

EMERALD BAY ENERGY INC.

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

to be held on Tuesday, March 31, 2015

at 1:00 p.m. (Calgary time)

at

Suite 1250, Standard Life Building

639 - 5th Avenue S.W.

Calgary, Alberta

MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT

March 3, 2015

EMERALD BAY ENERGY INC.

NOTICE OF ANNUAL AND SPECIAL MEETING OF THE SHAREHOLDERS

TAKE NOTICE THAT an annual and special meeting (the "**Meeting**") of the shareholders of **EMERALD BAY ENERGY INC.** (the "**Corporation**") will be held at Suite 1250, Standard Life Building, 639 - 5th Avenue S.W., Calgary, Alberta, at 1:00 p.m. on Tuesday, March 31, 2015 for the following purposes:

1. to receive and consider the financial statements of the Corporation as at and for the year ended December 31, 2013, together with the report of the auditors thereon;
2. to fix the number of directors at 4 and to elect the board of directors for the ensuing year;
3. to appoint BDO Canada LLP as the auditors of the Corporation for the ensuing year and to authorize the directors of the Corporation to determine the remuneration to be paid to the auditors;
4. to consider and, if deemed advisable, to pass an ordinary resolution, the full text of which is set forth in the accompanying management information circular and proxy statement (the "**Management Proxy Circular**"), ratifying, adopting and approving the stock option plan of the Corporation and authorizing the Corporation's board of directors to make any amendments thereto that may be required for the purpose of obtaining the approval of the TSX Venture Exchange or, if required, the Toronto Stock Exchange; and
5. to transact such other business as may properly come before the Meeting.

Information relating to matters to be acted upon by the shareholders at the Meeting is set forth in the accompanying Management Proxy Circular.

A shareholder may attend the Meeting in person or may be represented at the Meeting by proxy. Shareholders who are unable to attend the Meeting in person and wish to be represented by proxy are requested to date, sign and return the accompanying instrument of proxy ("**Instrument of Proxy**"), or other appropriate form of proxy, in accordance with the instructions set forth in the accompanying Management Proxy Circular and Instrument of Proxy. An Instrument of Proxy will not be valid unless it is deposited at the offices of the Corporation's registrar and transfer agent, Computershare Trust Company of Canada c/o Computershare Investor Services, Proxy Dept., 100 University Avenue 8th Floor, Toronto, Ontario, M5J 2Y1 in the enclosed self-addressed envelope, not less than 48 hours (excluding Saturdays, Sundays and statutory holidays) before the time of the Meeting, or any adjournment thereof. A person appointed as proxy holder need not be a shareholder of the Corporation.

Only shareholders of record as at the close of business on February 24, 2015 (the "**Record Date**") are entitled to receive notice of the Meeting.

SHAREHOLDERS ARE CAUTIONED THAT THE USE OF THE MAIL TO TRANSMIT PROXIES IS AT EACH SHAREHOLDER'S RISK.

DATED at Calgary, Alberta as of the 3rd day of March, 2015.

BY ORDER OF THE BOARD OF DIRECTORS

(signed) Shelby D. Beattie
President, Chief Executive Officer and Director

EMERALD BAY ENERGY INC.

MANAGEMENT PROXY CIRCULAR

(Unless otherwise stated, information contained herein is given as of March 3, 2015)

INFORMATION REGARDING PROXIES AND VOTING AT THE MEETING

Solicitation of Proxies

This management proxy circular ("**Management Proxy Circular**") is furnished in connection with the solicitation of proxies by the management of Emerald Bay Energy Inc. (the "**Corporation**") for use at the annual and special meeting of the holders (the "**Shareholders**") of common shares ("**Common Shares**") of the Corporation to be held at the Suite 1250, Standard Life Building, 639 - 5th Avenue S.W., Calgary, Alberta, at 1:00 p.m., on Tuesday, March 31, 2015 (the "**Meeting**"), for the purposes set forth in the notice of annual and special meeting (the "**Notice**") accompanying this Management Proxy Circular. Solicitation of proxies will be primarily by mail, but may also be undertaken by way of telephone, facsimile or oral communication by the directors, officers and regular employees of the Corporation, at no additional compensation. Costs associated with the solicitation of proxies will be borne by the Corporation.

Appointment of Proxyholders

Accompanying this Management Proxy Circular is an instrument of proxy for use at the Meeting. Shareholders who are unable to attend the Meeting in person and wish to be represented by proxy are required to date and sign the enclosed instrument of proxy and return it in the enclosed return envelope. **All properly executed instruments of proxy for Shareholders must be mailed so as to reach or be deposited at the offices of the Corporation's registrar and transfer agent, Computershare Trust Company of Canada c/o Computershare Investor Services, Proxy Dept., 100 University Avenue 8th Floor, Toronto, Ontario, M5J 2Y1 not later than 48 hours (excluding Saturdays, Sundays and statutory holidays in the Province of Ontario) prior to the time set for the Meeting or any adjournment thereof.**

The persons designated in the instrument of proxy are officers and/or directors of the Corporation. **A Shareholder has the right to appoint a person (who need not be a Shareholder) other than the persons designated in the accompanying instrument of proxy, to attend at and represent the Shareholder at the Meeting.** To exercise this right, a Shareholder should insert the name of the designated representative in the blank space provided on the instrument of proxy and strike out the names of management's nominees. Alternatively, a Shareholder may complete another appropriate instrument of proxy.

Signing of Proxy

The instrument of proxy must be signed by the Shareholder or the Shareholder's duly appointed attorney authorized in writing or, if the Shareholder is a corporation, under its corporate seal or by a duly authorized officer or attorney of the Corporation. An instrument of proxy signed by a person acting as attorney or in some other representative capacity (including a representative of a corporate Shareholder) should indicate that person's capacity (following his or her signature) and should be accompanied by the appropriate instrument evidencing qualification and authority to act (unless such instrument has previously been filed with the Corporation).

Revocability of Proxies

A Shareholder who has submitted an instrument of proxy may revoke it at any time prior to the exercise thereof. In addition to any manner permitted by law, a proxy may be revoked by instrument in writing executed by the Shareholder or by his or her duly authorized attorney or, if the Shareholder is a corporation, under its corporate seal or executed by a duly authorized officer or attorney of the corporation and deposited either: (i) at the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting, or any adjournments thereof, at which the instrument of proxy is to be used; or (ii) with the Chairman of the Meeting on the day of the Meeting, or any adjournment thereof. In addition, an instrument of proxy may be revoked: (i) by the Shareholder personally attending the Meeting and voting the securities represented thereby or, if the Shareholder is a corporation, by a duly authorized representative of the corporation attending at the Meeting and voting such securities; or (ii) in any other manner permitted by law.

Voting of Proxies and Exercise of Discretion by Proxyholders

All Common Shares represented at the Meeting by properly executed proxies will be voted on any ballot that may be called for and, where a choice with respect to any matter to be acted upon has been specified in the instrument of proxy, the Common Shares represented by the instrument of proxy will be voted in accordance with such instructions. The management designees named in the accompanying instrument of proxy will vote or withhold from voting the Common Shares in respect of which they are appointed in accordance with the direction of the Shareholder appointing him or her on any ballot that may be called for at the Meeting. **In the absence of such direction, such Common Shares will be voted "FOR" the proposed resolutions at the Meetings. The accompanying instrument of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to the matters identified in the accompanying Notice and with respect to other matters that may properly be brought before the Meeting.** In the event that amendments or variations to matters identified in the Notice are properly brought before the Meeting or any further or other business is properly brought before the Meeting, it is the intention of the management designees to vote in accordance with their best judgment on such matters or business. At the time of printing this Management Proxy Circular, the management of the Corporation knows of no such amendment, variation or other matter to come before the Meeting other than the matters referred to in the accompanying Notice.

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

Except as disclosed in this Management Proxy Circular, none of the directors or executive officers of the Corporation at any time since the beginning of the Corporation's last financial year, nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of any of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise in any matter to be acted on, other than the election of directors. Gibson Scott, Chief Operating Officer, is also the President of TrueBore Consulting Inc. ("**TrueBore**"), which has provided consulting services to the Corporation. TrueBore was paid \$3,150 for these services in 2013. Shelby Beattie, a director, is a controlling shareholder of Phoenix Oil & Gas Inc. ("**Phoenix**"), which charged the Corporation \$44,000 in 2013 with respect to operation costs.

VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

Voting Shares and Record Date

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of preferred shares. The record date for the determination of Shareholders entitled to receive notice of and to vote at the Meeting is February 24, 2015 (the "**Record Date**"). As at the date hereof, there are 158,610,189 Common Shares issued and outstanding as fully paid and non-assessable.

