defined herein).

**1. Purposes**

The principal purposes of the Plan are as follows:

- (a) to retain and attract qualified Service Providers that PetroShale and the PetroShale Entities require; and
- (b) to promote a proprietary interest in PetroShale by such Service Providers and to encourage such persons to remain in the employ or service of PetroShale and the PetroShale Entities and put forth maximum efforts for the success of the affairs of PetroShale and the business of the PetroShale Entities.

**2. Definitions**

As used in this Plan, the following words and phrases shall have the meanings indicated:

- (a) "**Adjustment Ratio**" means, with respect to any Bonus Award, the ratio used to adjust the number of Common Shares to be issued on the applicable Issue Date pertaining to such Bonus Award for Dividends and, in respect of each Bonus Award, shall be equal to one plus the amount, rounded to the nearest five decimal places, equal to a fraction, having as its numerator the arithmetic total of the Dividends, expressed as an amount per Common Share, declared on each Dividend Record Date following the Grant Date of the initial Bonus Award, and having as its denominator the Fair Market Value of the Common Shares on the first Business Day of the calendar month in which the Issue Date occurs;
- (b) "**Award Value**" means, with respect to any Bonus Award, an amount equal to the value of a notional number of Common Shares granted pursuant to such Bonus Award, as such number may be adjusted in accordance with the terms of the Plan, multiplied by the Fair Market Value of a Common Share;
- (c) "**Black-Out Expiration Term**" means ten (10) Business Days from the date that any Black-Out Period ends;
- (d) "**Black-Out Period**" means a period of time imposed by the Board pursuant to the policies of PetroShale upon certain Service Providers during which those persons may not trade in any securities of PetroShale;
- (e) "**Board**" has the meaning set forth in **Section 3** hereof;
- (f) "**Bonus Award**" means an award whose Award Value is computed by reference to equal to a notional number of Common Shares made pursuant to the Plan, for which payment shall be made on the Payment Date(s) in accordance with the terms of **Section 6** hereof;
- (g) "**Bonus Award Agreement**" has the meaning set forth in **Section 6** hereof;
- (h) "**PetroShale Entities**" means, collectively, any of PetroShale's subsidiaries, partnerships, trusts or other controlled entities;
- (i) "**Business Day**" means a day other than a Saturday, Sunday or a day when banks in the City of Calgary, Alberta are not generally open for business;

(j) **"Cessation Date"** means the date that is the earlier of:

- (i) the date the Optionee ceases to be a Service Provider actively engaged in carrying out regular and normal duties for PetroShale or a PetroShale Entity; or
- (ii) the date of termination of any contractual agreement between PetroShale or a PetroShale Entity and a Service Provider; or
- (iii) the date the Optionee has been provided with written notice of termination referred to in (ii) above; or
- (iv) in the case of a director, the date of resignation of that director; or
- (v) the date of the of the Service Provider's death or disability, as the case may be.

For greater certainty, a transfer of employment or services between PetroShale and a PetroShale Entity or between PetroShale Entities shall not be considered an interruption or termination of the active employment of an employee or the active provision of regular and normal duties of a Service Provider for any purpose of the Plan;

(k) **"Change of Control"** means:

- (i) a successful "take-over bid" as defined in Multilateral Instrument 62-104 or any replacement or successor provisions ("**MI 62-104**"), which is not exempt from the take-over bid requirements of MI 62-104, pursuant to which the "offeror" as a result of such take-over bid, beneficially owns, directly or indirectly, in excess of 50% of the outstanding Total Common Shares;
- (ii) the issuance to or acquisition by any person, or group of persons acting in concert, of directly, or indirectly, including through an arrangement, merger or other form of reorganization of PetroShale, of Common Shares of PetroShale which in the aggregate total 50% or more of the then issued and outstanding Total Common Shares;
- (iii) the winding up or termination of PetroShale or the sale, lease or transfer of all or substantially all of the directly or indirectly held assets of PetroShale to any other person or persons (other than pursuant to an internal reorganization or in circumstances where the business of PetroShale is continued,

provided that notwithstanding the application of any of the foregoing, a **"Change of Control"** shall be deemed to not have occurred:

- (iv) pursuant to an arrangement, merger or other form of reorganization of PetroShale where the holders of the outstanding voting securities or interests of PetroShale immediately prior to the completion of the reorganization will hold more than 50% of the outstanding voting securities or interests of the continuing entity upon completion of the reorganization;
- (v) if pursuant to the issuance to or acquisition by any person, or group of persons acting in concert, directly or indirectly of Common Shares of PetroShale which in the aggregate total 50% or more of the then issued and outstanding Total Common Shares but which issuance does not result in a change to the majority composition of the Board; or
- (vi) if a majority of the Board determines that in substance an arrangement, merger or reorganization has not occurred or the circumstances are such that a Change of Control should be deemed to not have occurred and any such determination shall be binding and conclusive for all purposes of the Plan;

- (l) **"Common Shares"** means common shares of PetroShale;
- (m) **"disability"** means:
  - (i) a Service Provider who has been placed on long term disability under PetroShale's long term disability plan or, if such Service Provider is not covered by PetroShale's long term disability plan, would meet the requirements to be placed on long term disability under PetroShale's long term disability plan if covered; and
  - (ii) PetroShale has not made a determination to designate the Service Provider's status as being on a Leave of Absence;
- (n) **"Dividend"** means any dividend declared by PetroShale in respect of the Common Shares, whether in the form of cash, Common Shares or other securities or other property, expressed as an amount per Common Shares;
- (o) **"Dividend Payment Date"** means any date that a Dividend is paid to Shareholders;
- (p) **"Dividend Record Date"** means the applicable record date in respect of any Dividend used to determine the Shareholders entitled to receive such Dividend;
- (q) **"Exchange"** means the Toronto Stock Exchange or, if the Common Shares are not then listed and posted for trading on the Toronto Stock Exchange, on such stock exchange in Canada on which such shares are listed and posted for trading as may be selected for such purpose by the Board;
- (r) **"Expiry Date"** means, in connection with each Bonus Award made pursuant to the Plan, means December 15th of the third year following the year in which the Bonus Award was granted;
- (s) **"Fair Market Value"** with respect to a Common Share, as at any date means the weighted average of the prices at which the Common Shares traded on the Exchange (or, if the Common Shares are not then listed and posted for trading on the Exchange or are then listed and posted for trading on more than one stock exchange, on such stock exchange on which the Common Shares are then listed and posted for trading as may be selected for such purpose by the Board in its sole discretion) for the five (5) trading days on which the Common Shares traded on the said exchange immediately preceding such date. In the event that the Common Shares are not listed and posted for trading on any stock exchange, the Fair Market Value shall be the fair market value of the Common Shares as determined by the Board in its sole discretion, acting reasonably and in good faith. If initially determined in United States dollars, the Fair Market Value shall be converted into Canadian dollars at an exchange rate selected and calculated in the manner determined by the Board from time to time acting reasonably and in good faith;
- (t) **"Grant Date"** means the grant date for a Bonus Award;
- (u) **"Grantee"** has the meaning set forth in **Section 4** hereof;
- (v) **"Insider"** has the meaning set forth in the applicable rules of the Exchange for this purpose;
- (w) **"Leave of Absence"** means a period of time designated as a "leave of absence" by the Board which is in excess of three (3) months;
- (x) **"Leave Expiration Term"** means ten (10) Business Days from the date that any Leave of Absence ends;
- (y) **"Other Incentive Plan"** means PetroShale's stock option plan dated effective •, 2014, as amended from time to time;

- (z) **"Payment Date"** means, with respect to any Bonus Award, the date upon which PetroShale shall pay to the Grantee the Award Value to which the Grantee is entitled pursuant to such Bonus Award in accordance with the terms hereof;
- (aa) **"Service Provider"** means certain directors, officers, consultants, employees and other service providers, as applicable of PetroShale and any PetroShale Entities;
- (bb) **"Shareholder"** means a holder of Common Shares; and
- (cc) **"Total Common Shares"** means the aggregate number of issued and outstanding Common Shares (including Common Shares issuable upon exchange of non-voting common shares of PetroShale and other fully paid securities of the PetroShale Entities exchangeable into Common Shares).

