



**ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS  
TO BE HELD ON MAY 12, 2015**

**NOTICE OF MEETING AND  
MANAGEMENT INFORMATION CIRCULAR**

**APRIL 7, 2015**



**CUB ENERGY INC.**  
5120 Woodway Drive, Suite 10010  
Houston, Texas 77056

April 7, 2015

Dear Shareholder:

We are pleased to invite you to attend the annual and special meeting of holders of common shares of Cub Energy Inc. to be held at Cub's corporate headquarters in Houston, Texas, Board Room, 5120 Woodway Drive, Suite 10010, Houston, Texas 77056, on Tuesday, May 12, 2015, commencing at 9:00 a.m. (Houston time).

The items of business to be acted on by the shareholders are set forth in the enclosed notice of meeting and management information circular. As your vote is important, your shares should be represented at the meeting whether or not you are able to attend. If you do not plan to attend, please complete, date, sign and return the enclosed form of proxy so that your shares can be voted at the meeting in accordance with your instructions.

If you have questions regarding Cub Energy Inc. and its future plans, please contact me by telephone at (713) 677-0439 or by email at [mikhail.afendikov@cubenergyinc.com](mailto:mikhail.afendikov@cubenergyinc.com).

Sincerely,

*(signed) Mikhail Afendikov*  
Chairman and Chief Executive Officer

## CUB ENERGY INC.

### NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS GIVEN that the annual and special meeting of the holders of common shares of Cub Energy Inc. ("Cub" or the "Corporation") will be held at Cub's corporate headquarters in Houston, Texas, Board Room, 5120 Woodway Drive, Suite 10010, Houston, Texas 77056, on Tuesday, May 12, 2015, commencing at 9:00 a.m. (Houston time), for the following purposes, each as described in the management information circular accompanying this notice of meeting:

1. to receive the financial statements of the Corporation for the year ended December 31, 2014 and the auditor's report thereon;
2. to appoint Collins Barrow LLP as auditor of the Corporation for the financial year ended December 31, 2015, and authorize the board of directors to fix the remuneration of the auditor;
3. to set the number of directors to be elected at four;
4. to elect the board of directors;
5. to amend the Articles of the Corporation to consolidate the issued and outstanding common shares in a range of one common share for up to every 10 of the issued and outstanding common shares that the board of directors, in its sole discretion, determines to be appropriate;
6. to approve the Corporation's Stock Option Plan for the ensuing year; and
7. to transact such other business as may be properly brought before the meeting or any adjournment thereof.

The board of directors has fixed April 7, 2015, as the record date for the determination of shareholders entitled to notice of and to vote at the meeting and at any adjournment thereof. Only shareholders of record on the record date are entitled to receive notice of and to vote at the meeting.

A registered shareholder may appoint a proxyholder to attend and act at the meeting in accordance with the shareholder's instructions. A shareholder wishing to appoint a proxyholder should complete, date and sign the enclosed form of proxy and deposit it with TMX Equity Transfer Services, Suite 300, 200 University Avenue, Toronto, Ontario M5H 4H1. Proxies must be deposited with TMX Equity Transfer Services at least 48 hours, excluding Saturdays, Sundays and holidays, preceding the meeting.

There are also procedures, described in the accompanying management information circular, for beneficial owners of shares to give voting instructions to the registered owners of those shares.

DATED at Houston, Texas, April 7, 2015.

By Order of the Board of Directors,

*(signed) Mikhail Afendikov*  
Chairman and Chief Executive Officer

**CUB ENERGY INC.**  
**MANAGEMENT INFORMATION CIRCULAR**

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## PROXY SOLICITATION MATTERS

### PURPOSE OF SOLICITATION

This management Information Circular ("**Information Circular**") is furnished by the management of Cub Energy Inc. ("**Cub**" or the "**Corporation**") in connection with the solicitation of proxies by management of the Corporation for use at the annual and special meeting (the "**Meeting**") of holders ("**Shareholders**") of common shares ("**Common Shares**") of the Corporation to be held at Cub's corporate headquarters in Houston, Texas, Board Room, 5120 Woodway Drive, Suite 10010, Houston, Texas 77056, on Tuesday, May 12, 2015, commencing at 9:00 a.m. (Houston time), and at any adjournment thereof, for the purposes set forth in the accompanying notice of the Meeting and this Information Circular.

### APPOINTMENT OF PROXIES

The enclosed proxy is solicited by and on behalf of management of the Corporation. The persons named in the enclosed form of proxy are officers of the Corporation. **A holder of Common Shares submitting a form of proxy has the right to appoint a person (who need not be a Shareholder of the Corporation) other than the persons designated in the form of proxy to attend and act for him or her at the Meeting. A Shareholder desiring to appoint some other person to represent him or her at the Meeting may do so either by inserting such other person's name in the blank space provided in the form of proxy or by completing another form of proxy.**

To be used at the Meeting, a completed proxy must be deposited at the offices of TMX Equity Transfer Services, Suite 300, 200 University Avenue, Toronto, Ontario, M5H 4H1, not less than 48 hours (excluding Saturdays, Sundays and holidays in Ontario), before the time set for the Meeting or any adjournment thereof. Solicitation will be primarily by mail, but some proxies may be solicited personally or by telephone, facsimile transmission or other electronic means by officers, directors or employees of the Corporation at a nominal cost. All costs in connection with the solicitation of proxies will be borne by the Corporation.

### VOTING OF PROXIES

All Common Shares represented at the Meeting by properly executed proxies will be voted (including voting on any ballot), and where a choice with respect to any matter to be acted on has been specified in the form of proxy, the Common Shares represented by the proxy will be voted in accordance with such specification. **In the absence of any such specification, the persons named in the form of proxy, who are officers of the Corporation, will, if named as proxy, vote in favour of the resolutions set forth in the accompanying notice of the Meeting.**

The enclosed form of proxy confers discretionary authority upon the person named therein with respect to (a) amendments or variations to matters identified in the notice of the Meeting and (b) other matters which may properly come before the Meeting or any adjournment thereof. As at the date of this Information Circular, management of the Corporation knows of no amendments, variations or other matters to come before the Meeting other than the matters referred to in the notice of the Meeting. If any such amendment, variation or other matter properly comes before the Meeting, the Common Shares represented by proxies in favour of management will be voted on such matters in accordance with the best judgment of the person named in the proxy.

### REVOCACTION OF PROXIES

**A holder of Common Shares who has given a proxy may revoke it as to any matter upon which a vote has not already been cast pursuant to the authority conferred by the proxy. Subject to compliance with the requirements set forth in the following paragraph, the giving of a proxy will not affect the right of a holder of Common Shares to attend and vote in person at the Meeting.**

A Shareholder who has given a proxy may revoke it at any time prior to the exercise thereof either by (a) signing a form of proxy bearing a later date and depositing the same with Equity Financial Trust Company not less than 48 hours (excluding Saturdays, Sundays and holidays in Ontario) before the time set for the holding of the Meeting or any adjournment thereof, or with the chairman of the Meeting before any vote in respect of which the proxy is to be used shall have been taken, or (b) attending the Meeting in person and registering with the scrutineers as a Shareholder personally present.

### VOTING SHARES AND RECORD DATE

The authorized share capital of the Corporation consists of an unlimited number of Common Shares. As at April 7, 2015 (the "**Record Date**"), there were 311,746,285 Common Shares issued and outstanding.

#### *Common Shares*

The holders of Common Shares are entitled to one vote per Common Share held at meetings of Shareholders, to receive dividends, if, as and when declared by the board of directors of the Corporation (the "**Board**") and to receive pro rata the remaining property and assets of the Corporation upon its dissolution or winding up.

#### *Record Date*

The Board has fixed April 7, 2015, as the Record Date for the determination of Shareholders entitled to notice of and to vote at the Meeting and at any adjournment thereof. Shareholders of record at the close of business on the Record Date are entitled to such notice and to vote at the Meeting.

Only forms of proxy from registered Shareholders as of the Record Date can be recognized and voted at the Meeting. Persons who are beneficial holders of Common Shares as of the Record Date will be entitled to vote at the Meeting in accordance with the procedures established pursuant to Canadian Securities Administrators National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer* ("**NI 54-101**").

### ADVICE TO BENEFICIAL SHAREHOLDERS

**The information set forth in this section is of significant importance to many Shareholders, as a substantial number of Shareholders do not hold shares in their own name.** Shareholders who do not hold shares in their own name (referred to in this Information Circular as "**Beneficial Shareholders**") should note that only proxies deposited by Shareholders whose names appear on the records of the Corporation as the registered holders of Common Shares can be recognized and acted upon at the Meeting. If Common Shares are listed in an account statement provided to a Shareholder by a broker, then in almost all cases those Common Shares will not be registered in the Shareholder's name on the records of the Corporation. Such Common Shares will more likely be registered under the names of the Shareholder's broker or an agent of that broker. In Canada, the majority of such shares are registered under the name of CDS & Co. (the registration name for The Canadian Depository for Securities, which acts as nominee for many Canadian brokerage firms). Shares held by brokers or their agents or nominees can only be voted upon the instructions of the Beneficial Shareholder. Without specific instructions, brokers and their agents and nominees are prohibited from voting shares for the broker's clients. **Therefore, Beneficial Shareholders should ensure that instructions respecting the voting of their Common Shares are communicated to the appropriate person.**

The Corporation is sending proxy-related materials directly to non-objecting Beneficial Shareholders under NI 54-101. Management of the Corporation does not intend to pay for intermediaries to forward to objecting Beneficial Shareholders under NI 54-101 the proxy-related materials and in the case of objecting Beneficial Shareholders, the objecting Beneficial Shareholder will not receive the materials unless such holder's intermediary assumes the cost of delivery.