Common Shares

The holders of Common Shares are entitled to notice of, and to vote at, all annual and special meetings of shareholders and are entitled to one vote per Common Share. The holders of Common Shares are entitled to receive such dividends as the board of directors of the Corporation (the "**Board of Directors**" or the "**Board**") declare and, upon dissolution, to receive such assets of the Corporation as are distributable to holders of Common Shares.

Voting of Common Shares – General

Only Shareholders whose names are entered in the Corporation's register of shareholders at the close of business on the Record Date and holders of Common Shares issued by the Corporation after the Record Date and prior to the Meeting will be entitled to receive notice of and to vote at the Meeting, provided that, to the extent that: (i) a registered Shareholder has transferred the ownership of any Common Shares subsequent to the Record Date; and (ii) the transferee of those Common Shares produces properly endorsed share certificates, or otherwise establishes that he, she or it owns the Common Shares and demands, not later than ten days before the Meeting, that his, her or its name be included on the Shareholder list before the Meeting, in which case the transferee shall be entitled to vote his or her Common Shares at the Meeting.

Voting of Common Shares – Advice to Non-Registered Holders

Only registered holders of Common Shares, or the persons they appoint as their proxies, are permitted to attend and vote at the Meeting. However, in many cases, Common Shares beneficially owned by a holder (a "**Non-Registered Holder**") are registered either:

- (a) in the name of an intermediary (an "**Intermediary**") that the Non-Registered Holder deals with in respect of the Common Shares. Intermediaries include banks, trust companies, securities dealers or brokers, and trustees or administrators of self-administered RRSPs, RRIAs, RESPs and similar plans; or
- (b) in the name of a clearing agency (such as The Canadian Depository for Securities Limited or "**CDS**").

In accordance with the requirements of National Instrument 54-101 of the Canadian Securities Administrators, the Corporation has distributed copies of the Notice, this Management Proxy Circular and the instrument of proxy (collectively, the "**Meeting Materials**") to the clearing agencies and Intermediaries for onward distribution to Non-Registered Holders.

Intermediaries are required to forward meeting materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Typically, Intermediaries will use a service company (such as Broadridge Financial Solutions, Inc. ("**Broadridge**")) to forward meeting materials to Non-Registered Holders.

Generally, Non-Registered Holders who have not waived the right to receive meeting materials will:

- (a) have received as part of the Meeting Materials a voting instruction form which must be completed, signed and delivered by the Non-Registered Holder in accordance with the directions on the voting instruction form; voting instruction forms sent by Broadridge permit the completion of the voting instruction form by telephone or through the Internet at www.proxyvotecanada.com; or
- (b) less typically, be given a proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature) which is restricted as to the number of Common Shares beneficially owned by the Non-Registered Holder but which is otherwise uncompleted. This form of proxy need not be signed by the Non-Registered Holder. In this case, the Non-Registered Holder who wishes to submit a proxy should otherwise properly complete the form of proxy and deposit it with Computershare Trust Company of Canada, c/o Computershare Investor Services at the address referred to above.

The purpose of these procedures is to permit Non-Registered Holders to direct the voting of the Common Shares they beneficially own. Should a Non-Registered Holder wish to attend and vote at the Meeting in person (or have another person attend and vote on behalf of the Non-Registered Holder), the Non-Registered Holder should strike out the names of the persons named in the proxy and insert the Non-Registered Holder's (or such other person's) name in the blank space provided or, in the case of a voting instruction form, follow the corresponding instructions on the form. **In either case, Non-Registered Holders should carefully follow the instructions of their Intermediaries and their service companies.**

Only registered Shareholders have the right to revoke a proxy. Non-Registered Holders who wish to change their vote must in sufficient time in advance of the Meeting, arrange for their respective Intermediaries to change their vote and if necessary revoke their proxy in accordance with the revocation procedures set above.

Principal Holders of Common Shares

To the best of the knowledge of the directors and executive officers of the Corporation, as at the date hereof, there are no persons, corporations or other entities (other than securities depositories) who beneficially own, directly or indirectly, or exercise control or discretion over voting securities carrying more than 10% of the voting rights attached to the shares of the Corporation.

STATEMENT OF EXECUTIVE COMPENSATION

Summary Compensation Table

Executive Compensation is required to be disclosed for (i) each Chief Executive Officer (or individual who served in a similar capacity during the most recently completed financial year), (ii) each Chief Financial Officer (or individual who served in a similar capacity during the most recently completed financial year), (iii) each of the three most highly compensated executive officers (other than the Chief Executive Officer and the Chief Financial Officer) who were serving as executive officers of the Corporation or any of its subsidiaries at the end of the most recently

completed fiscal year (or three most highly compensated individuals) and whose total compensation was, individually, more than \$150,000; and (iv) each individual who would meet the definition set forth in (iii) but for the fact that the individual was neither an executive officer of the Corporation or any of its subsidiaries, nor acting in a similar capacity, at the end of that financial year (the "**Named Executive Officers**"). The Named Executive Officers of the Corporation are Shelby D. Beattie, President and Chief Executive Officer (appointed President and Chief Executive Officer on February 25, 2005), Gibson C. Scott, Chief Operating Officer (appointed as Chief Operating Officer on February 25, 2005) and Michael L. Rice, Chief Financial Officer, Vice President and Secretary (appointed as Chief Financial Officer on February 25, 2005). There were no other Named Executive Officers in 2013, as no other employees earned in excess of \$150,000 in 2013.

Compensation of the Named Executive Officers of the Corporation is reviewed annually by the Corporation's Board of Directors. The Board of Directors' objective in setting compensation levels is that the aggregate compensation received by Named Executive Officers be generally competitive with the compensation received by persons with similar qualifications and responsibilities who are employed by other companies of corresponding size and stage of development. In setting such levels, the Board relies primarily on their own experience and knowledge of the marketplace, supplemented by independent advisors, as required.

Compensation provided to Named Executive Officers consists of two principal components: (1) base salaries and bonuses; and (2) options granted pursuant to the Corporation's stock option plan (the "**Plan**").

Base Salaries and Bonus – The Corporation's view of base salaries is that they should be competitive with industry peers, to the extent that can be determined, and with other public companies at similar stages of development and having similar assets, number of employees, market capitalization and profit margin. The employment agreement entered into with Mr. Michael Rice provides that the salary or compensation is subject to normal periodic review on or about the anniversary date of any employment agreement. In addition to the salary, the Board of Directors of the Corporation may, from time to time, pay a bonus to Named Executive Officers for either the accomplishment of specific performance criteria or for exceptional performance, as may be applicable in accordance with their respective agreements with the Corporation.

Options – Pursuant to the Corporation's Plan, the Board of Directors of the Corporation, at its discretion, determines all grants of stock options to Named Executive Officers. Such grants are considered incentives intended to align the Named Executive Officers' and shareholders' interests in the long term. The Corporation emphasizes stock options in executive compensation as they allow the Named Executive Officers to share in corporate results in a manner that is relatively cost-effective despite the effects of treating stock options as a compensation expense.

The Corporation has entered into an employment agreement with Mr. Rice for his services as the Chief Financial Officer which sets forth the terms of his compensation. The Corporation has also entered into independent contracting agreements with Mr. Beattie for his services as President and Chief Executive Officer and with TrueBore, a company controlled by Mr. Scott, which sets out Mr. Scott's services as Chief Operating Officer, each of which sets forth the terms of their compensation. These agreements are reviewed by the Board of Directors on an annual basis.

Compensation of Shelby D. Beattie, Chief Executive Officer for 2013

Shelby Beattie, Chief Executive Officer of the Corporation, entered into an independent contractor agreement with the Corporation effective December 31, 1999, which governs the terms of his services and compensation. Mr. Beattie's agreement provides for remuneration based on an hourly rate of \$137.50 and reimbursements of out-of-pocket expenses. Mr. Beattie's agreement term has been extended to July 31, 2015, or until the agreement is terminated by either party upon 30 days' written notice. For a summary of compensation paid to Mr. Beattie in respect of the year ended December 31, 2013, please refer to the *Summary Compensation Table* below.

Compensation of Gibson Scott, Chief Operating Officer for 2013

Gibson Scott, Chief Operating Officer of the Corporation, through TrueBore, a company of which he is president and directly or indirectly controls, entered into an independent contractor agreement with the Corporation, which governed the terms of his services to the Corporation for the fiscal year ending December 31, 2013. Such agreement provides for remuneration by way of a combination of the following: (i) flat day rate of \$1,000 per day; (ii) stock based compensation; and (iii) royalty interests on specific projects, such rates to be negotiated at the time of such project initiation. Mr. Scott's agreement is effective until December 31, 2015 or until terminated by either party

upon 15 days' written notice. For a summary of compensation paid to Mr. Scott in respect of the year ended December 31, 2013, please refer to the *Summary Compensation Table* below.