### 3. Administration

- (a) The Plan shall be administered by the Board of Directors of PetroShale (the **"Board"**) or such committee of the Board as the Board considers appropriate, provided that the Board shall have the authority in its sole discretion to administer the Plan and to exercise all the powers and authorities either specifically granted to it under the Plan or necessary or advisable in the administration of the Plan subject to and not inconsistent with the express provisions of this Plan and of **Section 9** hereof.
- (b) For greater certainty and without limiting the discretion conferred on the Board pursuant to this **Section 3**, the Board's decision to approve the grant of a Bonus Award to any Service Provider in any period shall not require the Board to approve the grant of a Bonus Award to any Service Provider in any other period; nor shall the Board's decision with respect to the size or terms and conditions of a Bonus Award in any period require it to approve the grant of a Bonus Award of the same or similar size or with the same or similar terms and conditions to any Service Provider in any other period, nor shall the Board's decision with respect to the form of payment of a Bonus Award require it to pay any other Bonus Awards in the same manner or entitle a Service Provider to be paid in a particular form. The Board shall not be precluded from approving the grant of a Bonus Award to any Service Provider solely because such Service Provider may previously have been granted a Bonus Award under this Plan or any other similar compensation arrangement of PetroShale or a PetroShale Entity. No Service Provider has any claim or right to be granted a Bonus Award.
- (c) The Board may delegate to one or more of its members or to one or more agents such administrative duties as it may deem advisable, and the Board or any person to whom it has delegated duties as aforesaid may employ one or more persons to render advice with respect to any responsibility the Board or such person may have under the Plan.

### 4. Eligibility and Award Determination

- (a) In the event that the Common Shares of the Corporation are listed on the Exchange, any grant of Bonus Awards under the Plan after such date shall be subject to the following restrictions:
  - (i) Bonus Awards may be granted by the Board from time to time, at its sole discretion, to Service Providers, provided that the aggregate number of Common Shares that could be issued pursuant to Bonus Awards that have been granted to any single holder shall not exceed 2% of the Total Common Shares. No Service Provider shall have any rights to be granted Bonus Awards hereunder, except as may be specifically granted by the Board.
  - (ii) The number of Common Shares that are available to be issued to Insiders within one year pursuant to the Plan, and issuable to Insiders at any time, under the Plan or when combined with all of PetroShale's other security based compensation arrangements, shall not exceed 10% of the Total Common Shares. In determining the number of Common Shares issuable within one year for the purposes of this paragraph (iii), shall be determined on the basis of the number of Common Shares

that are outstanding immediately prior to the Common Share issuance, excluding any Common Shares issued pursuant to share compensation arrangements over the preceding one-year period.

- (iii) Bonus Awards may be granted in excess of the limits set forth in this **Section 4** provided that prior to the receipt of the approval required in **Section 9** such Bonus Awards may not be paid until such approval has been received.
- (b) In determining the Service Providers to whom Bonus Awards may be granted ("**Grantees**") and the number of Common Shares to be referred to in respect of each Bonus Award, the Board may take into account such factors as it shall determine in its sole discretion.
- (c) For purposes of the calculations in this section, it shall be assumed that all issued and outstanding Bonus Awards are to be paid by the issuance of Common Shares from treasury, notwithstanding PetroShale's right pursuant to **Section 6** hereof to settle the Award Value underlying Bonus Awards in cash or by purchasing Common Shares on the open market.