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Shareholders in advance of Shareholders' meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions to clients, which should be carefully followed by Beneficial Shareholders in order to ensure that their Common Shares are voted at the Meeting. The form of proxy supplied to a Beneficial Shareholder by its broker (or the agent of the broker) is similar to the form of proxy provided to registered Shareholders by the Corporation. However, its purpose is limited to instructing the registered Shareholder (the broker or agent of the broker) on how to vote on behalf of the Beneficial Shareholder. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("**Broadridge**"). Broadridge typically prepares a machine-readable voting instruction form which is mailed to Beneficial Shareholders with a request that the Beneficial Shareholders return the forms to Broadridge or otherwise communicate voting instructions to Broadridge (i.e. by way of the Internet or telephone). Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares to be represented at the Meeting. **A Beneficial Shareholder receiving a Broadridge voting instruction form cannot use that form to vote Common Shares directly at the Meeting - the voting instruction form must be returned**

**to Broadridge or voting instructions communicated to Broadridge well in advance of the Meeting in order to have the Common Shares voted.**

Although a Beneficial Shareholder may not be recognized directly at the Meeting for purposes of voting Common Shares registered in the name of his broker (or agent of the broker), a Beneficial Shareholder may attend at the Meeting as proxyholder for the registered Shareholder and vote the Common Shares in that capacity. **Beneficial Shareholders who wish to attend the Meeting and vote their Common Shares as proxyholder for the registered Shareholder should contact their broker or other intermediary well in advance of the Meeting.**

#### **QUORUM FOR THE MEETING**

At the Meeting, a quorum shall be two persons present in person, each being a Shareholder entitled to vote there at or a duly appointed proxyholder or representative for a Shareholder so entitled. If a quorum is present at the opening of the Meeting, the Shareholders present or represented may proceed with the business of the meeting notwithstanding that a quorum is not present throughout the Meeting. If a quorum is not present at the opening of the Meeting, the Shareholders present or represented may adjourn the Meeting to a fixed time and place but may not transact any other business.

#### **APPROVAL REQUIREMENTS**

All of the matters to be considered at the Meeting are ordinary resolutions requiring approval by more than 50% of the votes cast in respect of the resolution by or on behalf of Shareholders present in person or represented by proxy at the Meeting *except* the special resolution to amend the Articles of the Corporation to approve a prospective share consolidation up to 10:1. The special resolution to consolidate shares must be approved by a majority of not less than two-thirds of the votes cast in respect of the resolution by or on behalf of Shareholders present in person or represented by proxy at the Meeting.

#### **PRINCIPAL HOLDERS OF VOTING SHARES**

Other than as disclosed below, to the knowledge of the Corporation's directors and executive officers, as at the date of this Information Circular, no person or corporation beneficially owns, directly or indirectly, or controls or directs voting securities carrying 10% or more of the voting rights attached to the issued and outstanding Common Shares of the Corporation.

<b>Name</b>	<b>No. of Common Shares</b>	<b>% of Outstanding Common Shares</b>
Pelicourt Limited <sup>(1)</sup>	124,336,089	39.9%
Harrington Global LTD (formerly Salida Capital Management)	62,108,810	19.9%
Fergava Finance Inc.	44,444,444	14.3%

#### **Notes:**

(1) Mikhail Afendikov, Executive Chairman and Chief Executive Officer of the Corporation, owns a 31% interest in Pelicourt Limited.

As of the Record Date, the directors and officers of Cub own, directly or indirectly, 261,025 Common Shares, representing approximately 0.1% of the issued and outstanding Common Shares, zero Options, and 161,650 Warrants, being approximately 1.8% of the issued and outstanding Warrants.

**CURRENCY PRESENTATION IN INFORMATION CIRCULAR**

Unless otherwise indicated, references to "\$" or "dollars" or "US\$" are to United States Dollars and references to "CAD\$" are to Canadian Dollars.

**EXECUTIVE AND DIRECTOR COMPENSATION**

**COMPENSATION DISCUSSION AND ANALYSIS**

The Corporation has established a Compensation, Nominating and Governance Committee (the “**Compensation, Nominating and Governance Committee**”) currently comprised of three directors, Frank Mermoud (Chair), Richard Stoneburner and Tim Marchant. The Corporation considers Messrs. Mermoud, Stoneburner and Marchant to be independent directors.

The education and experience of each Compensation, Nominating and Governance Committee member that is relevant to the performance of his responsibilities is as follows:

<b><u>Name</u></b>	<b><u>Relevant Education and Experience</u></b>
<b>Frank Mermoud (Chair)</b>	Mr. Mermoud has extensive and high profile international experience in policy-making, international business, trade and investment. Mr. Mermoud has been the President of Orpheus International, a Washington D.C. based private advisory firm since June 2011. He also serves on the Executive Committee of the US-Ukraine Business Council and is a member of The Atlantic Council. Mr. Mermoud was a Managing Director of Monument Capital Group LLC, a Washington, DC based private investment firm, from 2010 to May 2011 and a Senior Partner at TD International LLC, a global strategic consultancy firm, from 2009 to 2010. Mr. Mermoud also served as the Secretary of State's Special Representative for Commercial and Business Affairs at the U.S. Department of State from 2002 through 2009. With nearly 30 years of experience in the public and private sectors, Mr. Mermoud has exhibited a pro-active nature to business development, identifying investment and trade opportunities and facilitating capital in both the private equity and debt markets. Mr. Mermoud received a Bachelor of Science in Foreign Service degree from Georgetown University. Mr. Mermoud is fluent in French and has worked extensively throughout his career in Europe, Asia, Latin America and Africa.
<b>Richard Stoneburner</b>	<p>Mr. Stoneburner has more than 37 years of experience in the oil and gas industry. Mr. Stoneburner served as the President North America Shale Production Division for BHP Billiton Petroleum from August 2011 to December 2012. In this role, he managed field operations in a multitude of unconventional plays. From 2009 to August 2011, Mr. Stoneburner served as President and Chief Operating Officer of Petrohawk Energy Corporation, as Chief Operating Officer from 2007-2009, as Vice President then Executive Vice President of Exploration from 2003-2007. During this time, he led Petrohawk's discovery of the Eagle Ford, its development of the Haynesville shale play, and its leadership position in the Wolfcamp play in the Permian Basin. Prior to co-founding Petrohawk, he was vice president, exploration, for 3TEC Energy Corp. and worked for several E&amp;P companies, including Hugoton Energy Corp., Weber Energy Co., Stoneburner Exploration Inc. and Texas Oil &amp; Gas.</p> <p>Mr. Stoneburner is currently a Managing Director with Pine Brook Partners and also serves on the board of Newfield Exploration Company, Yuma Exploration and Tamboran Resources. He was a member of the American Association of Petroleum Geologists' Distinguished Lecturer Series in 2013. Mr. Stoneburner has a B.S. in geological sciences from The University of Texas at Austin and a M.S. in geology from Wichita State University.</p>

<b>Name</b>	<b>Relevant Education and Experience</b>
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<b>Tim Marchant</b>	Dr. Marchant has over 30 years petroleum experience in Canadian and international exploration, development, production and business development. From 1980 to 2009 Dr. Marchant was with Amoco and BP including positions as Chief Geologist Amoco Canada, Nile Delta Exploration Manager Amoco Egypt, VP Exploration BP Egypt Oil, Exploration Manager ExxonMobil Saudi Arabia, General Manager BP Abu Dhabi, President BP Kuwait Ltd. and VP Middle East E&P BP International. Dr. Marchant has been an Adjunct Professor of Strategy and Energy Geopolitics, Haskayne School of Business, University of Calgary since September 2009. Dr. Marchant is currently a non-executive director of Vermilion Energy Inc. Dr. Marchant has a Ph.D. Geology, Trinity College, University of Dublin, Ireland, 1978, completed the Ivey Executive Program, University of Western Ontario, 1994 and the Institute of Corporate Directors Education Program in 2011.
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One of the mandates of the Compensation, Nominating and Governance Committee is to assist the Board in the review and approval of compensation matters. The Compensation, Nominating and Governance Committee makes specific recommendations regarding compensation of the Corporation's directors and Named Executive Officers ("NEOs"), which, for purposes of this Informational Circular, includes each of the following individuals: (a) Chief Executive Officer ("CEO"); (b) Chief Operating Officer ("COO"); (c) Chief Financial Officer ("CFO"); (d) General Counsel, Corporate Secretary and Chief Compliance Officer; and (e) Vice President Operations.

***Objectives of the Compensation Program***

The Corporation's compensation program has been designed to attract, retain and inspire highly qualified and motivated individuals, and to provide fair and competitive compensation in accordance with industry standards and with the individual's expertise and experience.

***Overview of the Compensation Philosophy***

The following principles guide the Corporation's overall compensation philosophy with respect to its NEOs:

- (a) compensation is determined on an individual basis by the need to attract and retain talented, high-achievers;
- (b) calculating total compensation is set with reference to the market for similar jobs in similar locations;
- (c) an appropriate portion of total compensation is variable and linked to achievements, both individual and corporate;
- (d) internal equity is maintained such that individuals in similar jobs and locations are treated fairly; and
- (e) the Corporation supports reasonable expenses in order that employees continuously maintain and enhance their skills.

The Board is given discretion to determine and adjust, year to year, the relative weighting of each form of compensation discussed above in a manner which best measures the success of the Corporation and its NEOs.

Compensation of all NEOs is based primarily on corporate performance, which includes achievement of the Corporation's strategic objective of growth and the enhancement of Shareholder value through increases in the stock price resulting from increases in reserves and production, continued low cost production and enhanced annual cash flow.

***The Compensation Review Process***

The form and amount of compensation payable to NEOs and directors is evaluated by the Compensation, Nominating and Governance Committee and is guided by the following goals:

- (a) compensation should be commensurate with the time spent by the executive officers and directors in meeting their obligations and reflective of the compensation paid by companies similar in size and business to the Corporation;
- (b) the Corporation's compensation program should fairly compensate and motivate the executive officers and directors; and
- (c) the structure of the compensation should be simple, transparent and easy for Shareholders to understand.