Compensation of Michael L. Rice, Chief Financial Officer, Vice President and Secretary for 2013

Michael Rice, Chief Financial Officer, Vice President and Secretary of the Corporation, entered into an employment agreement with the Corporation effective July 1, 2005, which governs the terms of his employment with the Corporation. Mr. Rice's employment agreement provided for gross annual remuneration for the years 2008 and 2009 (each year beginning on July 1 and ending the following June 30) of \$144,000 (and thereafter such amount as the Board of Directors approved, but such amount not to be less than \$120,000 per annum) and such benefits as the Corporation may offer to its executive employees, including, but not limited to, use of a company automobile, coverage under the Corporation's director and officer insurance policy, participation in the Corporation's stock option plans and payment of cellular phone and pager expenses. Mr. Rice is also entitled to receive such additional remuneration, by way of bonus or otherwise, as the Board of Directors may approve, to fairly compensate him for any exceptional performance in discharging the duties and responsibilities of his office. Mr. Rice's employment agreement continued until June 30, 2010, and thereafter, automatically renewed yearly, subject to either party's right to terminate upon 90 days' written notice (except where it relates to a change of control or termination for cause). Upon termination, Mr. Rice may be entitled to certain additional payments (see "*Statement of Executive Compensation – Termination and Change of Control Benefits*" herein). In the event of any such termination, for any reason, any unvested stock options held by Mr. Rice would expire and terminate, and any vested options would have to be exercised within a specified period of time. Pursuant to his employment agreement, Mr. Rice has agreed to not compete with the Corporation for a period of twelve months from the date of the termination of employment. For a summary of compensation paid to Mr. Rice in respect of the year ended December 31, 2013, please refer to the *Summary Compensation Table* below.

Summary Compensation Table

The following table sets forth information concerning the total compensation paid during the years ended December 31, 2011, 2012 and 2013 to the Named Executive Officers.

Name and Principal Position	Fiscal Year Ended Dec. 31	Annual Compensation			Non-Equity Incentive Plan Compensation (\$)		Pension Value (\$)	All Other Compensation (\$)	Total Compensation (\$)
		Salary (\$)	Share-Based Awards (\$)	Option-Based Awards (\$) ⁽⁶⁾	Annual Incentive Plans	Long-Term Incentive Plans			
Shelby D. Beattie ⁽¹⁾ Chief Executive Officer	2013	\$202,400	Nil	\$90,774	Nil	Nil	Nil	Nil	\$293,174
	2012	\$220,185	Nil	Nil	Nil	Nil	Nil	Nil	\$220,185
	2011	\$179,347	Nil	\$22,736	Nil	Nil	Nil	Nil	\$202,083
Gibson Scott ⁽²⁾ Chief Operating Officer	2013	Nil	Nil	\$25,417	Nil	Nil	Nil	\$3,150	\$28,567
	2012	Nil	Nil	Nil	Nil	Nil	Nil	\$10,000	\$10,000
	2011	Nil	Nil	\$11,368	Nil	Nil	Nil	\$32,550 ⁽⁴⁾	\$43,918
Michael L. Rice ⁽³⁾ Chief Financial Officer, Vice President and Secretary	2013	\$144,000	Nil	\$54,464	Nil	Nil	Nil	\$25,000	\$223,464
	2012	\$144,000	Nil	Nil	Nil	Nil	Nil	\$25,000	\$169,000
	2011	\$144,000	Nil	\$14,210	Nil	Nil	Nil	\$7,000 ⁽⁵⁾	\$165,210

Notes:

- (1) Mr. Beattie was appointed the Chief Executive Officer of the Corporation on February 25, 2005.
- (2) Mr. Scott was appointed Chief Operating Officer of the Corporation on February 25, 2005.
- (3) Mr. Rice was appointed Chief Financial Officer of the Corporation on February 25, 2005.
- (4) Mr. Scott is also the President of TrueBore, a company of which he has direct and indirect control, which has provided consulting services to the Corporation. Mr. Scott's "other" compensation is comprised of \$3,150 in consulting fees paid to TrueBore (\$10,000 in 2012, \$32,550 in 2011).
- (5) Mr. Rice's "other" compensation was solely comprised of a bonus. Perquisites and other personal benefits, securities or property, received did not exceed the lesser of \$50,000 and 10% of the total annual salary and bonuses.
- (6) In 2013, Mr. Beattie was awarded options to acquire 2,500,000 Common Shares of the Corporation, Mr. Scott was awarded options to acquire 700,000 Common Shares of the Corporation, and Mr. Rice was awarded options to acquire 1,500,000 Common Shares of the Corporation. Each of these options have an exercise price of \$0.05 and will expire on October 18, 2015 and have been valued using the Black-Scholes option-pricing model. The fair value of the options was determined using weighted average risk free interest rate of 1.66% per annum, a weighted average expected life of 5 years, expected weighted average volatility of 389.29% and an expected weighted average fair value per option of \$0.04.

Incentive Plan Awards

Outstanding Share-Based Awards and Option-Based Awards

The Corporation's stock option plan ("**Plan**") was previously approved by the shareholders of the Corporation on February 28, 2014. The Plan has been established to provide incentives to qualified parties to increase their proprietary interest in the Corporation and thereby encourage their continuing association with the Corporation. The Plan is administered by the Board of Directors of the Corporation and provides that options may be granted to directors, officers, key employees or consultants of the Corporation or any subsidiary of the Corporation. The material terms of the Plan are described below.

The following is a summary of the terms of the Plan and is qualified in its entirety by the full text of the Plan, which is attached hereto as Schedule "C":

- The number of Common Shares to be reserved and authorized for issuance pursuant to options granted under the Plan shall not exceed ten percent (10%) of the total number of issued and outstanding shares in the Corporation.
- Under the Plan, the aggregate number of optioned Common Shares granted to any one optionee in a 12 month period must not exceed 5% of the Corporation's issued and outstanding shares. The number of optioned Common Shares granted to any one consultant in a 12 month period must not exceed 2% of the Corporation's issued and outstanding shares. The aggregate number of optioned Common Shares granted to an optionee who is employed to provide investor relations' services must not exceed 2% of the Corporation's issued and outstanding common shares in any 12 month period.
- The exercise price for options granted under the Plan will not be less than the market price of the Corporation's Common Shares at the time of the grant, less applicable discounts permitted by the policies of the TSX Venture Exchange (the "**TSXV**").
- Options will be exercisable for a term of up to five years, subject to earlier termination in the event of the optionee's death or the cessation of the optionee's services to the Corporation.
- Options granted under the Plan are non-assignable, except by will or by the laws of descent and distribution.

No share-based (as opposed to option-based) awards have been granted to the Corporation's Named Executive Officers. Details of options awarded to Named Executive Officers which are outstanding as of December 31, 2013 are set forth in the following table:

Name and Principal Position	Option-Based Awards				Share-Based Awards		
	Number of securities underlying unexercised options (#)	Option Exercise Price (\$)	Option Expiration Date	Value of unexercised in-the-money options ⁽¹⁾ (\$)	Number of Shares or Units of Shares that have not Vested (#)	Market of Payout Value of Share-Based Awards that have not Vested (\$)	Market or Payout Value of Vested Share-Based Awards Not Paid Out or Distributed (\$)
Shelby D. Beattie Chief Executive Officer	2,500,000	\$0.05	October 18, 2018	Nil	Nil	Nil	Nil
	1,400,000	\$0.10	August 24, 2016	Nil			
	900,000	\$0.10	April 6, 2015	Nil			
Gibson Scott Chief Operating Officer	700,000	\$0.05	October 18, 2018	Nil	Nil	Nil	Nil
	700,000	\$0.10	August 24, 2016	Nil			
	560,000	\$0.10	April 6, 2015	Nil			
Michael L. Rice Chief Financial Officer, Vice President and Secretary	1,500,000	\$0.05	October 18, 2018	Nil	Nil	Nil	Nil
	875,000	\$0.10	August 24, 2016	Nil			
	560,000	\$0.10	April 6, 2015	Nil			

Note:

- (1) Value is calculated upon difference between the exercise price of the options and the closing price of the Common Shares on the TSXV on December 30, 2013, which closing price was \$0.01, December 30th being the last day the Common Shares traded in 2013.

Incentive Plan Awards – Value Vested or Earned During the Year

The following table summarizes the value of options held by Named Executive Officers that vested during the year ended December 31, 2013.

