



**LOON ENERGY CORPORATION**

**NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING  
OF SHAREHOLDERS TO BE HELD ON JULY 7, 2015**

**AND**

**MANAGEMENT INFORMATION CIRCULAR**

**June 2, 2015**



## NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS

**NOTICE IS HEREBY GIVEN THAT** the annual meeting (the “**Meeting**”) of the holders (“**Shareholders**”) of common shares (“**Shares**”) of Loon Energy Corporation (the “**Corporation**”) will be held at the offices of the Corporation, Suite 1500, 700-4<sup>th</sup> Avenue SW, Calgary, Alberta, Canada on Tuesday, July 7, 2015 at 9:00 a.m. (Mountain Daylight Time). The purpose of the Meeting is to:

1. receive the audited financial statements of the Corporation for the year ended December 31, 2014, together with the auditor’s report relating to such financial statements;
2. fix the number of directors at seven (7) and to elect directors of the Corporation to hold office until the next annual meeting;
3. appoint KPMG LLP, Chartered Accountants, as auditor of the Corporation until the next annual meeting and to authorize the directors to fix the auditor’s remuneration;
4. re-approve the Corporation’s stock option plan, and
5. transact such other business as may properly be brought before the Meeting or any adjournment thereof.

Shareholders are referred to the accompanying information circular (the “**Information Circular**”) for the full text of the proposed resolutions and other information with respect to the matters to be considered at the Meeting and for other information respecting the Corporation and procedure of the Meeting.

Only persons registered as Shareholders on the records of the Corporation as of the close of business on June 2, 2015 (the “**Record Date**”) are entitled to receive notice of and to attend and vote at the Meeting or at any adjournment thereof. However, a transferee of Shares acquired after the Record Date may vote such Shares at the Meeting or any adjournment thereof if (a) the transferee produces properly endorsed share certificates evidencing ownership of such Shares or otherwise establishes to the satisfaction of the Corporation that it owns the transferred Shares and (b) requests, not later than 10 days before the Meeting, that the transferee’s name be included on the list of Shareholders entitled to vote at the Meeting.

**Shareholders may vote in person at the Meeting or any adjournment thereof, or may appoint another person (who need not be a Shareholder) as their proxy to attend and vote in their place. Shareholders who are unable to be personally present at the Meeting are requested to fill in and sign the form of proxy accompanying this notice and mail it to, or deposit it with, Computershare Trust Company of Canada, Attention: Proxy Department, 8th Floor, 100 University Avenue, Toronto, Ontario, Canada M5J 2Y1. In order to be valid and acted upon at the Meeting, forms of proxy must be received at the above-noted address not later than 9:00 a.m. Mountain Daylight Time, on Friday, July 3, 2015 or, if the Meeting is adjourned, not less than 48 hours (excluding Saturdays, Sundays and statutory holidays) before the time for the holding of such adjourned meeting. Shareholders are cautioned that the use of the mail to transmit proxies is at each Shareholder’s risk.**

**If a Shareholder receives more than one instrument of proxy because such Shareholder owns Shares registered in different names and addresses, each instrument of proxy, or other appropriate form of proxy, should be completed and returned.**

DATED at Calgary, Alberta, Canada this 2<sup>nd</sup> day of June, 2015.

**BY ORDER OF THE BOARD OF DIRECTORS**

(signed) “Norman W. Holton”

Norman W. Holton, President & Chief Executive Officer

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in this Circular constitute forward-looking statements. The use of any of the words “anticipate”, “estimate”, “expect”, “may”, “will”, “should”, “believe”, “intend” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes that the expectations reflected in those forward-looking statements that are applicable to them are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Circular should not be unduly relied upon. These forward-looking statements speak only as of the date of this Circular.

The actual results could differ materially from those anticipated in these forward-looking statements and information as a result of, among other things, the risk factors set forth below:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- ability to satisfy substantial capital requirements;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions and exploration and development programs;
- geological, technical, drilling and processing problems; and
- failure to realize the anticipated benefits of acquisitions.