To determine compensation payable, the Compensation, Nominating and Governance Committee reviews compensation paid to directors and officers of companies of similar business, size and stage of development and determines an appropriate compensation reflecting the need to provide incentive and compensation for the time and effort expended by the executive officers while taking into account the financial and other resources of the Corporation. In 2013, the Compensation, Nominating and Governance Committee engaged Meridian Compensation Partners, LLC (“Meridian”) to assist in setting competitive compensation for its NEOs and directors. The Committee did not engage Meridian in 2014 due to cost-cutting measures, including reducing its total employee headcount at its corporate headquarters from 16 to nine employees as at December 31, 2014, and currently, there are a total of six employees (62% reduction).

**BASE SALARY**

In September 2013, with the addition of Patrick McGrath as CFO, and Rebecca Gottsegen as General Counsel, Corporate Secretary and Chief Compliance Officer, the Compensation, Nominating and Governance Committee, in consultation with Meridian, developed formal executive employment agreements for: (1) Mikhail Afendikov, Executive Chairman and CEO; (2) Patrick McGrath, CFO; (3) Cliff West, COO; and (4) Rebecca Gottsegen, General Counsel, Corporate Secretary and Chief Compliance Officer (collectively “**Executive Employment Agreements**”). The Board finalized and approved the Executive Employment Agreements, effective January 1, 2014 (automatically renewing each year), which include base salary, bonus, stock options and RSUs. See “*Termination and Change of Control Benefits.*”

Salaries form the primary component of the Corporation's compensation program for its NEOs. Salary levels are determined with reference to market comparables for similar positions based on market data provided by Meridian. Any salary increases for NEOs are established based on the performance of the executive, the individual experience and skills of, and expected contribution from, each executive, the roles and responsibilities of the executive, the base salaries of the Corporation's existing executives and other factors.

**BONUS PLAN**

No bonuses were paid in 2014. The 2014 bonus program recommended by the Compensation, Nominating and Governance Committee, and approved by the Board for 2014, provides as follows:

Executive Officer	% Bonus Tied to Corp Performance	% Bonus Tied to Individual Performance
Chairman, President & CEO	100%*	0%
COO	75%	25%
CFO	75%	25%
General Counsel/Corporate Secretary/ Chief Compliance Officer	75%	25%

\*Entire bonus is based on corporate performance

**Corporate performance portion:** In order for the above-referenced executives to earn the portion of their bonuses related to corporate performance, the Corporation must reach at least 75% of all four objective targets (below) during 2014. Upon reaching 75% of all of the objective targets, executives’ proportionate bonuses will be calculated based on the percentage achieved and the percentage weightings noted below. The objective targets may be adjusted by the Board to reflect any change to the capital expenditure budget during the year and for any acquisitions or dispositions during the year that affect the assumptions utilized to establish the targets.

Objective	December 31, 2013 Figures (unless otherwise specified)	Minimum 75%	Target 100%	Maximum 125%	Weighting %	Actual Numbers for 2014
PDP Reserves (10% discount rate)	\$51.4mm (before income taxes); \$44.7mm (after income taxes)		The PDP reserve additions will be compared to production additions normalized for commodity price changes, fiscal term changes and foreign exchange differences. The PDP will be adjusted for any debt incurred.		.25	
Annual Average Production Rate (boe/d)	1,542 boe/d	1,940 boe/d	2,586 boe/d	3,233 boe/d	.35	1,995 boe/d
Exit Production Rate (boe/d)	2,070 boe/d	2,504 boe/d	3,339 boe/d	4,174 boe/d	.15	2,407 boe/d
Operating Costs (\$/Mcf)	\$1.91/Mcf	\$3.33/Mcf	\$2.50/Mcf	\$1.87/Mcf	.25	\$1.20/Mcf

All four of the goals were not met and thus, no bonus was awarded. The annual average production rate for 2014 was 1,995 boe/d (which met the 75% minimum target) and the operating costs were US\$1.20/Mcf (which met the 125% maximum target); however, the exit production rate fell below the minimum 75% target totaling 2,407 boe/d.

Given the fact that the Corporation has streamlined its capital programs for 2015 in light of Ukraine's increased royalty rates and dividend restrictions, the Compensation, Nominating and Governance Committee agreed not to establish any bonus criterion for 2015 and leave any bonus award to the discretion of the Committee and the Board.

#### **STOCK OPTION PLAN**

The Corporation has in effect a Stock Option Plan in order to provide effective incentives to directors, officers, senior management personnel, employees and consultants of the Corporation and to enable the Corporation to attract and retain experienced and qualified individuals in those positions by permitting such individuals to directly participate in an increase in per share value created for the Corporation's Shareholders. The Corporation currently has no equity compensation plans other than the Stock Option Plan and the Restricted Share Unit Plan (discussed below). The Stock Option Plan is an important part of the Corporation's long-term incentive strategy for its executive officers, permitting them to participate in any appreciation of the market value of the common shares over a stated period of time. The Stock Option Plan is intended to reinforce commitment to long-term growth in profitability and shareholder value. The size of stock option grants to officers is dependent on each officer's level of responsibility, authority and importance to the Corporation and the degree to which such executive officer's long-term contribution to the Corporation will be key to its long-term success. Previous grants of stock options are taken into account when considering new grants.

The Corporation is seeking re-approval of the Shareholders at the Meeting for its Stock Option Plan. The significant terms of the Corporation's Stock Option Plan are set out below under the heading "*Business to be Acted Upon at the Meeting – Annual Approval of Stock Option Plan*". An aggregate of 18,860,000 options were granted under the Corporation's Stock Option Plan during 2013 and recently in 2015, 16,130,000 options were voluntarily canceled by officers, directors, employees and consultants. Currently, there are 3,089,000 outstanding options due to expire on May 15, 2015.

#### **RESTRICTED SHARE UNIT PLAN**

At the 2014 Annual Meeting of Shareholders, disinterested Shareholders approved the Restricted Share Unit ("RSU") Plan, which provides an additional pay-at-risk component to compensation of employees, officers,

directors and consultants in order to participate in the market appreciation of the Common Shares over an extended period, thereby enhancing the Corporation's ability to attract, motivate and retain qualified personnel and further aligning the interests of the Corporation's employees, officers, directors and consultants with those of the Shareholders. No RSUs were granted in 2014; however, on January 23, 2015, the Corporation issued 3,673,642 RSUs to Mr. Afendikov, at a price of CAD\$0.05/per share (total value CAD\$182,682; US\$158,333), vesting over three years, as part of his compensation for 2014. This price per share is a 67% premium to the then market price.

***Other Compensation Matters***

Other than as specifically set forth above, the Corporation, at present, does not propose to pay any other long-term incentive awards to its executive officers. The Corporation at present does not propose to establish any supplemental executive retirement plans, pension plans or disability benefits for the directors or the executive officers.

**SUMMARY COMPENSATION TABLE**

The following table provides a summary of the compensation earned during the last three financial years by the CEO, CFO, former CFO, and the three other most highly compensated executive officers of the Corporation earning more than CAD\$150,000 in total compensation during the most recently completed financial year (collectively "NEOs").

Name and principal position	Year <sup>(8)</sup>	Salary (US\$)	Share-based award (US\$)	Option-based awards <sup>(9)</sup> (US\$)	Non-equity incentive Plan compensation (US\$)				Total compensation (US\$)
					Annual incentive plans	Long-term incentive plans	Pension value (US\$)	All other compensation (US\$)	
Mikhail Afendikov <sup>(2)</sup> Chairman & Chief Executive Officer	2014	550,000	–	236,391	–	–	–	–	786,391
	2013	–	–	317,983	–	–	–	58,357	376,340
	2012	138,479	–	131,366	–	–	–	39,992	309,837
Patrick McGrath <sup>(3)</sup> Chief Financial Officer	2014	225,000	–	38,040	–	–	–	–	263,040
	2013	115,514	–	47,386	–	–	–	–	162,900
Cliff West <sup>(4)</sup> Chief Operating Officer	2014	270,000	–	81,514	–	–	–	–	351,514
	2013	270,000	–	101,543	–	–	–	–	371,543
	2012	270,000	–	–	–	–	–	–	270,000
Bruce Vasseur <sup>(5)</sup> Vice President Operations	2014	166,667	–	28,096	–	–	–	–	194,763
	2013	208,836	–	40,617	–	–	–	16,910	266,363
Rebecca Gottsegen <sup>(6)</sup> General Counsel, Corporate Secretary & Chief Compliance Officer	2014	222,000	–	30,642	–	–	–	–	252,642
	2013	74,000	–	29,464	–	–	–	49,581	153,045
Wally Rudensky <sup>(7)</sup> Former Chief Financial Officer	2013	–	–	47,892	–	–	–	–	203,252
	2012	–	–	44,877	–	–	–	–	204,845

**Notes:**

(1) The Corporation's financial statements are presented in United States dollars ("US\$"). Where amounts were paid in Canadian dollars, they have been converted to US\$ for this table.