Name	Option-Based Awards – Value Vested During the Year (\$)⁽¹⁾	Share-Based Awards – Value Vested During the Year (\$)	Non-equity Incentive Plan Compensation – Value Earned During the Year (\$)
Shelby D. Beattie	Nil	Nil	Nil
Gibson Scott	Nil	Nil	Nil
Michael L. Rice	Nil	Nil	Nil

Note:

- (1) Value is calculated upon difference between the exercise price of the options and the closing price of the Common Shares on the TSXV on December 31, 2013, which closing price was \$0.01, December 30th being the last day the Common Shares traded in 2013.

Pension Plan Benefits

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

Termination and Change of Control Benefits

The Corporation has an employment agreement in place with Mr. Rice and independent contractor agreements with Mr. Beattie and with Mr. Scott

Other than as described below, there are no compensatory plans, contracts or arrangements with any Named Executive Officer (including payments to be received from the Corporation or any subsidiary), which result or will result from the resignation, retirement or any other termination of employment of such Named Executive Officer or from a change of control of the Corporation or any subsidiary thereof or any change in such Named Executive Officer's responsibilities following a change in control, where the Named Executive Officer is entitled to payment or other benefits.

Mr. Rice's employment agreement provides that if Mr. Rice is terminated for any reason, other than voluntary resignation or 'for cause', he shall be entitled to receive: (i) a termination benefit equal to 50% of his annual salary in effect on the date of termination; (ii) the monetary value of all accrued, unused vacation time; (iii) an amount equal to the value of incentive compensation under the Corporation's plans and policies then in effect, to which he would have been entitled if he had been employed for the 180 days following the date of termination; and (iv) an amount equal to the value of employee benefits for which he would have been entitled if he had been employed for the 180 days following the date of termination.

In the event of a change of control of the Corporation which is unsatisfactory to Mr. Rice, Mr. Rice shall have the right to terminate his employment and receive the full termination benefits outlined above and shall further be entitled to cash compensation equalling the value of a certain promissory note granted by the Corporation to Mr. Rice, plus additional cash compensation to pay any associated tax with the payment of such compensation, excluding the value of the shares held as security by the Corporation in connection with such promissory note. In the event of termination for cause, Mr. Rice's employment shall terminate immediately without further notice and without any rights or benefits, as provided above.

Compensation Risk Assessment and Mitigation

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

The Corporation's compensation program includes several mechanisms to ensure risk-taking behaviour falls within reasonable risk tolerance levels, including:

- a balanced compensation mix between fixed and variable (at 0 risk) and between short and long-term incentives that defer award value
- requirement for Board approval of short-term incentive awards
- establishment of a compensation package within range of competitive practices (peer group)
- utilizing longer-term incentive plans for diversification and alignment with risk realization periods (option based awards)

Under the Corporation's policies, neither officers nor directors are permitted to take any derivative or speculative positions in the Corporation's securities. This is to prevent the purchase of financial instruments that are designed to hedge or offset any decrease in the market value of the Corporation's securities.

Director Compensation

The Corporation compensates its directors in their capacity as a director of the Corporation. Each non-management director receives \$3,500 annually and a \$1,000 fee per meeting.

Each director is eligible to receive stock options of the Corporation. The Corporation has compensated the directors with stock options.

The Corporation has purchased, at its expense, a directors' and officers' liability insurance policy, which expires September 1, 2015. This covers the directors and officers of the Corporation against liability incurred by them in their capacities as directors and officers of the Corporation. The coverage has an aggregate limit of \$1,000,000. There is a deductible of \$25,000. Premiums paid by the Corporation for the directors and officers liability insurance are \$8,531 per annum.

The following table summarizes all compensation provided to directors (in their capacities as directors) during the year ended December 31, 2013.

Name ⁽¹⁾	Fees Earned (\$)	Share-Based Awards (\$)	Option-Based Awards ⁽³⁾ (\$)	Non-Equity Incentive Plan Compensation (\$)	Pension Value (\$)	All Other Compensation (\$)	Total Compensation (\$)
Shelby D. Beattie ⁽²⁾	Nil	Nil	\$90,744	Nil	Nil	Nil	\$90,744
Gibson Scott ⁽²⁾	\$10,000	Nil	\$25,417	Nil	Nil	Nil	\$35,417
Kendall Dilling	\$10,000	Nil	\$25,417	Nil	Nil	Nil	\$35,417
Conrad K. Wagenaar	\$10,000	Nil	\$25,417	Nil	Nil	Nil	\$35,417

Notes:

- (1) Mr. Beattie was elected as a director on May 15, 1997. Mr. Scott was elected on April 15, 2003. Mr. Dilling was appointed on March 2, 2010. Mr. Wagenaar was appointed on August 25, 2010.
- (2) For a description of all compensation paid in 2013, please refer to the sections herein entitled "Summary Compensation Table" and "Incentive Plan Awards".
- (3) On October 18, 2013, Mr. Beattie was awarded options to acquire 2,500,000 Common Shares of the Corporation, Mr. Scott was awarded options to acquire 700,000 Common Shares of the Corporation, Mr. Dilling was awarded options to acquire 700,000 Common Shares of the Corporation and Mr. Wagenaar was awarded options to acquire 700,000 Common Shares of the Corporation. Each of these options have an exercise price of \$0.05 and will expire on October 18, 2013 and have been valued using the Black-Scholes option-pricing model. The fair value of the options was determined using weighted average risk free interest rate of 1.66% per annum, a weighted average expected life of 5 years, expected weighted average volatility of 389.29% and an expected weighted average fair value per option of \$0.04.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets out information as at the end of the Corporation's most recently completed financial year with respect to compensation plans under which equity securities of the Corporation are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by securityholders	14,030,000	\$0.08	1,831,019
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
Total	14,030,000	\$0.08	1,831,019

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

Other than as provided in the tables below, none of the directors and officers of the Corporation, any proposed management nominee for election as a director of the Corporation or any associate of any director, officer or proposed management nominee is or has been indebted to the Corporation at any time during the last completed financial year.

Aggregate Indebtedness as of the Record Date

The following table provides the aggregate indebtedness of all executive officers, directors, employees and former executive officers, directors and employees of the Corporation outstanding as at the Record Date.

Purpose	To the Corporation or its Subsidiaries	To Another Entity
Asset Disposition/Share Purchases	\$244,014	Nil
Other	\$6,528	Nil

Indebtedness of Directors and Executive Officers under Securities Purchase and Other Programs

Name and Principal Position	Involvement of Corporation or Subsidiary	Largest Amount Outstanding during 2013 (\$)	Amount Outstanding as March 3, 2015 (\$)	Financially Assisted Securities Purchases During 2013 (#)	Security for Indebtedness	Amount Forgiven During 2013 (\$)
Michael Rice <i>Chief Financial Officer</i>	Assumed Lender	\$236,530	\$244,719	Nil	Security over principal's Common Shares	Nil
Leonard Rice <i>Former Director</i>	Lender	\$6,528	\$6,528	Nil	Nil	Nil

In connection with the disposition of certain oil and gas assets by the Corporation in 1999, the Corporation was assigned a promissory note owing by Mr. Michael Rice. The note has no fixed maturity date (unless the officer's employment is terminated or he is petitioned into bankruptcy wherein the note and accrued interest becomes immediately payable) and bears interest at a rate of 3% per annum. In connection with such loan, 393,000 Common Shares owned by Mr. Rice were granted as security to the Corporation (fair value of such shares was \$7,860 as at December 31, 2014 and \$3,390 as at December 31, 2013).

Mr. Leonard Rice was advanced fees in relation to his efforts to finance and advance the Corporation's drilling technology. Leonard Rice passed away in late November of 2011 and the Loan will be repaid in full on, or prior to, December 31, 2015 (by his estate).

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as disclosed in this Management Proxy Circular, none of the directors or senior officers of the Corporation at any time since the beginning of the Corporation's last financial year, nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of any of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise in any matter to be acted on, other than the election of directors or the appointment of auditors. Mr. Scott, Chief Operating Officer, is also the President of TrueBore, which has provided consulting services to the Corporation. TrueBore was paid \$3,150 for these services in 2013. Shelby Beattie, a director, is a controlling shareholder of Phoenix, which charged the Corporation \$44,000 in 2013 with respect to operation costs.

MANAGEMENT CONTRACTS

There are no management functions of the Corporation that are to any substantial degree performed by a person or company other than the directors or officers (or private companies controlled by them, either directly or indirectly) of the Corporation.

CORPORATE GOVERNANCE

Please see the attached Schedule "A" for information on the Corporation's Corporate Governance (Form 58-101F2).

AUDIT COMMITTEE

Audit Committee Charter

The Charter of the Corporation's Audit Committee is attached to this Management Proxy Circular as Schedule "B".