## 5. **Reservation of Common Shares**

- (a) The number of Common Shares reserved that are available to be issued from time to time pursuant to outstanding Bonus Awards granted and outstanding under the Plan shall not exceed a number of Common Shares equal to: (i) 10% of the Total Common Shares; less (ii) the aggregate number of Common Shares reserved for issuance from time to time under the Other Incentive Plan.
- (b) Any increase in the Total Common Shares will result in an increase in the available number of Common Shares that are available to be issued under the Plan and any issuance of Common Shares pursuant to Bonus Awards will make new grants available under the Plan.
- (c) If any Bonus Award granted under this Plan shall expire, terminate or be cancelled for any reason without payment, any Common Shares that were reserved hereunder shall be available for the purposes of the granting of further Bonus Awards under this Plan.
- (d) Bonus Awards may be granted in excess of the limits set forth in this **Section 5** provided that prior to the receipt of such approval required in **Section 9** such Bonus Awards may not be paid until such approval has been received.
- (e) For purposes of the calculations in this section, it shall be assumed that all issued and outstanding Bonus Awards are to be paid by the issuance of Common Shares from treasury, notwithstanding PetroShale's right pursuant to **Section 6** hereof to settle the Award Value underlying Bonus Awards in cash or by purchasing Common Shares on the open market.

## 6. **Terms and Conditions of Bonus Awards**

Each Bonus Award granted under the Plan shall be subject to the terms and conditions of the Plan and evidenced by a written agreement between PetroShale and the Grantee (a "**Bonus Award Agreement**") which agreement shall comply with, and in the event that the Common Shares of the Corporation are listed on the Exchange, shall comply with, and be subject to, the requirements of the Exchange and the following terms and conditions (and with such other terms and conditions as the Board, in its sole discretion, shall establish):

- (a) **Payment Dates of Bonus Awards** – The Payment Dates in respect of Bonus Awards issued pursuant to the Plan shall be as determined by the Board in its sole discretion and, for greater certainty, the Board may in its sole discretion impose such conditions to the determination of the Payment Date(s) in respect of payment pursuant to any Bonus Award as it sees prudent, provided however, that:
  - (A) if a Grantee is on a Leave of Absence before any of the Payment Dates referred to in paragraphs (i), (ii) and (iii) above, such Payment Date or Payment Dates shall be

extended by that portion of the duration of the period of the Leave of Absence that is in excess of three (3) months;

- (B) in the event of any Change of Control of PetroShale prior to the Payment Dates determined in accordance with the above provisions of this **Section 6(a)**, the Payment Date for all Common Shares awarded pursuant to such Bonus Awards that have not yet been paid as of such time shall be the effective date of the Change of Control; and
  - (C) notwithstanding any other provision of this Plan, the Board may, in its sole discretion, determine that a Bonus Award is payable in relation to all or a percentage of the Award Value covered thereby for all or any Bonus Awards at any time and from time to time.
- (b) ***Expiry Dates of Bonus Awards*** – Notwithstanding any other provision hereof, no Payment Date in respect of a Bonus Award may occur after the Expiry Date of such Bonus Award, and in the event that a Payment Date would occur after the Expiry Date, the Payment Date in respect of such Bonus Award shall be on the Expiry Date of such Bonus Award;
- (c) ***Adjustment of Bonus Awards*** – Immediately prior to each Payment Date, the notional number of Common Shares underlying a Bonus Award shall be adjusted by multiplying such number by the Adjustment Ratio applicable in respect of such Bonus Award, provided however, that:
- (i) if a Grantee has been on a Leave of Absence at any time since the Grant Date in respect of such Bonus Award, the Adjustment Ratio shall not be adjusted for any Dividends paid during the period of such Leave of Absence; and
  - (ii) notwithstanding any other provision of this Plan, but subject to the limits described in **Section 5** hereof and, in the event that the Common Shares of the Corporation are listed on the Exchange, any applicable requirements of the Exchange, or other applicable regulatory authority, the Board hereby reserves the right to make any additional adjustments to the notional number of Common Shares underlying any Bonus Award if, in the sole discretion of the Board, such adjustments are appropriate in the circumstances having regard to the principal purposes of the Plan and terms of the Bonus Award.
- (d) ***Payment in Respect of Bonus Awards*** - On the Payment Date, PetroShale, at its sole and absolute discretion, shall have the option of settling the Award Value payable in respect of a Bonus Award by any of the following methods or by a combination of such methods:
- (i) payment in cash;
  - (ii) in the event that the Common Shares of the Corporation are listed on the Exchange, payment in Common Shares acquired by PetroShale on the Exchange; or
  - (iii) payment in Common Shares issued from the treasury of PetroShale.
- (e) PetroShale shall not determine whether the payment method shall take the form of cash or Common Shares until the Payment Date, or some reasonable time prior thereto. A holder of a Bonus Award shall not have any right to demand, be paid in, or receive Common Shares in respect of the Award Value underlying a Bonus Award, at any time. Notwithstanding any election by PetroShale to settle any Award Value, or portion thereof, in Common Shares, PetroShale reserves the right to change its election in respect thereof at any time up until payment is actually made, and the holder of such Bonus Award shall not have the right, at any time to enforce settlement in the form of Common Shares of PetroShale.
- (f) Where PetroShale elects to pay any amounts pursuant to a Bonus Award by issuing Common Shares, and the determination of the number of Common Shares to be delivered to a Grantee in respect of a particular Payment Date would result in the issuance of a fractional Common Share, the number of Common Shares