In addition to other factors and assumptions which may be identified in this Circular, assumptions have been made in respect of such forward-looking statements and information regarding, among other things: the impact of competition; the general stability of the economic and political environment in which the Corporation operates; the timely receipt of shareholder approvals and any required regulatory approvals; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability of the Corporation to obtain financing on acceptable terms; the ability to replace and expand oil and natural gas reserves through acquisition, development and exploration; future oil and natural gas prices; and currency, exchange and interest rates. Although the Corporation believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements and information as the Corporation can give no assurance that such expectations will prove to be correct.



## **MANAGEMENT INFORMATION CIRCULAR**

### **FOR THE ANNUAL GENERAL AND SPECIAL MEETING OF THE HOLDERS OF COMMON SHARES TO BE HELD ON JULY 7, 2015**

**THIS MANAGEMENT INFORMATION CIRCULAR (the “Circular”) IS FURNISHED IN CONNECTION WITH THE SOLICITATION OF PROXIES BY OR ON BEHALF OF THE MANAGEMENT OF LOON ENERGY CORPORATION (the “Corporation” or “Loon”) for use at the Annual General and Special Meeting of the holders (the “Shareholders”) of common shares (the “Common Shares”) of the Corporation to be held at the offices of the Corporation at Suite 1500, 700 – 4<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 3J4 on Tuesday, July 7, 2015, at 9:00 a.m. (Mountain Daylight Time), and at any adjournment thereof (the “Meeting”) for the purposes set forth in the accompanying Notice of Annual General and Special Meeting of Shareholders. Information contained in this Circular is given as at June 2, 2015.**

### **SOLICITATION OF PROXIES**

**The solicitation of proxies in connection with the Meeting is made on behalf of the management of the Corporation.** Although it is expected that the solicitation of proxies will be primarily by mail, proxies may be solicited by personal interview, telephone or other means of communication and by directors, officers and employees of the Corporation, who will not be specifically remunerated therefore. The cost of any such solicitation will be borne by the Corporation.

### **RECORD DATE**

The board of directors of the Corporation (the “**Board of Directors**”) has fixed the record date for the Meeting as the close of business on June 2, 2015 (the “**Record Date**”). Only registered holders of Common Shares on the Record Date are entitled to notice of the Meeting and to vote thereat, unless after the Record Date, a registered holder transfers its Common Shares and the transferee, upon producing properly endorsed certificates evidencing such Common Shares or otherwise establishing that it owns such Common Shares, requests not later than 10 days before the Meeting that the transferee’s name be included in the list of Shareholders entitled to vote, in which case such transferee shall be entitled to vote such Common Shares at the Meeting.

## **APPOINTMENT AND REVOCATION OF PROXIES**

Registered Shareholders may vote in person at the Meeting or they may appoint another person, who does not have to be a Shareholder, as their proxy to attend and vote in their place. The persons named in the enclosed instrument of proxy are Norman W. Holton, the President and Chief Executive Officer of the Corporation, and Timothy M. Elliott, the Chairman of the Corporation and Tracy H. Heck, the Chief Financial Officer of Serinus Energy Inc. (“**Serinus Energy**”).

**A SHAREHOLDER SUBMITTING A PROXY HAS THE RIGHT TO APPOINT A PERSON OR COMPANY TO REPRESENT THE SHAREHOLDER AT THE MEETING OTHER THAN THE PERSONS DESIGNATED IN THE INSTRUMENT OF PROXY FURNISHED BY THE CORPORATION. TO EXERCISE THIS RIGHT, THE SHAREHOLDER SHOULD INSERT THE NAME OF THE DESIRED REPRESENTATIVE IN THE BLANK SPACE PROVIDED IN THE INSTRUMENT OF PROXY AND STRIKE OUT THE MANAGEMENT DESIGNEES PROVIDED IN THE INSTRUMENT OF PROXY OR SUBMIT ANOTHER APPROPRIATE PROXY.**

In order to be effective, the proxy must be mailed so as to be deposited at the office of the Corporation’s registrar and transfer agent, Computershare Trust Company of Canada, at Suite 600, 530 – 8<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 3S8, at any time, not less than 48 hours prior to the Meeting or any adjournment or adjournments thereof, excluding Saturdays, Sundays and statutory holidays. The instrument appointing a proxy shall be in writing under the hand of the Shareholder or his attorney, or, if such Shareholder is a corporation, under its corporate seal or executed by a director, officer or attorney thereof duly authorized.