Composition of the Audit Committee

The following are the members of the Committee:

Shelby D. Beattie	President and Chief Executive Officer	Financially literate ⁽¹⁾
Kendall Dilling	Independent ⁽¹⁾	Financially literate ⁽¹⁾
Conrad K. Wagenaar	Independent ⁽¹⁾	Financially literate ⁽¹⁾

Note:

(1) As defined by Multilateral Instrument – *Audit Committees* ("MI 52-110").

Education and Experience

Shelby D. Beattie has been involved in the oil and gas business as a director or member of executive management since 1980. Working as a landman from 1980 to 1982, he was Vice President of mineral leasing for Newport Oil & Gas, Inc., a private oil and gas company. From 1982 to 1992, he was Director, Vice President of Phoenix Oil and Gas, and project-managed the development of over 200 oil and gas wells and associated mineral leases. While remaining a member of the board of directors of Phoenix, from 1992 to 2002 Mr. Beattie consulted as a Senior Project Manager and Special Liaison for companies such as Maximum Video Systems, AT&T Broadband and Microsoft. Mr. Beattie's varied and extensive experience in the oil and gas and technology sectors have been instrumental as he has served as a Director of the Corporation since 1997, as Chief Financial Officer of the Corporation from 1997 to 2005, as President since September 2001 and CEO since February 2005.

Kendall Dilling has 20 years of progressive technical and management experience in the oil and gas industry and has BSc, BA and MBA degrees from the University of Calgary. He began his career at TransCanada Pipelines where he oversaw the regulatory approval process for numerous pipeline projects in Canada and the United States. Mr. Dilling then moved into the upstream oil and gas industry where he has worked for several energy companies including both large multi-nationals and Canadian juniors in regulatory and business development roles. Mr. Dilling has been responsible for regulatory approvals, HSE and stakeholder relations for several major oil sands

developments. Mr. Dilling is currently Vice President of Regulatory and Community Relations with Cenovus Energy.

Conrad K. Wagenaar is currently Vice President of Acquisitions and Investments for The Hillcrest Group of Companies. Mr. Wagenaar has received a Bachelor of Business Administration and Bachelor of Computer Science with honors. Additionally, Mr. Wagenaar has received an MBA from Queen's University.

Through such business experience, the members of the Audit Committee review financial statements and gain an understanding of financial reporting controls and procedures.

Audit Committee Oversight

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

Reliance on Certain Exemptions

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

Pre-Approval Policies and Procedures

The Audit Committee must pre-approve all non-audit services to be provided to the Corporation by its external auditors.

External Auditor Service Fees (By Category)

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

Financial Year Ending	Audit Fees⁽¹⁾	Audit Related Fees	Tax Fees	All Other Fees
2013	\$88,100	\$29,492	Nil	Nil
2012	\$85,600	\$33,290	Nil	Nil

Note:

(1) The Corporation retained the services of BDO Canada LLP to assist in the preparation of the Corporation's financial statements.

Exemption

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

PARTICULARS OF MATTERS TO BE ACTED UPON

Financial Statements

The financial statements of the Corporation for the year ended December 31, 2013 and the auditors' report thereon accompanying this Management Proxy Circular will be placed before the Shareholders at the Meeting for their consideration. Shareholders who wish to receive interim financial statements are encouraged to send the enclosed notice, in the addressed envelope to the Corporation. No formal action will be taken at the Meeting to approve the financial statements, which have been approved by the Board of Directors of the Corporation in accordance with applicable corporate and securities legislation.

Election of Directors

The term of office of each of the present directors expires at the Meeting. The number of directors to be elected at the Meeting has been fixed at four. Management of the Corporation proposes to nominate the persons named below

for election as directors of the Corporation at the Meeting to serve until the next annual meeting of the Shareholders of the Corporation, unless his office is earlier vacated. All of the nominees are currently members of the Board of Directors of the Corporation.

Approval of the election of directors will require the affirmative votes of the holders of not less than half of the votes cast in respect thereof by Shareholders present in person or by proxy at the Meeting. **Unless otherwise directed, the management designees named in the accompanying instrument of proxy intend to vote in favour of the election, as directors, of the proposed slate of nominees whose names are set forth below.** In the event that prior to the Meeting, any vacancies occur on the slate of nominees submitted herewith, it is intended that discretionary authority will be granted to vote proxies solicited by or on behalf of management for the election of any other person or persons as directors. Management is not currently aware that any such nominees would not be willing to serve as director if elected.

The following information concerning the proposed nominees has been furnished by each of them:

Name, Residence and Present Office Held	Principal Occupation or Employment	Director Since	Number of Common Shares Beneficially Owned or Controlled⁽¹⁾ and percentage of total issued and outstanding
SHELBY D. BEATTIE ⁽²⁾⁽³⁾ San Antonio, Texas, USA <i>President and Chief Executive Officer and Director</i>	President of the Corporation since September 2001, Chief Executive Officer of the Corporation since February 2005, and Chief Financial Officer of the Corporation from August 1997 to February 2005. Consultant with DVA Group, Inc. since 1997. Prior thereto, Vice President of Phoenix Oil & Gas Inc. since 1982.	May 15, 1997	498,389 0.31%
GIBSON C. SCOTT ⁽³⁾ Calgary, Alberta, Canada <i>Chief Operating Officer and Director</i>	Chief Operating Officer of the Corporation since February 2005. Currently the President of TrueBore Consulting Inc. Prior thereto, Mr. Scott was employed with Sperry-Sun Drilling Services, a global oilfield service provider.	April 15, 2003	1,126,357 0.71%
KENDALL DILLING ⁽²⁾⁽³⁾ Calgary, Alberta, Canada <i>Director</i>	Vice President, Regulatory and Community Relations with Cenovus Energy.	March 2, 2010	1,330,357 0.84%
CONRAD K. WAGENAAR ⁽²⁾⁽³⁾ Calgary, Alberta, Canada <i>Director</i>	Vice President of Acquisitions and Investments for The Hillhurst Group of Companies (HGC).	August 25, 2010	1,170,357 0.74%

Notes:

- (1) The information as to the number of Common Shares beneficially owned, not being within the knowledge of the Corporation, has been furnished by the respective nominees. These figures do not include any securities that are convertible into or exercisable for Common Shares.
- (2) The Corporation's audit committee is currently comprised of Messrs. Dilling, Beattie and Wagenaar.
- (3) The Corporation's executive compensation committee is comprised of the entire Board of Directors.

Corporate Cease Trade Orders or Bankruptcies

Other than as set forth below, no proposed director of the Corporation is, or has been within the past ten years, a director, chief executive officer or chief financial officer of any company that, while such person was acting in that capacity:

- (i) was the subject of a cease trade order, an order similar to a cease trade order or an order that denied the company access to any exemptions under securities legislation, and that was in effect for a period of more than 30 consecutive days; or
- (ii) was the subject of a cease trade order, an order similar to a cease trade order or an order that denied the company access to any exemptions under securities legislation, that was issued after that individual ceased to be a director or chief executive officer or chief financial officer and which resulted from an event that occurred while such person was acting in a capacity as a director, chief executive officer or chief financial officer.

No proposed director of the Corporation is, or has been within the past ten years, a director or executive officer of any other company that, while such person was acting in that capacity, or within a year of that individual ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Individual Bankruptcies

No director or proposed director of the Corporation is or has, within the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

Penalties or Sanctions

No proposed director of the Corporation has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority. No proposed director of the Corporation has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

Conflicts of Interest

The directors and officers of the Corporation may, from time to time, be involved with the business and operations of other oil and gas issuers, in which case a conflict of interest may arise between their duties as officers and directors of the Corporation and as officer and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such procedures and remedies, as applicable, under the *Business Corporations Act* (Alberta).

Appointment of Auditors

Unless otherwise directed, the management designees named in the accompanying instrument of proxy intend to vote in favor of the appointment of BDO Canada LLP, Chartered Accountants as auditors of the Corporation, to hold office until the close of the next annual meeting, at a remuneration to be determined by the Board of Directors of the Corporation. Approval of the appointment of the auditors will require the affirmative votes of the holders of not less than half of the votes cast in respect thereof by Shareholders present in person or by proxy at the Meeting. **Unless instructed otherwise, the management designees in the accompanying instrument of proxy intend to vote FOR the resolution.**

Re-Approval of Stock Option Plan

At the last annual general and special meeting of shareholders of the Corporation on February 28, 2014, the Corporation's current Plan, attached hereto as Schedule "C", was approved. Pursuant to Policy 4.4 of the TSXV (the "**Policy**"), Corporations that have a rolling stock option plan reserving a maximum of 10% of the issued and

outstanding shares of the Corporation must receive yearly shareholder approval of such stock option plan. This approval of the Plan is being sought at the Meeting. The full text of the Plan is attached hereto as Schedule "C".