- (2) Appointed as Chief Executive Officer on March 20, 2012. As of December 31, 2012, \$77,083 of Mr. Afendikov's 2012 salary remained payable; however, in 2013, Mr. Afendikov waived any accrued and owed salary for 2012 and 2013. As such, his actual salary paid by the Corporation in 2012 was \$61,396 and was Nil in 2013. In 2014, Mr. Afendikov's salary of \$550,000 was paid as follows: \$75,000 in cash, \$158,333 paid in the form of RSUs on January 23, 2015 (3,673,642 RSUs vesting over 3 years), and the remaining amount of \$316,667 has been accrued and remains payable. Mr. Afendikov's other compensation of \$39,992 in 2012 and \$58,357 in 2013 relates to directors' fees, which are included under "All other Compensation" in the above table.
- (3) Appointed as Chief Financial Officer on September 1, 2013.
- (4) Appointed as Chief Operating Officer on March 29, 2012.
- (5) Appointed as Vice President of Operations on February 26, 2013 and resigned effective September 30, 2014. As such, his options expired on December 31, 2014. Mr. Vasseur's compensation included under "All other Compensation" in the above table consists of a housing allowance.
- (6) Appointed as General Counsel, Corporate Secretary and Chief Compliance Officer on September 1, 2013. Prior to that time, Ms. Gottsegen worked as a part-time consultant to the Corporation earning \$49,581 from May 1, 2013 to August 31, 2013, which is included under "All other Compensation" in the above table.
- (7) Appointed as Chief Financial Officer on August 23, 2010. Mr. Rudensky resigned as Chief Financial Officer on June 25, 2012, was re-appointed as Interim Chief Financial Officer on August 21, 2012 and resigned again on September 1, 2013, after a permanent Chief Financial Officer was appointed.
- (8) In connection with a reverse-takeover transaction between the Corporation, Gastek LLC and the unit holders of Gastek LLC which closed in March 2012, the Corporation changed its year-end from June 30 to December 31. As a result, 2012 represents the period from July 1, 2011 to December 31, 2012, whereas 2011 represents the period from July 1, 2010 to June 30, 2011.
- (9) Stock Options were issued during 2013. Option-based awards reflect the grant date fair value using the Black-Scholes-Merton option pricing model, chosen because it is the most commonly used methodology for calculating option value. **The indicated amounts are fair value calculations rather than payments by the Corporation to the Named Executive Officer.** The following assumptions were used to estimate the fair value of options on the date of the grant, for inclusion as stock-based compensation expense during the financial years ended December 31, 2014, 2013 and 2012 (no options were granted to the Named Executive Officers during the financial years ended December 31, 2014 and 2012 except the assumption of options with the reverse takeover). The fair value of the stock based compensation is amortized over the vesting period of the options, generally being 5 years.

	2014	2013	2012
Risk free interest rate	1.76% to 2.02%	1.76% to 2.02%	1.37% to 1.49%
Expected lives	5 years	5 years	1 to 4.68 years
Expected volatility	100% to 101%	100% to 101%	100%
Dividend per share	Nil	Nil	Nil

#### OUTSTANDING OPTION-BASED AWARDS AND SHARE-BASED AWARDS AT DECEMBER 31, 2014

The following table sets forth for each NEO all Cub option-based awards and share-based awards outstanding at December 31, 2014.

Name	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 or payout value of share-based awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
Mikhail Afendikov	450,000	CAD\$0.45	December 2, 2016	—	—	—	—
Chairman & Chief Executive Officer	1,087,500	\$0.30	July 24, 2018	—	—	—	—
	<u>3,262,500</u>	\$0.40	July 24, 2018	—	—	—	—
	<b>4,800,000</b>						

Name	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 or payout value of share-based awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
Patrick McGrath	175,000	\$0.30	July 24, 2018	–	–	–	–
Chief Financial Officer	<u>525,000</u> 700,000	\$0.40	July 24, 2018	–	–	–	–
Cliff West	375,000	\$0.30	July 24, 2018	–	–	–	–
Chief Operating Officer	<u>1,125,000</u> 1,500,000	\$0.40	July 24, 2018	–	–	–	–
Bruce Vasseur	–	–	–	–	–	–	–
Vice President Operations	–	–	–	–	–	–	–
Rebecca Gottsegen	138,750	CAD\$0.30	September 3, 2018	–	–	–	–
General Counsel, Corporate Secretary & Chief Compliance Officer	<u>416,250</u> 555,000	CAD\$0.40	September 3, 2018	–	–	–	–

**Note:**

- (1) Calculated as the difference between the CAD\$0.035 closing price of Common Shares on the TSX Venture Exchange on December 31, 2014 (the last trading day of 2014) and the exercise price of the option. Not all options were vested at that date.
- (2) Subsequent to year-ended December 31, 2014, Mr. Afendikov, Mr. West, Mr. McGrath and Ms. Gottsegen cancelled their options.

**INCENTIVE PLAN AWARDS – VALUE VESTED OR EARNED DURING 2014**

The following table sets forth for each NEO the value of Cub option-based awards and share-based awards vested during 2014 and the value of non-equity incentive plan compensation earned during 2014.

Name	Option-based awards – Value vested during the year <sup>(1)</sup> (\$)	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year <sup>(2)</sup> (\$)
Mikhail Afendikov Chairman & Chief Executive Officer	Nil	Nil	Nil
Patrick McGrath Chief Financial Officer	Nil	Nil	Nil
Cliff West Chief Operating Officer	Nil	Nil	Nil
Bruce Vasseur Vice President Operations	Nil	Nil	Nil

<b>Name</b>	<b>Option-based awards – Value vested during the year <sup>(1)</sup></b> <b>(\$)</b>	<b>Share-based awards – Value vested during the year</b> <b>(\$)</b>	<b>Non-equity incentive plan compensation – Value earned during the year <sup>(2)</sup></b> <b>(\$)</b>
Rebecca Gottsegen General Counsel, Corporate Secretary & Chief Compliance Officer	Nil	Nil	Nil

**Notes:**

- (1) Calculated as the difference between the closing price of Common Shares on the TSX Venture Exchange on the option vesting date in 2014 and the exercise price of the in-the-money options that vested.
- (2) No bonuses were paid in 2014. Bonus Plan for 2014 and 2015 discussed in section entitled “*Executive and Director Compensation – Bonus Plan.*”

***Pension Plan Benefits***

The Corporation does not have any defined benefit or defined contribution pension plans or deferred compensation plans for NEOs.

**TERMINATION AND CHANGE OF CONTROL BENEFITS**

Effective January 1, 2014, the Corporation entered into Executive Employment Agreements with Mikhail Afendikov, Executive Chairman and CEO, Cliff West, COO, Patrick McGrath, CFO, and Rebecca Gottsegen, General Counsel, Corporate Secretary and Chief Compliance Officer. The Agreements provide as follows:

***Mikhail Afendikov, Executive Chairman and CEO***

Pursuant to his employment agreement and addendum, Mr. Afendikov is paid a base annual salary of \$550,000 (“Base Salary”), in the form of \$75,000 and \$475,000 in RSUs vesting over three years, as well as a potential bonus of \$550,000 (“Bonus”) in the form of restricted share units vesting over three years. The Board has discretion to pay Mr. Afendikov’s salary and bonus in US\$. See “*Statement of Executive Compensation – Base Salary and Bonuses.*” Mr. Afendikov negotiated this form of payment in lieu of cash payment, subject to Shareholder re-approval of the RSU Plan, as a way to preserve cash flow for the Corporation. The Corporation may terminate the employment of Mr. Afendikov at any time, without cause, by providing him with a lump sum payment equal to 12 months Base Salary plus 12 months of his pro-rated Bonus, plus 10% of his annual salary in lieu of continued benefits, less applicable deductions required by law. This same payment applies if Mr. Afendikov resigns with “good reason,” which is defined in the agreement under specific circumstances. In the event the Corporation terminates the employment of Mr. Afendikov within two years after a change of control occurs, he will be entitled to be paid an amount equal to 24 months Base Salary plus 12 months of his pro-rated Bonus, plus 10% of his annual salary in lieu of continued benefits, less applicable deductions required by law. This payment applies if Mr. Afendikov resigns with good reason within two years of the date of a change of control.

***Cliff West, COO***

Pursuant to his employment agreement, Mr. West is paid a base annual salary of \$270,000 (“Base Salary”), less applicable deductions required by law, as well as a potential bonus of \$270,000 (“Bonus”) based on achievement of certain objective corporate goals and individual performance goals. See “*Statement of Executive Compensation – Base Salary and Bonuses.*” The Corporation may terminate the employment of Mr. West at any time, without cause, by providing him with a lump sum payment equal to 12 months Base Salary plus 12 months of his pro-rated Bonus, plus 10% of his annual salary in lieu of continued benefits, less applicable deductions required by law. This same payment applies if Mr. West resigns with good reason or his employment is terminated within one year after a change of control occurs. “Good reason” is defined in the agreement under specific circumstances, such as diminution of duties/responsibilities, salary or relocation.

***Patrick McGrath, CFO***

Pursuant to his employment agreement, Mr. McGrath is paid a base annual salary of \$225,000 (“Base Salary”), less

applicable deductions required by law, as well as a potential bonus of \$225,000 (“Bonus”) based on achievement of certain objective corporate goals and individual performance goals. See “*Statement of Executive Compensation – Base Salary and Bonuses.*” The Corporation may terminate the employment of Mr. McGrath at any time, without cause, by providing him with a lump sum payment equal to 12 months Base Salary plus 12 months of his pro-rated Bonus, plus 10% of his annual salary in lieu of continued benefits, less applicable deductions required by law. This same payment applies if Mr. McGrath resigns with good reason or his employment is terminated within one year after a change of control occurs. “Good reason” is defined in the agreement under specific circumstances, such as diminution of duties/responsibilities, salary or relocation.

***Rebecca Gottsegen, General Counsel, Corporate Secretary and Chief Compliance Officer***

Pursuant to her employment agreement, Ms. Gottsegen is paid a base annual salary of \$222,000 (“Base Salary”), less applicable deductions required by law, as well as a potential bonus of \$222,000 (“Bonus”) based on achievement of certain objective corporate goals and individual performance goals. See “*Statement of Executive Compensation – Base Salary and Bonuses.*” The Corporation may terminate the employment of Ms. Gottsegen at any time, without cause, by providing her with a lump sum payment equal to 12 months Base Salary plus 12 months of his pro-rated Bonus, plus 10% of her annual salary in lieu of continued benefits, less applicable deductions required by law. This same payment applies if Ms. Gottsegen resigns with good reason or her employment is terminated within one year after a change of control occurs. “Good reason” is defined in the agreement under specific circumstances, such as diminution of duties/responsibilities, salary or relocation.