A Shareholder who has submitted a proxy may revoke it by instrument in writing executed by the Shareholder or his attorney authorized in writing, or, if the Shareholder is a corporation, under its corporate seal or executed by a director, officer or attorney thereof duly authorized and deposited:

- (a) at the registered office of the Corporation, 1500, 700 – 4th Avenue S.W. Calgary, Alberta T2P 3J4, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment or adjournments thereof, at which the proxy is to be used;
- (b) with the chairman of the Meeting on the day of the Meeting or any adjournment or adjournments thereof; or
- (c) in any other manner permitted by law.

In addition, a proxy may be revoked by the Shareholder personally attending the Meeting and voting its Common Shares.

Beneficial Shareholders (as defined below) who wish to revoke their proxy must arrange for their respective broker/intermediary to revoke the proxy on their behalf within the time specified by such broker/intermediary.

## **EXERCISE OF DISCRETION BY PROXY HOLDERS**

All Common Shares represented at the Meeting by properly executed proxies will be voted. 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 proxy will be voted for or against the matters in accordance with such

specification. **IN THE ABSENCE OF ANY SUCH SPECIFICATION, SUCH COMMON SHARES WILL BE VOTED “FOR” ALL OF THE MATTERS SET FORTH IN THE CIRCULAR.**

The enclosed instrument of proxy confers discretionary authority upon the management designees, or other persons named as proxy therein, with respect to amendments to or variations of matters identified in the Notice of Meeting, the Circular and any other matters which may properly come before the Meeting. At the time of printing of the Circular, the Corporation is not aware of any amendments to, or variations of, or other matters which may come before the Meeting. In the event that other matters come before the Meeting, the management designees in the instrument of proxy intend to vote in accordance with the discretion of the management of the Corporation.

### **ADVICE TO BENEFICIAL HOLDERS OF SECURITIES**

**The information set forth in this section is of significant importance to many public Shareholders of the Corporation, as a substantial number of the public Shareholders of the Corporation do not hold Common Shares in their own name.**

Shareholders who do not hold their Common Shares in their own name (referred to in this 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 likely be registered under the name of the Beneficial 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 CDS Clearing and Depository Services Inc., which acts as nominee for many Canadian brokerage firms). Common Shares held by brokers or their agents or nominees can only be voted (for or against resolutions) upon the instructions of the Beneficial Shareholder. **Without specific instructions, a broker and its 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.**

Applicable regulatory rules require 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. Often, the instrument of proxy supplied to a Beneficial Shareholder by its broker (or the agent of the broker) is similar to the instrument of proxy provided to registered Shareholders of the Corporation. However, its purpose is limited to instructing the registered Shareholder (the broker or agent of the broker) how to vote on behalf of the Beneficial Shareholder. The majority of brokers delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("**Broadridge**"). Broadridge typically prepares a Voting Information Form ("**VIF**") and mails the VIF to the Beneficial Shareholders and asks Beneficial Shareholders to return the VIF to Broadridge. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares to be represented at a meeting. **A Beneficial Shareholder receiving a VIF from Broadridge cannot use that VIF to vote Common Shares directly at the Meeting. The VIF must be returned to Broadridge well in advance of the Meeting in order to have the Common Shares voted at the Meeting.**

Although a Beneficial Shareholder may not be recognized directly at the Meeting for the purposes of voting Common Shares registered in the name of its broker (or an 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 indirectly vote their Common Shares as proxyholder for the registered shareholder should enter their own names in the blank space on the VIF provided to them and return the same to their broker (or the broker's agent) in accordance with the instructions provided by such broker (or agent), well in advance of the Meeting.

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

The Corporation is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series.

As at the Record Date and as of the date hereof, there are 19,949,136 Common Shares issued and outstanding and entitled to vote at the Meeting on the basis of one vote for each Common Share held. No preferred shares are issued or outstanding as at the Record Date or as of the date hereof.