The approval by Shareholders requires a favourable vote of a majority of the Common Shares voted in respect thereof at the Meeting. The TSXV requires such approval before it will allow the adoption of the Plan. Options to purchase Common Shares that were previously granted to directors, officers and employees of the Corporation will be deemed to be granted under the Plan. **Unless instructed otherwise, the management designees in the accompanying instrument of proxy intend to vote FOR the resolution to ratify, adopt and re-approve the Plan.**

The text of the resolution regarding this matter is as follows:

"BE IT RESOLVED THAT:

1. The Stock Option Plan (the "**Plan**") of the Corporation be, and is hereby ratified, and approved in substantially the form attached as Schedule "C" to the management proxy circular prepared for the purposes of this meeting;
2. Any director or officer be and is hereby authorized to amend the Plan should such amendments be required by applicable regulatory authorities including, but not limited to, the TSX Venture Exchange or, if required, the Toronto Stock Exchange;
3. Any director or officer be and is hereby authorized to execute and deliver all such deeds, documents and other writings and perform such acts as may be necessary in order to effect the Plan and the board of directors of the Corporation from time to time, be authorized to grant options in the capital stock of the Corporation pursuant to and in accordance with the provisions of the Plan; and
4. Notwithstanding the approval of the shareholders of the Corporation as herein provided, the board of directors of the Corporation may, in its sole discretion, revoke this resolution before it is acted upon, without further approval of the shareholders of the Corporation."

ADDITIONAL INFORMATION

Additional information relating to the Corporation is available through the internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at www.sedar.com. Financial information on the Corporation is provided in the comparative financial statements and management discussion and analysis of the Corporation which can also be accessed at www.sedar.com or which may be obtained upon request from the Corporation at #3A, 4015 – 1st Street S.E., Calgary, Alberta, T2G 4X7.

SCHEDULE "A"

CORPORATE GOVERNANCE POLICY

CORPORATE GOVERNANCE DISCLOSURE (FORM 58-101F2)

1. **Board of Directors** — Disclose how the board of directors (the "Board") facilitates its exercise of independent supervision over management, including
 - (i) the identity of directors that are independent, and
Kendall Dilling and Conrad K. Wagenaar
 - (ii) the identity of directors who are not independent, and the basis for that determination.
Shelby Beattie and Gibson Scott are not independent as they are, or have been in the past, members of the management of the Corporation.

In determining whether a director is independent, the Corporation chiefly considers whether the director has a relationship which could, or could be perceived to interfere with the director's ability to objectively assess the performance of management.
2. **Directorships** — If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.
None of the current and proposed directors of the Corporation presently serve as directors of other reporting issuers.
3. **Orientation and Continuing Education** — Describe what steps, if any, the Board takes to orient new Board members, and describe any measures the Board takes to provide continuing education for directors.
The Board of the Corporation takes the following measures to ensure that all new directors receive a comprehensive orientation regarding the role of the Board, its committees and its directors, and the nature and operation of the Corporation:
 - a. *each new director brings a different skill set and professional background, and with this information, the Board is able to determine what orientation to the nature and operations of the Corporation's business will be necessary and relevant to each new director; and*
 - b. *the Corporation is currently drafting a Board policy manual, which will provide a comprehensive introduction to the Board and its committees.*

The Board takes the following measures to provide continuing education for its directors in order that they maintain the skill and knowledge necessary for them to meet their obligation as directors:

 - a. *the Board policy manual will be reviewed on an annual basis and a revised copy will be given to each director; and*
 - b. *there is a technical presentation at Board meetings, focusing on either a particular property or a summary of various properties. The question and answer portions of these presentations are a valuable learning resource for the non-technical directors.*
4. **Ethical Business Conduct** — Describe what steps, if any, the board takes to encourage and promote a culture of ethical business conduct.

The Board of the Corporation intends to adopt a written code of business conduct & ethics (the "Code") for its directors, officers, employees and consultants. As one measure to ensure compliance with the proposed Code, the Board has established a whistleblower policy which details complaint procedures for financial concerns.

The Board must comply with the conflict of interest provisions of the Business Corporations Act (Alberta) as well as the relevant securities regulatory instruments, in order to ensure that directors exercise independent judgment in considering transaction and agreements in respect of which a director or executive officer has a material interest.

In addition to the Code, the Board intends to adopt a communications and corporate disclosure policy, a policy on stock trading and use of material information, and a code of employee conduct to encourage and promote a culture of ethical business conduct.

5. Nomination of Directors — Disclose what steps, if any, are taken to identify new candidates for Board nomination, including:

- (i) who identifies new candidates, and
- (ii) the process of identifying new candidates.

In order to identify new candidates for nomination to the Board, the Board of the Corporation considers the advice and input of the entire Board, regarding:

- a. *the appropriate size of Board, the necessary competencies and skills of the Board as a whole and the competencies and skills of each director individually; and*
- b. *the identification and recommendation of new individuals qualified to become a new Board member. New nominees must have a track record in general business management, special expertise in an area of strategic interest to the Corporation, the ability to devote the time required and a willingness to serve.*

6. Compensation — Disclose what steps, if any, are taken to determine compensation for the directors and CEO, including:

- (i) who determines compensation; and
- (ii) the process of determining compensation.

The Board of Directors as a whole acts as the compensation committee and decides on the compensation of the Corporation's directors and the CEO which the Board of Directors feels is suitable, primarily by comparison of the remuneration paid by other reporting issuers that the Board of Directors feels are similarly placed within the same business of the Corporation.

7. Other Board Committees — If the Board has standing committees other than the audit and compensation identify the committees and describe their function.

At present, the Board does not feel it necessary to establish any committees other than the audit committee; however, the Board remains open to such a possibility as the Corporation continues to grow in the future. The Board believes that the Corporation's size is sufficiently small to facilitate a direct management structure without the need to delegate decision making or authority to a committee.

8. Assessments — Disclose what steps, if any, that the board takes to satisfy itself that the board, its committees, and its individual directors are performing effectively.

The entire Board will evaluate the effectiveness of the Board, its committees and individual directors. To facilitate this evaluation, each committee will conduct an annual assessment of its performance, consisting of a review of its charter, the performance of the committee as a whole and the performance of the committee chair. In addition, the Board will conduct an annual review of its performance.

SCHEDULE "B"

EMERALD BAY ENERGY INC. AUDIT COMMITTEE CHARTER

A. Audit Committee Overview, Purpose and Authority

The Audit Committee (the "Committee") is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities and is responsible to the Board of Directors. The Committee monitors, evaluates, advises or makes recommendations, in accordance with this Charter and any other directions of the Board of Directors, on matters affecting the external, internal or special audits of the financial and operational control policies and practices relating to the Corporation.

The Committee has the authority to investigate any activity of the Corporation. The primary purpose of the Committee includes:

- (a) recommending to the Board of Directors the external auditors to be nominated for the purpose of preparing or issuing audit reports for the Corporation and the compensation for such services;
- (b) directly overseeing the work of the Corporation's external auditors engaged for the purpose of preparing or issuing auditors' reports;
- (c) reviewing the Corporation's financial statements, MD&A and annual and interim earnings press releases prior to public disclosure;
- (d) overseeing and monitoring the integrity of the Corporation's financial reporting process and systems of internal controls regarding finance, accounting, legal and regulatory compliance;
- (e) assessing the processes related to identification of the Corporation's risks and effectiveness of the Corporation's response to control or otherwise mitigate these risks; and
- (f) providing an avenue of communication among the external auditors, management, internal audit staff and the Board of Directors.

The Committee shall have unrestricted access to Company personnel and documents and will be provided with the resources necessary to carry out its responsibilities.

The Committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties, to set and pay the compensation for any such advisors and to communicate directly with internal and external auditors.

B. Audit Committee Structure

The Committee shall be composed of three members or such other number of members as may be specified by the Board of Directors. A majority of the Committee members shall be independent directors within the meaning of Multilateral Instrument 52-110 ("MI 52-110"), such that they shall have no direct or indirect material relationship with the Corporation. In addition, a majority of the members of the Committee must be "unrelated directors" – an unrelated director is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding.

At least one member of the Committee shall be financially literate such that he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those raised in the Corporation's financial statements.

All members of the Board of Directors shall be free to attend any meetings of the Committee and participate but only those members of the Committee shall be entitled to vote on any questions before the Committee. Other than members of the Board of Directors, entitlement to attend all or a portion of any Committee meetings shall be determined by the Chair of the Committee or its members.