The following table sets forth the estimated incremental payments, payables, and benefits under the agreements assuming that the triggering event took place on December 31, 2014, being the last business day of the Corporation’s most recently completed financial year. No other NEO employment agreements were in place as of December 31, 2014.

<b>Name</b>	<b>Salary (\$)</b>	<b>Bonus (\$)</b>	<b>Benefits (\$)</b>	<b>Options <sup>(1)</sup> (\$)</b>	<b>Total Payment (\$)</b>
Mikhail Afendikov Chairman & Chief Executive Officer	1,100,000	550,000	110,000	Nil	1,760,000
Patrick McGrath Chief Financial Officer	225,000	225,000	22,500	Nil	472,500
Cliff West Chief Operating Officer	270,000	270,000	27,000	Nil	567,000
Rebecca Gottsegen General Counsel, Corporate Secretary & Chief Compliance Officer	222,000	222,000	22,200	Nil	466,200
<b>Total</b>	<b>1,817,000</b>	<b>1,267,000</b>	<b>181,700</b>		<b>3,265,700</b>

**Note:**

- (1) Calculated as the difference between the CAD\$0.035 closing price of Corporation common shares on the TSX Venture Exchange on December 31, 2014 (the last trading day of 2014) and the exercise price of the options.

***Risk Considerations***

Commencing in 2012, the Compensation, Nominating and Governance Committee reviews from time to time and at least once annually, the risks, if any, associated with the Corporation's compensation policies and practices at such time. Such a review occurred at the time of preparation of this Compensation Discussion & Analysis. Implicit in the Compensation and Nominating Committee's mandate is that the Corporation's policies and practices respecting compensation, including those applicable to the Corporation's executives, be designed in a manner which is in the best interests of the Corporation and its Shareholders and risk implications is one of many considerations which are taken into account in such design.

It is anticipated that a portion (set at a level consistent with its industry peers) of the Corporation's executive compensation will consist of options granted under the Stock Option Plan or RSUs under the RSU Plan. In fact, Mr. Afendikov's current employment agreement (effective January 1, 2014), calls for most of his compensation to be paid in RSUs (or cash at the discretion of the Board). Such compensation is both "long-term" and "at-risk" and, accordingly, is directly linked to the achievement of long-term value creation. As the benefits of such compensation, if any, are not realized by the executive until a significant period of time has passed, the ability of executives to take inappropriate or excessive risks that are beneficial to them from the standpoint of their compensation at the expense of the Corporation and its Shareholders is extremely limited.

The other two elements of compensation, salary and bonus, represent the remaining portion of an executive's total compensation. While neither salary nor bonus are "long-term" or "at-risk", as noted above, these components of compensation represent a relatively small part of total compensation and as a result it is unlikely that an executive would take inappropriate or excessive risks at the expense of the Corporation and its Shareholders that would be beneficial to them from the standpoint of their short-term compensation when their long-term compensation might be put at-risk from their actions.

The Corporation has not imposed any restrictions on the purchase by executive officers or directors of financial instruments (such as prepaid variable forward contracts, equity swaps, collars or units of exchange funds) that are designed to hedge or offset a decrease in market value of Common Shares held, directly or indirectly, by the executive officer or director.

Due to the size of the Corporation, and the current level of the Corporation's activity, the Board and the Compensation, Nominating and Governance Committee are able to closely monitor and consider any risks which may be associated with the Corporation's compensation policies and practices. Risks, if any, may be identified and mitigated through regular Board meetings during which, financial and other information of the Corporation are reviewed, and which incorporation includes executive compensation. No risks have been identified arising from the Corporation's compensation policies and practices that are reasonably likely to have a material adverse effect on the Corporation.

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

The following table sets forth information with respect to the Corporation's Stock Option Plan, the only compensation plan under which equity securities of the Corporation are authorized for issuance, as at December 31, 2014.

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options</b>	<b>Weighted Average Exercise Price of Outstanding Options</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans<sup>(1)</sup></b>
Equity compensation plan approved by security holders (Stock Option Plan)	19,219,000	CAD\$0.41	11,955,000
Equity compensation plan approved by security holders (RSU Plan)	N/A	N/A	11,955,000
<b>Total:</b>	19,219,000	CAD\$0.41	11,955,000 <sup>(1)</sup>

**Note:**

- (1) A total of 11,955,000 can be issued through the Stock Option Plan or the RSU Plan. Subsequent to year-ended December 31, 2014, a total of 16,130,000 options were voluntarily cancelled by officers, directors, employees and consultants and 3,673,642 RSUs were issued to Mr. Afendikov as part of his 2014 compensation.

**DIRECTOR COMPENSATION**

The current Board has four directors. The Board's director compensation policies provided that directors who are not also executive officers of the Corporation would be paid an annual retainer of CAD\$75,000 and an annual retainer of CAD\$25,000 for each Board Committee chair. From time to time, the Board, in its discretion, may also compensate directors with fees for their services on Board projects or special Committees of the Board. Board members are also eligible to participate in the Stock Option Plan and any other long-term compensation plans adopted by the Corporation from time to time. The Corporation will reimburse directors for all reasonable expenses incurred in order to attend meetings. The Corporation maintains a director and officer liability insurance policy pursuant to which directors and officers are insured for liabilities which may arise from the conduct of their activities on behalf of the Corporation. The amount of insurance coverage is CAD\$15,000,000 per year, plus Side A -- Difference in Conditions (DIC) coverage of CAD\$5,000,000 per year at an annual total premium cost of CAD\$48,468.

The following table sets forth all amounts of compensation provided to the non-management directors for the financial period from January 1, 2014 to December 31, 2014.

<b>Name</b>	<b>Fees earned (US\$)</b>	<b>Share-based awards (US\$)</b>	<b>Option-based awards (US\$)<sup>(2)</sup></b>	<b>Non-equity incentive Plan compensation (US\$)</b>	<b>Pension value (US\$)</b>	<b>All other compensation (US\$)</b>	<b>Total (US\$)<sup>(1)</sup></b>
Robert Hodgins	90,550	–	24,455	–	–	–	115,005
Frank Mermoud	90,550	–	36,682	–	–	–	127,232
Tim Marchant	90,550	–	24,455	–	–	–	115,005
Richard Stoneburner	90,550	–	28,408	–	–	–	118,958
Steven VanSickle <sup>(3)</sup>	31,579	–	9,300	–	–	–	40,879
Gregory Cameron <sup>(3)</sup>	31,579	–	7,232	–	–	–	38,811

**Notes:**

- (1) The Corporation's financial statements are presented in United States dollars ("US\$"). Where amounts were paid in Canadian dollars, they have been converted to US\$ for this table.
- (2) Option-based awards reflect the grant date fair value using the Black-Scholes-Merton option pricing model, chosen because it is the most commonly used methodology for calculating option value. **The indicated amounts are fair value calculations rather than payments by the Corporation to the Named Executive Officer or Director.** The following assumptions were used to estimate the fair value of options on the date of the grant, for inclusion as stock-based compensation expense during the financial years ended December 31, 2014, 2013 and 2012 (no options were granted to the Named Executive Officers during the financial years ended December 31, 2014 and 2012 except the assumption of options with the reverse takeover). The fair value of the stock based compensation is amortized over the vesting period of the options, generally being 5 years.

	2014	2013	2012
Risk free interest rate	1.76% to 2.02%	1.76% to 2.02%	1.37% to 1.49%
Expected lives	5 years	5 years	1 to 4.68 years
Expected volatility	100% to 101%	100% to 101%	100%
Dividend per share	Nil	Nil	Nil

Subsequent to year-ended December 31, 2014, Mr. Hodgins, Mr. Mermoud, Mr. Marchant and Mr. Stoneburner cancelled their options.

- (3) Mr. VanSickle and Mr. Cameron ceased being directors on May 15, 2014.

The following table sets forth for each non-management director all Cub option-based awards and share-based awards outstanding at December 31, 2014.

Name	Option-based Awards			Share-based Awards			
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date <sup>(2)</sup>	Value of unexercised in-the-money options <sup>(1)</sup> (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
Robert Hodgins	300,000	CAD\$0.40	July 16, 2016	—	—	—	—
	450,000	CAD\$0.45	December 2, 2016	—	—	—	—
	337,500	\$0.40	July 24, 2018	—	—	—	—
	<u>112,500</u>	\$0.30	July 24, 2018	—	—	—	—
	<b>1,200,000</b>						
Frank Mermoud	506,250	\$0.40	July 24, 2018	—	—	—	—
	<u>168,750</u>	\$0.30	July 24, 2018	—	—	—	—
	<b>675,000</b>						
Tim Marchant	337,500	\$0.40	July 24, 2018	—	—	—	—
	<u>112,500</u>	\$0.30	July 24, 2018	—	—	—	—
	<b>450,000</b>						
Richard Stoneburner	<b>450,000</b>	CAD\$0.19	September 3, 2018	—	—	—	—
Steven VanSickle	300,000	CAD\$0.87	May 15, 2015	—	—	—	—
	300,000	CAD\$0.40	May 15, 2015	—	—	—	—
	450,000	CAD\$0.45	May 15, 2015	—	—	—	—
	337,500	\$0.40	May 15, 2015	—	—	—	—
	<u>112,500</u>	\$0.30	May 15, 2015	—	—	—	—
	<b>1,500,000</b>						
Gregory Cameron	459,000	CAD\$0.40	May 15, 2015	—	—	—	—
	300,000	CAD\$0.50	May 15, 2015	—	—	—	—
	450,000	CAD\$0.45	May 15, 2015	—	—	—	—
	262,500	\$0.40	May 15, 2015	—	—	—	—
	<u>87,500</u>	\$0.30	May 15, 2015	—	—	—	—
	<b>1,559,000</b>						

**Note:**

- (1) Calculated as the difference between the CAD\$0.035 closing price of Common Shares on the TSX Venture Exchange on December 31, 2014 (the last trading day of 2014) and the exercise price of the option. Not all options were vested at that date.
- (2) Subsequent to year-ended December 31, 2014, Mr. Hodgins, Mr. Mermoud, Mr. Marchant and Mr. Stoneburner cancelled their options and the only remaining outstanding, unexercised options held by Mr. VanSickle and Mr. Cameron expire on May 15, 2015.