To the knowledge of the directors and executive officers of the Corporation, as at the date hereof, the only Shareholder of the Corporation that beneficially owns, or controls or directs, directly or indirectly, 10% or more of the Common Shares is Kulczyk Investments S.A. (“**KI**”). KI is a private corporation organized under the laws of Luxembourg which owns 6,755,209 Common Shares (representing approximately 33.9% of the Common Shares). KI is controlled by Dr. Jan J. Kulczyk. As a result of an agreement in place between Radwan Investments GmbH (“**Radwan**”) and KI dated September 15, 2010, under which Radwan is obliged to vote any securities it holds pursuant to such agreement in accordance with the directions of KI, KI may also be considered to direct 752,768 Common Shares owned by Radwan, representing approximately 3.8% of the issued and outstanding Common Shares. KI and Radwan collectively hold 7,507,977 Common Shares or approximately 37.6% of the issued and outstanding Shares. As of the date hereof, the directors and executive officers of the Corporation and KI collectively own, or control or direct, directly or indirectly, 13,699,394 Common Shares, representing approximately 68.7% of the Common Shares.

## **MATTERS TO BE ACTED UPON AT THE MEETING**

The following are the matters to be acted upon at the Meeting.

### **1. Presentation of Financial Statements**

The audited consolidated financial statements of the Corporation as at, and for the years ended December 31, 2013 and 2013, together with the auditor's reports thereon, were mailed to the Shareholders who have requested such financial statements in accordance with applicable securities laws, together with this Information Circular. These financial statements are also available on the Internet on the Corporation's profile maintained on the Canadian System for Electronic Document Analysis and Retrieval (“**SEDAR**”) located at [www.sedar.com](http://www.sedar.com). No formal action will be taken at the Meeting to approve the financial statements, which have already been approved by the board of directors of the Corporation.

### **2. Election of Directors**

Directors are elected annually. There are currently seven directors of the Corporation. Unless otherwise directed, it is the intention of management to vote proxies in the accompanying form in favour of an ordinary resolution fixing the number of directors to be elected at the Meeting at seven and in favour of each of the board nominees of management set forth below. If for any reason any of the proposed nominees does not stand for election or is unable to serve as such, the management designees reserve the right to vote for any other nominee in their sole discretion unless the appointing Shareholder has specified

in its Instrument of Proxy that its Common Shares are to be withheld from voting on the election of directors.

Manoj Madnani, a director of the Corporation since October 2007, will retire from the board of directors as of the date of the Meeting. The Corporation proposes to nominate the six remaining incumbent directors and, additionally, Mr. Vanja Baros for election at the Meeting, for a term to expire no later than the close of the next annual meeting of Shareholders or until their successors are duly elected or approved. Voting for the election of directors will be conducted on an individual, and not a slate, basis. Pursuant to the by-laws of the Corporation, all previously elected directors are deemed to retire from office at the time of the Meeting.

The name, province and country of residence of the persons nominated for election as directors, the number of voting securities of the Corporation beneficially owned, or controlled or directed, directly or indirectly by him as of the date hereof, the year he first became a director and the current principal occupation and occupation in the previous five years of each director nominee are set forth below.

<b>Name and Place of Residence</b>	<b>Number of Common Shares Beneficially Owned, Controlled or Directed</b>	<b>Director Since</b>	<b>Current Principal Occupation and Occupation in the Previous Five Years</b>
Richard W. Elliott <sup>(1)(3)</sup> Montreal, Quebec, Canada	221,500	October 2008	President of ExSpace, Corporate Space Advisors Inc. (since 1995), a commercial real estate company.
Timothy M. Elliott <sup>(2)</sup> Dubai, United Arab Emirates	2,250,750	October 2008	President and Chief Executive Officer of Serinus Energy Inc., formerly Kulczyk Oil Ventures Inc. <sup>(4)</sup> (since February 2006).
Jock M. Graham <sup>(3)</sup> Dubai, United Arab Emirates	1,513,100	October 2008	Executive Vice President and Chief Operating Officer of Serinus Energy (EVP since February 2006, COO since May 2013).
Kenneth R. Heuchert <sup>(1)(3)</sup> North Saanich, B.C., Canada	163,524	October 2008	Retired Civil Engineer since 2011. Prior thereto, independent water services and wastewater treatment consultant (since 2000).
Norman W. Holton Calgary, Alberta Canada	1,126,633	October 2008	President and Chief Executive of the Corporation and Vice Chairman of Serinus Energy (since December 2008).
Vanja Baros <sup>(5)</sup> London, United Kingdom	nil	nominee	Corporate Finance & Funds Management Professional
Michael A. McVea <sup>(1)(2)</sup> Victoria, B.C., Canada	205,000	October 2008	Retired lawyer.