The Committee shall meet at least four times per year and may call special meetings as required. A quorum at meetings of the Committee shall be a majority of the members. The Committee Chair shall prepare and/or approve an agenda in advance of each meeting.

The minutes of the Committee meetings shall accurately record the decisions reached by the Committee and shall be distributed to Committee members and Board members, with copies to the Chief Financial Officer (CFO), the external auditors and others as directed by the Committee

C. Audit Committee Duties and Responsibilities

I. Review Procedures – General

Review and assess the adequacy of this Charter at least annually. Submit the Charter to the Board of Directors for approval.

Review the Corporation's audited annual financial statements together with the MD&A thereon before such statements are submitted to the Board of Directors for approval. Review should include discussion with management and external auditors of significant issues regarding accounting principles, practices and judgments.

In consultation with management, external auditors and internal audit staff, consider the integrity of the Corporation's financial reporting processes and controls. Discuss financial risk exposures and the steps management has taken to monitor, control and report such exposures. Review significant findings prepared by the external auditors and the internal audit staff together with management responses.

Review and recommend for approval by the Board of Directors the quarterly financial statements of the Corporation along with related MD&A communication and any related press releases.

Review the financial content of the Corporation's annual report and any other reports of a financial nature which require approval by the Board of Directors prior to the release thereof.

Review annually with management, the external auditors and, if necessary, legal counsel, any material litigation, claim or other contingency that could have a material effect upon the financial position or operating results of the Corporation and the manner in which these will be disclosed in the financial statements.

Review annually the adequacy of the Corporation's procedures relating to the review of all public disclosure documents containing audited or unaudited financial information before its release, including any prospectus, offering memorandum, annual information form or other report.

Monitor the appropriateness of accounting policies, especially critical accounting policies and financial reporting used by the Corporation to review any actual and prospective significant changes in financial reporting and accounting policies and practices to be adopted by the Corporation and to review and assess any new or proposed developments in accounting and reporting standards that may affect or have an impact on the Corporation.

Review and approve the Corporation's hiring policies regarding partners, employees, former partners and former employees of its present and any former external auditors.

II. Review Procedures - External Auditors

The external auditors are ultimately accountable to the Audit Committee and the Board of Directors, as representatives of the shareholders. Review the annual appointment of external auditors for recommendation to the Board of Directors for approval, giving consideration to matters such as:

- (a) their independence and whether to retain such auditors for each future fiscal year after consultation with appropriate management;
- (b) the fees paid to the external auditors on an annual basis; and
- (c) any non-auditing services performed by the external auditors.

On an annual basis, review and discuss with the external auditors all significant relationships they have with the Corporation that could impair such auditors' independence.

Review the planning and results of the external audit, including:

- (a) the auditors' engagement letter;
- (b) the reasonableness of the estimated audit fees;
- (c) the scope of the audit, including materiality, audit reports required, areas of audit risk, deadlines and coordination with internal audit staff;
- (d) the post-audit management letter together with management's responses; and
- (e) any other matters the external auditors bring to the attention of the Committee.

Meet with the external auditors, at least annually and preferably at each Committee meeting, or as requested by the auditors, without management representatives present.

Receive and review all follow-up action or status reports relating to the recommendations of the external auditors and internal audit staff.

III. Internal Audit Function

The Committee should periodically request from management a review of the need for an internal audit function, and, on the basis of this review, determine whether such a function should be instituted.

IV. Risk Management Oversight

Assess whether management has implemented policies ensuring that the Corporation's risks are identified and that controls are adequate, in place and functioning properly.

V. Legal Compliance

On at least an annual basis, review with the Corporation's counsel any legal matters that could have a significant impact on the Corporation's financial statements, the Corporation's compliance with applicable laws and regulations and inquiries received from regulators or government agencies.

Review all reports concerning any significant fraud or regulatory non-compliance that occurs at the Corporation. This review should include consideration of the internal controls that should be strengthened to reduce the risk of a similar event in the future.

VI. Non-Audit Services

The Committee must pre-approve all non-audit services to be provided to the Corporation by its external auditors.

VII. Whistle-Blowing

The Committee must annually establish and review procedures relating to the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and the confidential anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

The Corporation's current policy in this regard is as follows. The Committee will establish the following procedure for the receipt and treatment of any complaint received by the Corporation regarding accounting, internal accounting controls or auditing matters:

- (a) The Corporation will distribute to all of its employees and field contractors the name and contact information of an independent member of the Committee for the purpose of receiving complaints regarding accounting, internal accounting controls or auditing matters;
- (b) Copies of complaints received will be sent to the members of the Committee;
- (c) All complaints will be investigated by the Corporation's finance and legal staff in the normal manner, except as otherwise directed by the Committee. The Committee may request that outside advisors be retained to investigate any complaint; and
- (d) The status of each complaint will be reported on a quarterly basis to the Committee and, if the Committee so directs, to the board of directors.

VIII. Reporting Requirements

The Audit Committee shall include in the Corporation's Information Circular and, if applicable, Annual Information Form, the information required by MI 52-110 and any applicable forms thereto.

IX. Other Responsibilities

Periodically perform a self-assessment of Committee performance.

Review financial and accounting personnel succession planning within the Corporation.

Annually review policies and procedures as well as audit results associated with directors' and officers' expense accounts and perquisites; annually review a summary of director and officers' related party transactions and potential conflicts of interest.

Perform any other activities consistent with this Charter, the Corporation's by-laws and governing law as the Committee or the Board of Directors deems necessary or appropriate.

D. Audit Committee Meetings

Committee meetings may be called by the Committee Chair or by a majority of the Committee members. In addition, the external auditors have the right to call a Committee meeting, usually through the Committee Chair. The Chair of the Committee shall be a voting member and questions will be decided by a majority of votes.

Meetings may be called with one day's notice, which notice may be waived by members. All members of the Committee are entitled to receive notice of every meeting. However, it should be standard practice to give Committee members at least five business days' notice of all meetings.

Meetings are chaired by the Committee Chair or in the Chair's absence, by a member chosen by the Committee amongst themselves.

Agendas will be set by the Chair of the Committee with assistance from management, other Committee members, external auditors and internal audit staff, if requested or required. Agendas should be circulated with the materials for consideration at the meeting to all members, the Chair of the Board of Directors, the President and CEO and the CFO no later than the day prior to the date of the meeting. However, it should be standard practice to deliver the agenda and the materials for consideration at the meeting at least five business days prior to the proposed meeting, except in unusual circumstances.

Except as herein provided, the Chair of the meeting may establish rules of procedures to be followed at meetings.

Meetings may be conducted with the participation of a member by telephone or any other voice and/or video teleconferencing device which permits all persons participating in the meeting to communicate with each other. A member participating in a meeting by that means is deemed to be present at the meeting.

The duties of the Committee may be exercised at a meeting at which a majority of the members of the Committee are present or by resolution in writing signed by all members of the Committee who would have been entitled to vote on the resolution at the meeting of the Committee. In case of an equality of votes, the person acting as Chair of the Committee meeting shall be entitled to a second or casting vote.

A resolution in writing may be signed and executed in separate counterparts by members and the signing or execution of a counterpart shall have the same effect as the signing or execution of the original. An executed copy of a resolution in writing or counterpart thereof transmitted by any means of recorded electronic transmission shall be valid and sufficient.

Attendance at all or a portion of Committee meetings by Company personnel will be determined by the Committee and may, at the request of the Committee, include the President and CEO, CFO and a recording Secretary.

The Recording Secretary shall keep minutes of the proceedings of all meetings of the Committee which following Committee approval are available to any member of the Board of Directors. All minutes will at a minimum be circulated to the Chair of the Board of Directors and should be circulated to all those receiving the agenda. Minutes will be retained by the Board of Directors.

E. Effective Date

In compliance with clause 9.1 (2) of Multilateral Instrument 51-110, this Charter is made effective June 28, 2005.

SCHEDULE "C"

EMERALD BAY ENERGY INC.

STOCK OPTION PLAN

ARTICLE 1– INTRODUCTION

1.1 Purpose

The purpose of this Stock Option Plan (the "Plan") is to establish a plan pursuant to which Designated Participants, as herein defined, are granted options ("Options") to purchase common shares ("Common Shares") in the capital of EMERALD BAY ENERGY INC. (the "Corporation") on the terms and conditions set forth in this Plan and in a resolution of either the board of directors or the shareholders of the Corporation.

1.2 Designated Participants

"Designated Participants" entitled to participate in the Plan shall be those directors, officers, employees or consultants of the Corporation, or any of its affiliates, who are designated as Designated Participants by resolution of the board of directors of the Corporation from time to time.