deliverable on the Payment Date shall be rounded down to the next whole number of Common Shares. No certificates representing fractional Common Shares shall be delivered pursuant to this Plan nor shall any cash amount be paid at any time in lieu of any such fractional interest.

- (g) ***Delivery of Payment*** – Any amount payable to a Grantee in respect of a Bonus Award shall be paid to the Grantee as soon as practicable following the Payment Date provided that the payment must occur not later than the Expiry Date.
- (h) ***Termination of Relationship as Service Provider*** – Unless otherwise determined by the Board or unless otherwise provided in a Bonus Award Agreement pertaining to a particular Bonus Award or any written employment or consulting agreement governing a Grantee's role as a Service Provider, the following provisions shall apply in the event that a Grantee ceases to be a Service Provider:
  - (i) ***Termination upon Ceasing to be a Service Provider*** – If a Grantee ceases to be a Service Provider for any reason whatsoever, including termination without cause, other than the death or disability of such Grantee (as contemplated under paragraph (ii) below), all outstanding Bonus Award Agreements and Bonus Awards issued to such Grantee shall be terminated and all rights to receive payment of the Award Value thereunder shall be forfeited by the Grantee effective as of the date that is 30 days from the Cessation Date, provided that; upon the termination of any employee for cause, the Board may, in its sole discretion, determine that all outstanding Bonus Awards shall immediately terminate and become null and void on the Cessation Date.
  - (ii) ***Termination Upon Death or Disability*** – Upon the death or disability of a Grantee prior to the Expiry Date, all outstanding Bonus Award Agreements and Bonus Awards issued to such Grantee shall be terminated and all rights to receive payment of the Award Value thereunder shall be forfeited by the Grantee effective on earlier of: (i) the Expiry Date; and (ii) date that is six months from the Cessation Date.
- (i) ***Rights as a Shareholder*** – Until Common Shares have actually been issued in accordance with the terms of the Plan, the Grantee to whom a Bonus Award has been made shall not possess any incidents of ownership of such Common Shares including, for greater certainty and without limitation, the right to receive Dividends on such Common Shares and the right to exercise voting rights in respect of such Common Shares. Such Grantee shall only be considered a Shareholder in respect of such Common Shares when such issuance has been entered upon the records of the duly authorized transfer agent of PetroShale.
- (j) ***Treatment of non-cash Dividends*** – Subject to any required approval of the Exchange, in the event that the Common Shares of the Corporation are listed on the Exchange, in the case of a non-cash Dividend, including Common Shares or other securities or other property, the Board may, in its sole discretion, determine that this non-cash Dividend be provided to a Grantee on the same basis as a holder of a Common Share with the same Dividend Record Date and Dividend Payment Date, regardless of the Payment Date applicable to such Bonus Award, and, in such event, no adjustment to the Adjustment Ratio will be provided to the Grantee. The Board may provide this non-cash Dividend to the Grantee in the same form as the non-cash distribution received by a holder of a Common Share or a cash equivalent amount determined in the sole discretion of the Board. In the alternate case, where the Grantee does not participate in a non-cash Dividend as described above, the Board will, in its sole discretion, determine the cash value of such non-cash Dividend to be applied to the Adjustment Ratio.
- (k) ***Effect of Certain Changes*** – In the event:
  - (i) of any change in the Common Shares through subdivision, consolidation, reclassification, amalgamation, merger or otherwise;
  - (ii) that any rights are granted to all Shareholders to purchase Common Shares at prices substantially below the Fair Market Value; or