*Notes:*

1. Member of the Audit Committee
2. Member of the Compensation and Corporate Governance Committee
3. Member of the Reserve Evaluation Committee
4. Serinus Energy is a public international oil and gas corporation listed on both the TSX and the Warsaw Stock Exchange under trading symbol "SEN".
5. Mr. Baros holds a senior position with KI. KI owns 6,755,209 Common Shares and has direction over an additional 752,768 Common Shares owned by Radwan. See "Voting Common Shares and Principal Holders Thereof" above. By virtue of his position with KI, Mr. Baros is deemed to have direction over such Common Shares in addition to those Common Shares that are shown above.

Directors serve a term expiring immediately prior to the close of the next annual meeting of the Corporation.

***Cease Trade Orders, Bankruptcies, Penalties and Sanctions***

To the knowledge of management of the Corporation, unless otherwise disclosed herein, no proposed director

- (a) is, or has been within 10 years of the date of this Circular, a director or chief executive officer or chief financial officer of any company, including the Corporation, that:
  - (i) while such proposed director was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days;
  - (ii) was subject to an order that was issued, after the director ceased to be a director, chief executive officer or chief financial officer of that company, and which resulted from an event that occurred while that person was acting in the capacity of a director, chief executive officer or chief financial officer; or
- (b) is, as of the date of this Circular, or has been within 10 years before the date of this Circular, a director or executive officer of any company that, while such proposed director was acting in that capacity, or within a year of such proposed director 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 proceeding, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (c) has, within 10 years before the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceeding, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

To the knowledge of management of the Corporation, no proposed director has been subject to

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for a proposed director.

**2. Appointment of Auditor**

Unless otherwise directed, it is management's intention to vote the proxies in favour of an ordinary resolution to re-appoint KPMG LLP, to serve as auditor of the Corporation until the next annual meeting of shareholders and to authorize the directors to fix its remuneration as they determine appropriate. KPMG LLP was first appointed as the auditor of the Corporation on October 30, 2008.

### 3. Re-Approval of the Stock Option Plan

At the Meeting, shareholders will be asked to consider and, if thought appropriate, approve an ordinary resolution (the “**Plan Resolution**”) re-approving the Corporation’s stock option plan (the “**Option Plan**”) on the terms set out below. The Option Plan, first established on November 4, 2008, is attached as Schedule A.

The Option Plan is made in accordance with the TSX-V policy on listed company share incentive arrangements. The purpose of the Option Plan is to afford persons who provide services to the Corporation, whether as directors, officers, management, employees or otherwise, an opportunity to obtain a proprietary interest in the Corporation by permitting them to purchase shares of the Corporation. The Option Plan also aims to attract qualified individuals to the Corporation and to retain and encourage the continued involvement of such persons with the Corporation.

The Option Plan is administered by the Board of Directors who will, from time to time, grant stock options to eligible participants. Directors, officers, employees and consultants of the Corporation and its subsidiaries are eligible to participate in the Option Plan.

The aggregate number of authorized but unissued Common Shares allocated and made available to be granted to eligible participants under the Option Plan may not exceed 10% (on a non-diluted basis) of the outstanding Common Shares at any time. At no time may the number of Common Shares reserved or granted under stock options exceed 10% of the aggregate number of the then issued and outstanding Common Shares. The Common Shares in respect of which stock options are not exercised shall be available for subsequent stock option grants. The terms of any stock options granted shall be for a period of time determined by the Board of Directors in its discretion, provided that the term may not exceed five years and will be subject to earlier automatic termination when the holder ceases to be an eligible participant in accordance with the terms of the Option Plan. According to the Option Plan, the exercise price of the Common Shares purchased pursuant to each Option shall not be less than the price permitted by any stock exchange on which the Common Shares are then listed or other regulatory body having jurisdiction. The exercise price of options granted by the Corporation is recommended by the Compensation & Corporate Governance Committee and determined by the Board of Directors subject to the terms of the Option Plan. The exercise price is generally either based on the closing trading price of the Corporation’s shares on the TSX-V on the day before the grant or on a higher price if the Corporation has recently undertaken a financing at such higher price.