ARTICLE 2 – TERMS RELATING TO THE PLAN

2.1 Participants

The participants in the Plan will be Designated Participants who must be bona fide directors, officers, employees or consultants of the Corporation, or of an affiliate, provided, in the case of a consultant, he is engaged on an ongoing basis to provide services of value to the Corporation or to an affiliate. In the case of a consultant, a stock exchange on which the Corporation's shares are listed may require shareholder approval before exercise.

2.2 Number and Price of Optioned Common Shares

The number of Common Shares subject to an Option to a Designated Participant and the Option Price per Common Share shall be determined in the resolution of the board of directors, provided that: (a) Options may be granted for no more than 10% of the issued and outstanding Common Shares of the Corporation (on a non-diluted) basis; (b) no Designated Participant (excluding Consultants) shall be granted an Option which exceeds 5% of the issued and outstanding Common Shares of the Corporation (on a non-diluted basis) in any 12 month period and no consultant or employee conducting investor relations activities shall be granted an Option which exceeds 2% of the issued and outstanding Common Shares of the Corporation in any 12 month period; and (c) the Option price per Common Share shall not be less than such Option price as may be acceptable to any stock exchange on which the Corporation's shares are listed.

2.3 Option Period, Consideration and Payment

- (a) The Option Period shall be a maximum of five years from the date the Option is granted, provided that the Option Period shall be reduced with respect to any Option as provided in sections 2.5 and 2.6 covering cessation as a director, officer, employee or consultant of the Corporation or death of the Designated participant.
- (b) An Option shall vest and may be exercised (in each case to the nearest full Common Share) in whole or in part during the Option Period at any time after the date of the grant provided in the resolution of the board of directors of the Corporation. To the extent required by the TSX Venture Exchange, no Options may be exercised under this Plan until this Plan has been approved by a resolution duly passed by the shareholders of the Corporation.

- (c) Except as set forth in sections 2.5 and 2.6, no Option may be exercised unless the Designated Participant is at the time of such exercise a director, officer, employee or consultant to the Corporation or an affiliate.
- (d) The exercise of any Option will be contingent upon receipt by the Corporation at its head office of a written notice of exercise, specifying the number of Common Shares with respect to which the Option is being exercised, accompanied by cash payment, certified cheque or bank draft payable to the Corporation for the full purchase price of such Common Shares with respect to which the Option is exercised. No Designated Participant or his legal representatives, legatees or distributees will be, or will be deemed to be, a holder of any Common Shares subject to an Option under this Plan, unless and until certificates for such Common Shares are issued to him or them under the terms of the Plan.

2.4 Transferability

All benefits, rights and Options accruing to any Designated Participant in accordance with the terms and conditions of the Plan shall not be transferable or assignable unless specifically provided herein. During the lifetime of a Designated Participant any benefits, rights and Options may only be exercised by the Designated Participant.

2.5 Ceasing to be a Director, Officer, Employee or Consultant

If a Designated Participant shall cease to be a director, officer or employee of the Corporation or of an affiliate for any reason (other than death), he may exercise his Option to the extent that he was entitled to exercise it at the date of such cessation, but only within the ninety (90) days following his ceasing to be a director, officer or employee.

Nothing contained in the Plan, nor in any Options granted pursuant to the Plan, shall as such confer upon any Designated Participant any right with respect to continuance as a director, officer or employee of the Corporation or of any affiliate.

If a consultant shall cease to be a consultant or if the Optionholder was engaged in investor relation activities, his Option shall expire thirty (30) days following the date he ceases to act as a consultant and is thereafter void and of no effect.

2.6 Death of Designated Participant

In the event of the death of a Designated Participant, the Option previously granted to him shall be exercisable only within the twelve (12) months next succeeding such death and then only:

- (a) by the person or persons to whom the Designated Participant's rights under the Option shall pass by the Designated Participant's will or the laws of descent and distribution; and
- (b) if and to the extent that he was entitled to exercise the Option at the date of his death.

2.7 Adjustment in Common Shares Subject to the Plan

In the event there is any change in the Common Shares of the Corporation through the declaration of stock dividends or stock subdivisions or consolidations or reconstruction, reorganization or recapitalization of the Corporation (other than issuance of additional shares), the number of Common Shares available for Option, the Common Shares subject to any Option, and the Option price thereof shall be adjusted appropriately by the board of directors of the Corporation and such adjustment shall be effective and binding for the purposes of the Plan.

2.8 Amendment or Termination of the Plan

The board of directors of the Corporation reserves the right to amend, modify or terminate the Plan at any time if and when it is advisable in the absolute discretion of the board of directors, except with respect to any Options then outstanding under the Plan.

2.9 Adjustment of Option Price

Any reduction in the Option price originally established in a grant of Options hereunder to an Insider (as that term is defined in applicable securities legislation) of the Corporation must be approved by a vote of the disinterested shareholders at a regularly constituted meeting of the shareholders of the Corporation.

ARTICLE 3 – GENERAL

3.1 Record Keeping

The Corporation shall maintain a register in which shall be recorded the name and address of each Designated Participant and the number of Options granted to a Designated Participant and the number of Options outstanding.

3.2 Necessary Approvals

The obligation of the Corporation to issue and deliver Common Shares in accordance with the Plan is subject to any approvals which may be required from any regulatory authority or stock exchange having jurisdiction over the securities of the Corporation. If any Common Shares cannot be issued to any Designated Participant for whatever reason, the obligation of the Corporation to issue such Common Shares shall terminate and any funds paid to the Corporation by the Designated Participant for the exercise of such Options will be returned to the Designated Participant.

3.3 Common Shares

As used in the Plan, "Common Shares" means common shares without nominal or par value in the capital of the Corporation as constituted June 30, 1997, subject to sections 2.7 and 3.4.

3.4 Amalgamation or Merger

If the Corporation amalgamates or merges with or into another corporation, which it reserves the right to do, any Option granted under the Plan shall continue in full force and effect unless the amalgamation agreement otherwise provides, in which event the Option shall expire and be of no further force or effect immediately prior to the record date applicable to such amalgamation or merger.

3.5 Decision of Directors

For the purposes of the Plan, but subject to applicable corporate law, those Designated Participants who are eligible for selection as persons to whom Common Shares may be issued or to whom Options or rights may be granted pursuant to the Plan entitling the participants therein to acquire Common Shares, shall be eligible to and may participate in the decision of the board of directors of the Corporation to issue any Common Shares or grant any Options under the Plan.

3.6 Administration of the Plan

The Plan will be administered by the senior officers of the Corporation subject to direction and supervision by the board of directors. The Corporation shall effect the grant of Options under the Plan by execution of an option agreement in the form approved by the signing officers of the Corporation thereto, and which shall give effect to the provisions of this Plan. The board of directors is authorized to interpret the Plan and

may, from time to time, amend or rescind rules and regulations required for carrying out the Plan. Any such interpretation or construction of any provision of the Plan shall be final and conclusive. All administration costs of the Plan shall be paid by the Corporation. The senior officers of the Corporation are authorized and directed to do all things and execute and deliver all instruments, undertakings and applications and writing as they in their absolute discretion consider necessary for the implementation of the rules and regulations established for administering the Plan.

3.7 No Representation or Warranty

The Corporation makes no representation or warranty as to the future market value of any Common Shares issued in accordance with the provision of the Plan nor in regard to the tax implications thereof.

3.8 Interpretation

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

3.9 Stock Exchange Rules

The rules of any stock exchange upon which the Corporation's Common Shares are listed shall be applicable relative to options granted to Designated Participants.

3.10 Escrow and Restriction on Transferability

Common Shares to be issued upon exercise of an Option shall be escrowed or legended as to restrictions on transferability if required by any applicable legislation, regulatory body or stock exchange, and the Designated Participant shall, upon request by the Corporation, execute an escrow agreement in form required or requested by such legislation, regulatory body, stock exchange or the Corporation, and no Common Shares shall be issued on exercise of an Option if a required escrow agreement is not entered into by the Designated Participant.

3.11 Affiliate

The term "affiliate" when used herein shall have the same meaning as the definition thereof in the Securities Act (Alberta).

3.12 Approval of Directors and Shareholders

This Stock Option Plan was originally approved by the board of directors of Emerald Bay Energy Inc. effective June 30, 1997. The following resolution was approved by its shareholders on June 30, 1997:

"RESOLVED that the Stock Option Plan in the form attached be approved whereby, without further approval of the shareholders, the board of directors may issue directors, officers, employees and consultants options of up to 10% of the number of issued shares from time to time outstanding on such terms and conditions as they may deem appropriate."

CERTIFIED this 30th day of June, 1997.

EMERALD BAY ENERGY INC.

Per: _____