The following table sets forth for each non-management director the value of Cub option-based awards and share-based awards vested during 2014 and the value of non-equity incentive plan compensation earned during 2014.

Name	Option-based awards – Value vested during the year <sup>(1)</sup> (US\$)	Share-based awards – Value vested during the year (US\$)	Non-equity incentive plan compensation – Value earned during the year (US\$)
Steven VanSickle	Nil	Nil	Nil
Gregory Cameron	Nil	Nil	Nil
Robert Hodgins	Nil	Nil	Nil
Frank Mermoud	Nil	Nil	Nil
Tim Marchant	Nil	Nil	Nil
Richard Stoneburner	Nil	Nil	Nil

**Note:**

(1) Calculated as the difference between the CAD\$0.035 closing price of Common Shares on the TSX Venture Exchange on December 31, 2014 (the last trading day of 2014) and the exercise price of the option.

**INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON**

Management of the Corporation is not aware of any material interest of any director or nominee for director, or senior officer or anyone who has held office as such since the beginning of the Corporation's last financial year, or of any associate or affiliate of any of the foregoing, in any matter to be acted on at the Meeting other than the election of directors.

**INTEREST OF INSIDERS IN MATERIAL TRANSACTIONS**

Other than as disclosed in this Circular, there are no material interests, direct or indirect, of any insider of the Corporation, nominee for director, or associate or affiliate of an insider or a nominee for director, in any transaction or any proposed transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Corporation.

On September 30, 2012, the Corporation entered into a \$3 million loan from Pelicourt Ltd. ("Pelicourt Loan") at an interest rate of 5%. Pelicourt Ltd. is the Corporation's largest shareholder and shares a common officer and director in Mikhail Afendikov, the Corporation's Executive Chairman and CEO. The Pelicourt Loan was to expire on September 30, 2013. During 2012, the Corporation made advances under the Pelicourt Loan in the amount of approximately \$1,260,000, which was repaid during the year-ended December 31, 2012. On October 2, 2013, the Corporation extended and increased the line of credit with Pelicourt to \$5 million at an interest rate of 9% payable semi-annually. The Pelicourt Loan expires on September 30, 2016. As of the date of this Information Circular, the Corporation has drawn down \$2 million of the line of credit to fund development efforts on the Rusko-Komarovskye ("RK") field in Western Ukraine. On November 14, 2014, an amending agreement was signed that deferred interest payments until December 27, 2015. Pelicourt notified the Corporation that it is having liquidity issues as a result of the September 22, 2014 National Bank of Ukraine resolution prohibiting the payment of cross-border dividends and will not be able to provide any further funding under the line of credit in 2015.

In connection with the closing of the Gastek-Cub Transaction in March 2012, 123,278,089 common shares were issued to Pelicourt Ltd. Mr. Afendikov is the Corporation's Executive Chairman and CEO and owns 31% of the shares held by Pelicourt Ltd.

**AUDIT COMMITTEE**

In response to National Instrument 52-110 – *Audit Committees* ("NI 52-110"), Cub has established terms of reference for its Audit Committee (the "**Audit Committee**") to address such items as: (i) the procedure to nominate the external auditor and recommend its compensation; (ii) the overview of the external auditor's work; (iii) pre-approval of non audit services; (iv) the review of the financial statements, management's discussion and analysis and

financial sections of other public reports requiring Board approval; (v) the procedure to respond to complaints respecting accounting, internal accounting controls or auditing matters and the procedure for confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and (vi) the review of the Corporation's hiring policies towards present or former employees or partners of the Corporation's present or former external auditor.

***Audit Committee Charter, Composition and Relevant Education and Experience***

The Audit Committee is governed by its charter that is included in the Corporation's Annual Information Form filed on SEDAR website at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.cubenergyinc.com](http://www.cubenergyinc.com).

The Audit Committee is composed of the following directors: Richard Stoneburner (Chair), Frank Mermoud and Tim Marchant. Each of them is considered "independent" and "financially literate" within the meaning of NI 52-110.

The Corporation is relying on the exemption provided by Part 5 (*Reporting Obligations*) of NI 52-110.

The education and experience of each Audit Committee member that is relevant to the performance of his responsibilities is as follows:

<b>Name</b>	<b>Relevant Education and Experience</b>
<b>Richard Stoneburner (Chair)</b>	<p>Mr. Stoneburner has more than 37 years of experience in the oil and gas industry. Mr. Stoneburner served as the President North America Shale Production Division for BHP Billiton Petroleum from August 2011 to December 2012. In this role, he managed field operations in a multitude of unconventional plays. From 2009 to August 2011, Mr. Stoneburner served as President and Chief Operating Officer of Petrohawk Energy Corporation, as Chief Operating Officer from 2007-2009, as Vice President then Executive Vice President of Exploration from 2003-2007. During this time, he led Petrohawk's discovery of the Eagle Ford, its development of the Haynesville shale play, and its leadership position in the Wolfcamp play in the Permian Basin. Prior to co-founding Petrohawk, he was vice president, exploration, for 3TEC Energy Corp. and worked for several E&amp;P companies, including Hugoton Energy Corp., Weber Energy Co., Stoneburner Exploration Inc. and Texas Oil &amp; Gas.</p> <p>Mr. Stoneburner is currently a Managing Director with Pine Brook Partners and also serves on the board of Newfield Exploration Company, Yuma Exploration and Tamboran Resources. He was a member of the American Association of Petroleum Geologist's Distinguished Lecturer Series in 2013. Mr. Stoneburner has a B.S. in geological sciences from The University of Texas at Austin and a M.S. in geology from Wichita State University.</p>
<b>Frank Mermoud</b>	<p>Mr. Mermoud has extensive and high profile international experience in policy-making, international business, trade and investment. Mr. Mermoud has been the President of Orpheus International, a Washington D.C. based private advisory firm since June 2011. He also serves on the Executive Committee of the US-Ukraine Business Council and is a member of The Atlantic Council. Mr. Mermoud was a Managing Director of Monument Capital Group LLC, a Washington, DC based private investment firm, from 2010 to May 2011 and a Senior Partner at TD International LLC, a global strategic consultancy firm, from 2009 to 2010. Mr. Mermoud also served as the Secretary of State's Special Representative for Commercial and Business Affairs at the U.S. Department of State from 2002 through 2009. With nearly 30 years of experience in the public and private sectors, Mr. Mermoud has exhibited a pro-active nature to business development, identifying investment and trade opportunities and facilitating capital in both the private equity and debt markets. Mr. Mermoud received a Bachelor of Science in Foreign Service degree from Georgetown University. Mr. Mermoud is fluent in French and has worked extensively throughout his career in Europe, Asia, Latin America and Africa.</p>

<u>Name</u>	<u>Relevant Education and Experience</u>
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<b>Tim Marchant</b>	Dr. Marchant has over 30 years petroleum experience in Canadian and international exploration, development, production and business development. From 1980 to 2009 Dr. Marchant was with Amoco and BP including positions as Chief Geologist Amoco Canada, Nile Delta Exploration Manager Amoco Egypt, VP Exploration BP Egypt Oil, Exploration Manager ExxonMobil Saudi Arabia, General Manager BP Abu Dhabi, President BP Kuwait Ltd. and VP Middle East E&P BP International. Dr. Marchant has been an Adjunct Professor of Strategy and Energy Geopolitics, Haskayne School of Business, University of Calgary since September 2009. Dr. Marchant is currently a non-executive director of Vermilion Energy Inc. Dr. Marchant has a Ph.D. Geology, Trinity College, University of Dublin, Ireland, 1978, completed the Ivey Executive Program, University of Western Ontario, 1994 and the Institute of Corporate Directors Education Program in 2011.
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***Audit Committee Oversight***

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

***Pre-Approval Policies and Procedures***

The Corporation's Audit Committee charter requires the Audit Committee pre-approval of all non-audit mandates for services the external auditors undertake for the Corporation or its subsidiaries.

***External Auditor Service Fees (By Category)***

The aggregate fees billed by the Corporation's external auditors for the financial years ended December 31, 2014 and 2013 are as follows:

<u>Financial Year Ending</u>	<u>Audit Fees</u>	<u>Audit Related Fees <sup>(1)</sup></u>	<u>Tax Fees <sup>(2)</sup></u>	<u>All Other Fees <sup>(3)</sup></u>
December 31, 2014	CAD\$57,500	Nil	Nil	CAD\$6,000 <sup>(4)</sup>
December 31, 2013	CAD\$65,000	Nil	Nil	CAD\$7,695 <sup>(4)</sup>

**Notes:**

- (1) Fees charged for assurance and related services reasonably related to the performance of an audit or review of the Corporation's financial statements and not included under "Audit Fees."
- (2) Tax fees include amounts paid for income and other tax compliance, tax advice and tax planning and compliance services.
- (3) Fees for services other than disclosed in any other column.
- (4) All other fees for 2013 and 2014 are related to services provided as part of a reading review of interim consolidated unaudited financial statements for 2013 and 2014.

**CORPORATE GOVERNANCE DISCLOSURE**

Cub's Board considers good corporate governance to be central to the effective and efficient operation of the Corporation. The Canadian Securities Administrators have published guidelines for issuers to consider in developing their own corporate governance practices. Annual disclosure of those practices is required. The Corporation's corporate governance practices are set forth below.