- (iii) that, as a result of any recapitalization, merger, consolidation or other transaction, the Common Shares are converted into or exchangeable for any other securities,

then, in any such case, the Board may, in the event that the Common Shares of the Corporation are listed on the Exchange, subject to any required approval of the Exchange, make such adjustments to the Plan, to any Bonus Awards and to any Bonus Award Agreements outstanding under the Plan as may be appropriate in the circumstances (including changing the Common Shares covered by each Bonus Award into other securities on the same basis as Common Shares are converted into or exchangeable for such securities in any such transaction) to prevent dilution or enlargement of the rights granted to Grantees hereunder

## **7. Withholding Taxes**

When a Grantee or other person becomes entitled to receive a payment in respect of a Bonus Award, PetroShale or a PetroShale Entity shall have the right to require the Grantee or person to remit to PetroShale an amount sufficient to satisfy any withholding tax requirements relating thereto. Unless otherwise prohibited by the Board or by applicable law, satisfaction of the withholding tax obligation may be accomplished by any of the following methods or by a combination of such methods:

- (a) the tendering by the Grantee of a cash payment to PetroShale in an amount less than or equal to the total withholding tax obligation; or
- (b) where PetroShale has elected to issue Common Shares to the Grantee, the withholding by PetroShale or a PetroShale Entity, as the case may be, from the Common Shares otherwise due to the Grantee such number of Common Shares as it determines are required to be sold by PetroShale, as trustee, to satisfy the total withholding tax obligation (net of selling costs). The Grantee consents to such sale and grants to PetroShale an irrevocable power of attorney to effect the sale of such Common Shares and acknowledges and agrees that PetroShale does not accept responsibility for the price obtained on the sale of such Common Shares; or
- (c) the withholding by PetroShale or a PetroShale Entity, as the case may be, from any cash payment otherwise due to the Grantee, including the Settlement Amount, such amount of cash as is required for the amount of the total withholding tax obligation;

provided, however, that the sum of any cash so paid or withheld and the Fair Market Value of any Common Shares so withheld is sufficient to satisfy the total withholding tax obligation.

Grantees (or their beneficiaries) shall be responsible for all taxes with respect to any Bonus Awards granted under the Plan. The Board and PetroShale make no guarantees to any person regarding the tax treatment of Bonus Awards or payments made under the Plan and none of PetroShale, nor any of its employees or representatives shall have any liability to a Grantee (or its beneficiaries) with respect thereto.

## **8. Non-Transferability**

Subject to **Section 6(h)(ii)**, the right to receive payment pursuant to a Bonus Award granted to a Service Provider is held only by such Service Provider personally. Except as otherwise provided in this Plan, no assignment, sale, transfer, pledge or charge of a Bonus Award, whether voluntary, involuntary, by operation of law or otherwise, vests any interest or right in such Bonus Award whatsoever in any assignee or transferee and, immediately upon any assignment, sale, transfer, pledge or charge or attempt to assign, sell, transfer, pledge or charge, such Bonus Award shall terminate and be of no further force or effect.

## **9. Amendment and Termination of Plan**

This Plan and any Bonus Awards granted pursuant to the Plan may be amended, modified or terminated by the Board without approval of Shareholders, subject to any required approval of the Exchange in the event that the Common Shares of the Corporation are listed on the Exchange.

If the Common Shares of the Corporation are listed on the Exchange, then notwithstanding the foregoing, the Plan may not be amended without Shareholder approval to:

- (a) make any amendment to the Plan to increase the percentage of Common Shares that are available to be issued under outstanding Bonus Awards at any time pursuant to **Section 5(a)** hereof;
- (b) extend the Expiry Date of any outstanding Bonus Awards held by Insiders;
- (c) make any amendment to the Plan that would permit a holder to transfer or assign Bonus Awards to a new beneficial holder other than in the case of death of the holder;
- (d) any amendment to increase the number of Common Shares that may be issued to Insiders above the restriction contained in **Section 5**; or
- (e) an amendment to amend this **Section 9**.