The aggregate number of Common Shares subject to a stock option to an eligible participant under the Option Plan will be determined by the Board of Directors, but no participant may be granted stock options representing more than 5% of the Common Shares on a non-diluted basis (the maximum number permitted by the TSX-V to be granted to any one individual in a year). The aggregate number of stock options to be granted to any consultant or any participant conducting investor relation activities shall not exceed 2% of the issued and outstanding Common Shares (on a non-diluted basis) within any 12-month period. Please refer to the discussion under “Statement of Executive Compensation – Incentive Plans” for more information.

In accordance with the rules of the TSX-V, rolling plans such as the Option Plan must be re-approved by shareholders on an annual basis. If the Option Plan is not re-approved, options already granted under the Option Plan will not be affected, but the Corporation will not be permitted to grant additional options under the Option Plan and will therefore be required to consider how it will compensate its directors and officers. Accordingly, at the Meeting, Shareholders will be asked to consider and, if thought appropriate, approve the Plan Resolution, substantially in the form set forth below:

“RESOLVED THAT:

- (a) the stock option plan of Loon Energy Corporation (the “**Corporation**”) dated November 4, 2008, is hereby confirmed, ratified, authorized and approved; and
- (b) any director or officer of the Corporation is hereby authorized and directed to do all such things and execute, for and on behalf of the Corporation, all such documents and other instruments as may be necessary or desirable in order to give effect the foregoing resolutions.”

In order for the Option Plan to be implemented, the Plan Resolution must be approved by a majority of the votes cast by shareholders present in person or represented by proxy at the Meeting.

**Unless otherwise directed, the persons named in the enclosed form of proxy, if named as proxy holder, intend to vote for the Plan Resolution.**

#### **4. Other Matters**

Management knows of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice of Annual General and Special Meeting. However, if any other matter properly comes before the Meeting, each duly completed and submitted Instrument of Proxy will be voted on such matter in accordance with the best judgment of the person or persons voting the proxy.

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

Management of the Corporation is not aware of any material interest, direct or indirect, of any director or nominee for director, or executive officer of the Corporation 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 referred to in the Notice of Annual General and Special Meeting, other than the election of directors and the re-approval of the Option Plan, pursuant to which the directors and executive officers are eligible to receive stock options.

In respect of other matters to come before the Meeting, most of the directors of the Corporation are associated with other companies or entities, which may give rise to conflicts of interest. Where required by law, the applicable directors will make appropriate disclosure of such conflicts. In particular, the Corporation will comply with the requirements of the ABCA. These provisions state that, in the event a director has an interest in a contract or proposed contract or agreement, such director shall disclose his or her interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise permitted by the ABCA.

#### **MANAGEMENT CONTRACTS**

The Corporation and Serinus Energy have entered into a services agreement (the “**Services Agreement**”), pursuant to which Serinus Energy provides services in respect of the management, development, exploitation and operation of the assets acquired by the Corporation. Serinus Energy also provides various administrative services, as well as access to geological and technical data relating to the assets. Pursuant to the Services Agreement, Serinus Energy and the Corporation pay their respective shares of the general and administrative costs of Serinus Energy and the Corporation based upon an evaluation of the relative levels of activity of each of Serinus Energy and the Corporation, giving consideration to the time commitment required by Serinus Energy personnel. The Services Agreement commenced on January 1, 2009 and can be terminated upon six months’ notice by either party or upon the occurrence of certain other events. The Services Agreement requires the Corporation to pay Serinus Energy

CAD\$1,000 per month for general management services provided under the agreement and for technical services on the basis of time spent. During the 2014 fiscal year the Corporation paid a total of US\$10,682 (2013: US\$11,654 to Serinus Energy in accordance with the Services Agreement. Serinus Energy is an ABCA corporation located at Suite 1500, 700 – 4<sup>th</sup> Avenue S.W., Calgary, Alberta.