***Board of Directors***

The Corporation currently has four directors, three of whom are independent. The definition of independence used by the Board is that used by the Canadian Securities Administrators. A director is independent if he or she has no direct or indirect material relationship with the Corporation. A "material relationship" is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a director's independent judgment. Certain types of relationships are by their nature considered to be material relationships.

Directors, Frank Mermoud, Tim Marchant, and Richard Stoneburner are independent. Mikhail Afendikov is not independent because he is the Executive Chairman and Chief Executive Officer of the Corporation.

The Board exercises its independent supervision over the Corporation's management through a combination of formal meetings of the Board as well as informal discussions amongst the Board members. The independent directors can also hold scheduled meetings at which non-independent directors or members of management are not in attendance. Where matters arise at Board meetings which require decision-making and evaluation by independent or non-management directors, the meeting breaks into an *in camera* session among the independent or non-management directors.

### ***Directorships***

Certain directors are also directors of other issuers that are reporting issuers (or the equivalent), as follows:

<b><u>Director</u></b>	<b><u>Other Directorships</u></b>	<b><u>Stock Exchange Listing</u></b>
Tim Marchant	Vermilion Energy Inc.	Toronto Stock Exchange
Richard Stoneburner	Newfield Exploration Company	New York Stock Exchange
	Yuma Exploration and Production	New York Stock Exchange

### ***Orientation and Continuing Education***

The Board has established the Compensation, Nominating and Governance Committee. The Compensation, Nominating and Governance Committee, with the assistance of the management of the Corporation, is responsible for providing orientation to new directors. Director orientation and ongoing training includes presentations by senior management to familiarize directors with the Corporation's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its principal officers and its independent auditors. In 2013, the Corporation joined the Institute of Corporate Directors (“ICD”) and provided memberships for all directors. Through ICD, directors have access to regular newsletters and seminars that provide regulatory updates and best governance practices.

### ***Ethical Business Conduct***

In 2013, the Corporation implemented a Code of Business Conduct and Ethics Policy, as well as a Business Integrity Policy, including anti-retaliation provisions for whistleblowers. These policies provide guidance on the conduct of the Corporation's business in accordance with high ethical standards and help mitigate the risks posed by exposure to foreign corrupt practices. Directors, officers, employees and consultants are asked annually to certify their review of, and compliance with, the policies. Also, these policies are posted on the Corporation's website (in both English and Ukrainian languages). Currently, the management and staff of the Corporation have extensive experience with global operations and are aware of the requirements of the foreign corrupt practices regulations and how to operate within those regulations in laws in the jurisdictions relevant to the operations of the Corporation.

Additionally, the skill and knowledge of Board members and advice from counsel ensure that directors exercise independent judgment in considering transactions and agreements in respect of which a director or officer has a material interest. Directors and officers are required to disclose dealings in any of the geographic areas in which the Corporation operates. They are also subject to the general obligation under corporate law to disclose and not vote on any material contract or transaction with the Corporation in which the director or officer has an interest.

### ***Nomination of Directors***

When a Board vacancy occurs or is contemplated, any director or officer may make recommendations to the Compensation, Nominating and Governance Committee as to qualified individuals for nomination to the Board.

In identifying new candidates, the Compensation, Nominating and Governance Committee will take into account the mix of director qualifications and experiences, perspectives and skills appropriate for the Corporation at that time.

### ***Compensation***

The Compensation, Nominating and Governance Committee receives recommendations from the management of the Corporation and reviews and makes recommendations to the Board regarding directors' fees and the granting of stock options or RSUs to directors of the Corporation. Directors may be compensated in cash and/or equity for their expert advice and contribution towards the success of the Corporation. For further discussion on the director compensation review process, see "*Executive and Director Compensation – Compensation Discussion and Analysis -- The Compensation Review Process.*"

### ***Other Board Committees***

The Board also has a Reserves Committee, which is comprised of Messrs. Tim Marchant (Chair), Richard Stoneburner and Frank Mermoud. The Board functions as a whole to deliberate on other matters.

### ***Assessments***

The Compensation, Nominating and Governance Committee is responsible for evaluating the effectiveness of the Board, committees of the Board and individual directors based on their individual competencies, skills, personal qualities and contributions made to the Board. The Compensation, Nominating and Governance Committee, with the participation of senior management of the Corporation, may recommend changes to enhance Board performance in light of the Corporation's circumstances, business strategies and applicable regulatory requirements.

### **ADDITIONAL INFORMATION**

Financial information of the Corporation is provided in the Corporation's financial statements and management's discussion and analysis for its most recently completed financial year. A copy of these documents may be obtained by contacting Cub Energy Inc. at 5120 Woodway Drive, Suite 10010, Houston, Texas 77056, Phone: (713) 677-0439, Fax: (713) 677-0181.

Copies of these documents as well as additional information relating to the Corporation contained in documents filed by the Corporation with Canadian Securities Regulatory Authorities may also be accessed through the SEDAR website at [www.sedar.com](http://www.sedar.com).

**BUSINESS TO BE ACTED UPON AT THE MEETING**

**1. FINANCIAL STATEMENTS AND AUDITOR'S REPORT**

The Corporation's audited financial statements for the year ended December 31, 2014, and the auditor's report thereon, will be submitted at the Meeting. No vote is required or will be taken regarding the Corporation's audited financial statements.

**2. APPOINTMENT OF AUDITOR**

The *Canada Business Corporations Act* provides that the Shareholders of the Corporation shall, by ordinary resolution, appoint an auditor to hold such position until the close of the next annual meeting. The *Canada Business Corporations Act* also provides that the remuneration of the auditor be fixed by the Shareholders or if not so fixed shall be fixed by the directors.

The current auditor of the Corporation is Collins Barrow LLP, which has been the Corporation's auditor since May 2008. The Corporation's Audit Committee has recommended to the Board that Collins Barrow LLP be nominated for re-appointment as auditor of the Corporation for the financial year ended December 31, 2015, at a remuneration to be fixed by the Board.

**In the absence of contrary instructions, the persons named in the accompanying form of proxy intend to vote the Common Shares represented thereby in favour of the appointment of Collins Barrow LLP, Chartered Accountants, as auditor of the Corporation to hold office until the next annual meeting of Shareholders or until its successors are appointed, at a remuneration to be fixed by the Board of directors.**

**3. NUMBER OF DIRECTORS**

The Corporation is required by its Articles to have a minimum of three and a maximum of 11 directors. At the Meeting, Shareholders will be asked to pass a resolution setting the number of directors to be elected at the Meeting at four.

The resolution setting the number of directors to be elected must be passed by a simple majority of the votes cast with respect to the resolution, by Shareholders present in person or by proxy at the Meeting. **In the absence of contrary instructions, the persons named in the accompanying form of proxy intend to vote the Common Shares represented thereby in favour of the resolution setting the number of directors to be elected at the Meeting at four.**

**4. ELECTION OF DIRECTORS**

There are presently four members of the Board and their terms of office expire at the Meeting. The four persons named below are the nominees for election as directors. Each director elected will hold office until his successor is elected or appointed, unless his office is earlier vacated under any of the relevant provisions of the Articles of the Corporation or the *Canada Business Corporations Act*.

The following table sets out the name of each of the persons proposed to be nominated for election as a director; all positions and offices in the Corporation presently held by the individual; the individual's principal occupation at present and the individual's principal occupation during the preceding five years; the period during which the individual has served as a director; and the number of voting shares of the Corporation that the individual has advised are beneficially owned by him, directly or indirectly, or over which control or direction is exercised by him, as of the date hereof:

<u>Name and Place of Residence</u>	<u>Present and Principal Occupation during the last five years<sup>(10)</sup></u>	<u>Date of Appointment as Director</u>	<u>Common Shares Beneficially Owned<sup>(4)</sup></u>
Mikhail Afendikov San Rafael, California USA	Chief Executive Officer and Executive Chairman of the Corporation	December 2, 2011	Nil <sup>(5)</sup>

<b>Name and Place of Residence</b>	<b>Present and Principal Occupation during the last five years<sup>(10)</sup></b>	<b>Date of Appointment as Director</b>	<b>Common Shares Beneficially Owned<sup>(4)</sup></b>
<b>Frank Mermoud</b> <sup>(1)(2)(3)(7)</sup> Washington, DC, USA	President, Orpheus International	July 5, 2012	Nil <sup>(9)</sup>
<b>Dr. Tim Marchant</b> <sup>(1)(2)(3)(8)</sup> Calgary, Alberta, Canada	Oil and Gas Professional and Adjunct Professor, University of Calgary	May 30, 2014	86,125
<b>Richard Stoneburner</b> <sup>(1)(2)(3)(6)</sup> Houston, Texas	Corporate Executive and Director	September 4, 2014	Nil

**Notes:**

- (1) Member of the Audit Committee.
- (2) Member of the Compensation, Nominating and Governance Committee.
- (3) Member of the Reserves Committee.
- (4) The information as to Common Shares beneficially owned, not being within the knowledge of the Corporation, has been furnished by the respective individuals or has been extracted from public filings or the register of shareholdings maintained by the Corporation's transfer agent.
- (5) Mr. Afendikov is a director and owns 31% of the shares of Pelicourt Limited, which in turn owns 124,336,089 (39.9%) of the Corporation's Common Shares. See "*Principal Holders of Voting Securities*." Mr. Afendikov also holds 3,673,642 RSUs, which are scheduled to vest over three years, January 23, 2016, January 23, 2017 and January 23, 2018 pursuant to the RSU Plan.
- (6) Mr. Stoneburner is the Chair of the Audit Committee.
- (7) Mr. Mermoud is the Chair of the Compensation, Nominating and Governance Committee.
- (8) Mr. Marchant is Chair of the Reserves Committee and holds 53,000 Warrants.
- (9) For details on the principal occupation of director nominees during the last five years, see "*Director Biographies*" below.