In addition, no amendment to the Plan or Bonus Awards granted pursuant to the Plan may be made without the consent of the Grantee, if it adversely alters or impairs the rights of any Grantee in respect of any Bonus Award previously granted to such Grantee under the Plan.

## **10. Merger and Sale**

In the event that PetroShale enters into any transaction or series of transactions whereby PetroShale or all or substantially all of PetroShale's undertaking, property or assets would become the property of any other trust, body corporate, partnership or other person (a "**Successor**") whether by way of takeover bid, acquisition, reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise, unless prior to or contemporaneously with the consummation of such transaction, PetroShale and the Successor shall execute such instruments and do such things as are necessary, if any, to establish that upon the consummation of such transaction the Successor will have assumed all the covenants and obligations of PetroShale under this Plan and the Bonus Award Agreements outstanding on consummation of such transaction in a manner that substantially preserves and does not impair the rights of the Grantees thereunder in any material respect (including the right to receive shares, securities, cash or other property of the Successor in lieu of Common Shares upon the subsequent payment of Bonus Awards). Subject to compliance with this **Section 10**, any such Successor shall succeed to, and be substituted for, and may exercise every right and power of PetroShale under this Plan and such Bonus Award Agreements with the same effect as though the Successor had been named as PetroShale herein and therein and thereafter, PetroShale shall be relieved of all obligations and covenants under this Plan and such Bonus Award Agreements and the obligation of PetroShale to the Grantees in respect of the Bonus Awards shall terminate and be at an end and the Grantees shall cease to have any further rights in respect thereof including, without limitation, any right to acquire Common Shares upon payment of the Bonus Awards.

## **11. Miscellaneous**

- (a) ***Effect of Headings*** – The section and subsection headings contained herein are for convenience only and shall not affect the construction hereof.

- (b) ***Compliance with Legal Requirements*** – PetroShale may, in its sole discretion, postpone the issuance or delivery of any Common Shares that it elects to issue as payment for any Bonus Award as the Board may consider appropriate, and may require any Grantee to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Common Shares in compliance with applicable laws, rules and regulations. PetroShale shall not be required to qualify for resale pursuant to a prospectus or similar document any Common Shares awarded under the Plan, provided that, if required, PetroShale shall notify the TSX and any other appropriate regulatory bodies in Canada of the existence of the Plan and the granting of Bonus Awards hereunder in accordance with any such requirements.
- (c) ***No Right to Continued Employment*** – Nothing in the Plan or in any Bonus Award Agreement entered into pursuant hereto shall confer upon any Grantee the right to continue in the employ or service of PetroShale or any PetroShale Entities, to be entitled to any remuneration or benefits not set forth in the Plan or a Bonus Award Agreement or to interfere with or limit in any way the right of PetroShale or any PetroShale Entity to terminate a Grantee's employment or service arrangement with PetroShale or any PetroShale Entity.
- (d) ***Ceasing to be a PetroShale Entity*** – Except as otherwise provided in this Plan, Bonus Awards granted under this Plan shall not be affected by any change in the relationship between or ownership of PetroShale and a PetroShale Entity. For greater certainty, all Bonus Awards remain valid and exercisable in accordance with the terms and conditions of this Plan and are not affected by reason only that, at any time, any corporation, partnership or trust ceases to be a PetroShale Entity.
- (e) ***Grantee Information*** – Each Grantee shall provide PetroShale with all information (including personal information) required by PetroShale in order to administer the Plan. Each Grantee acknowledges that information required by PetroShale in order to administer the Plan may be disclosed to the Board or its appointed administrator and other third parties in connection with the administration of the Plan. Each Grantee consents to such disclosure and authorizes PetroShale to make such disclosure on the Grantee's behalf.
- (f) ***Expenses*** – Other than as contemplated pursuant to **Section 7**, all expenses in connection with the Plan shall be borne by PetroShale.

## **12. Governing Law**

The Plan shall be governed by and construed in accordance with the laws in force in the Province of Alberta.

## **13. Effective Date**

This Plan shall take effect on ●, 2014.