***Director Biographies***

*Mikhail Afendikov – Chief Executive Officer, Executive Chairman and Director*

Mr. Afendikov is the Chairman and Chief Executive Officer of the Corporation and has been since December 2, 2011. Prior to that time, Mr. Afendikov was the Chief Executive Officer of Gastek LLC. Mr. Afendikov and his two business partners started Gastek in 2005 as their first investment in the oil and gas sector in Ukraine. Since 2005, Mr. Afendikov has been the Chief Executive Officer of Clarkson Investment LLC and since 1994 he has been a director of V.E.M.A. Shipping Co. Ltd. Mr. Afendikov is a medical doctor who graduated from Donetsk State Medical University in Ukraine in 1987.

*Frank Mermoud – Director*

Mr. Mermoud has extensive and high profile international experience in policy-making, international business, trade and investment. Mr. Mermoud has been the President of Orpheus International, a Washington D.C. based private advisory firm since June 2011. He also serves on the Executive Committee of the US-Ukraine Business Council and is a member of The Atlantic Council. Mr. Mermoud was a Managing Director of Monument Capital Group LLC, a Washington, DC based private investment firm, from 2010 to May 2011 and a Senior Partner at TD International LLC, a global strategic consultancy firm, from 2009 to 2010. Mr. Mermoud also served as the Secretary of State's Special Representative for Commercial and Business Affairs at the U.S. Department of State from 2002 through 2009. With nearly 30 years of experience in the public and private sectors, Mr. Mermoud has exhibited a pro-active nature to business development, identifying investment and trade opportunities and facilitating capital in both the private equity and debt markets. Mr. Mermoud received a Bachelor of Science in Foreign Service degree from Georgetown University. Mr. Mermoud is fluent in French and has worked extensively throughout his career in Europe, Asia, Latin America and Africa.

*Dr. Timothy R. Marchant – Director*

Dr. Marchant has over 30 years petroleum experience in Canadian and international exploration, development, production and business development. From 1980 to 2009 Dr. Marchant was with Amoco and BP including positions as Chief Geologist Amoco Canada, Nile Delta Exploration Manager Amoco Egypt, VP Exploration BP Egypt Oil, Exploration Manager ExxonMobil Saudi Arabia, General Manager BP Abu Dhabi, President BP Kuwait Ltd. and VP Middle East E&P BP International. Dr. Marchant has been an Adjunct Professor of Strategy and Energy Geopolitics, Haskayne School of Business, University of Calgary since September 2009. Dr. Marchant is currently a non-executive director of Vermilion Energy Inc. Dr. Marchant has a Ph.D. Geology, Trinity College, University of Dublin, Ireland, 1978, completed the Ivey Executive Program, University of Western Ontario, 1994 and the Institute of Corporate Directors Education Program in 2011.

*Richard Stoneburner – Director*

Mr. Stoneburner has more than 37 years of experience in the oil and gas industry. Mr. Stoneburner served as the President North America Shale Production Division for BHP Billiton Petroleum from August 2011 to December 2012. In this role, he managed field operations in a multitude of unconventional plays. From 2009 to August 2011, Mr. Stoneburner served as President and Chief Operating Officer of Petrohawk Energy Corporation, as Chief Operating Officer from 2007-2009, as Vice President then Executive Vice President of Exploration from 2003-2007. During this time, he led Petrohawk's discovery of the Eagle Ford, its development of the Haynesville shale play, and its leadership position in the Wolfcamp play in the Permian Basin. Prior to co-founding Petrohawk, he was vice president, exploration, for 3TEC Energy Corp. and worked for several E&P companies, including Hugoton Energy Corp., Weber Energy Co., Stoneburner Exploration Inc. and Texas Oil & Gas.

Mr. Stoneburner is currently a Managing Director with Pine Brook Partners and also serves on the board of Newfield Exploration Company, Yuma Exploration and Tamboran Resources. He was a member of the American Association of Petroleum Geologists' Distinguished Lecturer Series in 2013. Mr. Stoneburner has a B.S. in geological sciences from The University of Texas at Austin and a M.S. in geology from Wichita State University.

***Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions***

To the best of the Corporation's knowledge, none of the Corporation's directors, officers, or Shareholders holding a sufficient number of securities of the Corporation to materially affect the control of the Corporation is, or during the ten years preceding the date of this Information Circular, has been a director or officer of any issuer that, while the person was acting in that capacity: (a) was the subject of a cease trade order or similar order, or an order that denied such issuer access to any exemption under securities legislation for a period of more than 30 consecutive days; or (b) 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 the absence of contrary instructions, the persons named in the accompanying form of proxy intend to vote the Common Shares represented thereby in favour of the election to the Board of directors of those persons designated as nominees for election as directors. The Board does not contemplate that any of such nominees will be unable to serve as a director. However, if for any reason any of the proposed nominees do not stand for election or are unable to serve as such, proxies in favour of management designees will be voted for another nominee in their discretion unless the Shareholder has specified in his proxy that his Common Shares are to be withheld from voting on the election of directors.**

**5. APPROVAL OF AMENDMENT OF ARTICLES FOR POSSIBLE CONSOLIDATION OF SHARES**

Last year, Shareholders approved a special resolution to amend the Articles of the Corporation for a possible share consolidation. No consolidation occurred. Management seeks approval of the same special resolution for the ensuing year, granting management, at its discretion, the authority to effect a consolidation of the issued and outstanding Common Shares of the Corporation. Shareholders will be asked to approve a special resolution to amend the Articles of the Corporation to consolidate the issued and outstanding Common Shares by changing up to every 10 of the issued and outstanding Common Shares into one (1) Common Share subject to regulatory approval

(the "Consolidation"). For the Consolidation to be approved in accordance with applicable law, the special resolution must be approved by the affirmative vote of not less than two-thirds of the votes cast at the Meeting by the Shareholders present in person or by proxy.

The Board believes that the Consolidation may be beneficial to the Corporation and it is appropriate and in the best interests of the Corporation to approve the possible Consolidation.

Accordingly, Shareholders of the Corporation will be asked to approve the following special resolution:

**"BE IT RESOLVED THAT:**

1. The Articles of Amendment of the Corporation be amended by consolidating the issued and outstanding Common Shares of the Corporation by changing every 10 of the issued and outstanding Common Shares into one Common Share and any resulting fractional share entitlement remaining after conversion that is less than one-half of a Common Share will be cancelled and each fractional Common Share that is at least one-half of a Common Share will be rounded up to one whole Common Share;
2. If the Consolidation referred to in paragraph 1 above is not acceptable to the Director under the CBCA or to the TSXV or is not suitable to achieve the Corporation's objectives, the Board is hereby authorized to change the ratio upon which the Common Shares will be consolidated to one which is acceptable to the Board, the Director of the CBCA and the TSXV, provided such ratio is less than the ratio referred to in paragraph 1, and upon such determination by the Board, the resolutions in paragraph 1 above shall be deemed to be amended accordingly;
3. If the Board should resolve after the passing of this special resolution that it would not be in the best interests of the Corporation to proceed with the Consolidation, then this special resolution shall thereupon be of no further effect; and
4. Any director or officer of the Corporation is hereby authorized and empowered, acting for, in the name of and on behalf of the Corporation, to execute or to cause to be executed, under the seal of the Corporation or otherwise, and to deliver or to cause to be delivered, such other documents and instruments, and to do and to cause to be done, such other acts and things as in the opinion of such director or officer of the Corporation may be necessary or desirable in order to carry off the intent of the foregoing resolution and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document, agreement or instrument or the doing of any such act or thing."

Management recommends that you approve the consolidation, as it will provide the Corporation with increased flexibility. A share consolidation does not change a Shareholder's proportionate interest in the Corporation.

**Unless the Shareholder has specified in the enclosed form of proxy that the shares represented by the proxy are to be voted against the resolution, the management representatives designated in the enclosed form of proxy intend to vote such shares, on any ballot that may be called for, in favour of the special resolution to amend the articles.**

The actual articles of amendment will be consistent with any determinations made by the directors of the Corporation as described above and may be comprised of one or more articles of amendment. On receipt of each articles of amendment, the Director will issue a certificate of amendment.

**6. ANNUAL APPROVAL OF STOCK OPTION PLAN**

Shareholders initially approved the Corporation's amended and restated Stock Option Plan on July 12, 2010. It provides that the Board may grant options to directors, officers, key employees, consultants and, if applicable, management company employees for the purchase of Common Shares at prices determined in accordance with TSX Venture Exchange rules. The Stock Option Plan is a "rolling" option plan, meaning that the number of additional Common Shares that may be reserved for issue on the grant of options (including RSUs) is a maximum of 10% of the issued and outstanding Common Shares from time to time. As at the Record Date for the Meeting, options to

acquire 3,089,000 Common Shares of the Corporation were outstanding (as well as 3,673,642 RSUs to Mikhail Afendikov, as discussed under the heading “*Executive and Director Compensation – Restricted Share Unit Plan*”).

The maximum amount of stock options and RSUs that may be granted must not exceed 10% of the total number of Common Shares issued and outstanding (on a non-diluted basis) and the aggregate number of stock options (and RSUs) granted in any 12-month period to any one person cannot exceed 5% of the total number of issued and outstanding Common Shares (on a non-diluted basis). Conditions relating to the vesting and expiry of stock options are set by the directors at the time of granting, however, stock options must expire no later than ten years after the date of grant. The Stock Option Plan is in accordance with the applicable policy of the TSX Venture Exchange.

The TSX Venture Exchange requires that all listed companies with a 10% rolling stock option plan obtain annual Shareholder approval of such plan.

Shareholders will be asked at the Meeting to vote on a resolution to approve the Stock Option Plan for the ensuing year. The resolution must be passed by a simple majority of the votes cast with respect to the resolution by Shareholders present in person or by proxy at the Meeting.

**In the absence of contrary instructions, the persons named in the accompanying form of proxy intend to vote the Common Shares represented thereby in favour of the resolution approving the Stock Option Plan of the Corporation for the ensuing year.**