The following individuals, being the directors and officers of Serinus Energy who are not also directors, or proposed directors, and officers of the Corporation, are informed persons of Serinus Energy for the purposes of the *National Instrument 51-102 – Continuous Disclosure Obligations*: Sebastian Kulczyk (Luxembourg), Gary R. King (Dubai, United Arab Emirates), Stephen Akerfeldt (Toronto, Ontario, Canada), Helmut Langanger (Strasshof, Austria), Evgenij Iorich (Zug, Switzerland), Jakub Korczak (Warsaw, Poland), Trent Rehill (Tunis, Tunisia), Tracy Heck and Aaron LeBlanc (Calgary, Alberta, Canada). The current and proposed directors of the Corporation named under the heading “Matters to be Acted Upon at the Meeting – Election of Directors”, as well as Edwin A. Beaman (Calgary, Alberta, Canada), Paul H. Rose (Moyie, British Columbia, Canada) and Alec Silenzi (Calgary, Alberta, Canada) as officers of the Corporation, are informed persons of the Corporation and are resident in the noted jurisdictions. KI (Luxembourg) is an informed person of both the Corporation and Serinus Energy. No indebtedness exists between the Corporation and any of the informed persons (or any informed person’s affiliates) noted above.

## **STATEMENT OF EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

The information that follows in this “Statement of Executive Compensation” section is for the year ended December 31, 2014.

#### ***General***

As discussed further below, in the year ended December 31, 2014, the Corporation did not directly compensate its executive officers and, other than grants of options in November 2010 and August 2012, and share issuances in November 2010 for past services rendered. As at December 31, 2014 no compensation had ever been paid directly by the Corporation to any of its executive officers. Instead, the Corporation is managed on a contract basis by Serinus Energy, some of the executive officers of which perform the management functions of the Corporation. For additional information on this management arrangement, please see the section entitled “Management Contracts”, above. Although several of these officers are also officers of the Corporation, they receive compensation only from Serinus Energy, not the Corporation. Serinus Energy, in turn, receives a fixed monthly payment of CAD\$1,000 under the terms of the Services Agreement for providing certain services to the Corporation, including the management services of certain executives. The Services Agreement does not specify how much of the monthly payment is attributable to any given officer or for any given service – it is an aggregate fee paid for all of the management services rendered by Serinus Energy, including administrative support, other finance, accounting and legal personnel, office space and related overhead, computer hardware and software and general accounting, financial and legal services.

The Board of Directors and the Compensation and Corporate Governance Committee have not formally considered the implications of the risks associated with the Corporation’s compensation policies and practices. In situations where the Corporation directly compensates its officers, the Corporation’s compensation practices give greater weight toward long-term incentives than short-term incentives with a view to mitigating the risk of encouraging short-term goals at the expense of long-term sustainability and the enhancement of shareholder value. The discretionary nature of the option grants are significant elements of the Corporation’s compensation plans and provide the Board of Directors and the Compensation and Corporate Governance Committee with the ability to reward individual and corporate

performance and individual behaviour that the Board of Directors and the Compensation and Corporate Governance Committee consider to be aligned with the best intent of the Corporation.

### ***Financial Instruments***

The Corporation does not have in place any financial instruments including 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 equity securities (or options in respect thereof) granted as compensation or held, directly or indirectly, by a Named Executive Officer (“NEO”) or a director.

### ***Stock Options***

The Corporation has established the Option Plan under which the Corporation’s directors and officers are eligible to receive stock options, if granted by the Board of Directors. As at December 31, 2014, and as of the date hereof, 688,500 stock options remained outstanding.

Stock options may be granted under the Option Plan to directors, officers, employees and consultants. This form of compensation is intended to align executive, employee, consultants and shareholder interests by attempting to create a direct link between compensation and shareholder return.

Participation in the Option Plan rewards overall corporate performance, as measured with reference to the price of the Corporation’s Common Shares, which are traded on the TSX-V. The Board of Directors, with the advice and upon the recommendation of the Compensation and Corporate Governance Committee, determines the exercise price and the number of stock options to grant to each director, officer, employee or consultant on an annual basis by considering the performance of such person and the performance of the Corporation. The outstanding amount of previously granted stock options to an individual is also taken into account when considering new option grants.

The process the Corporation uses to grant share-based or option-based awards to executive officers is not formalized. The number, timing, vesting terms and exercise price of options granted by the Corporation to executive officers is recommended by the Compensation and Corporate Governance Committee and determined by the Board of Directors subject to the terms of the Option Plan. Many matters are taken into account when considering new grants, including corporate performance, individual performance and previous grants. The discretionary nature of the option grants are significant elements of the Corporation’s compensation plans and provide the Board of Directors and the Compensation and Corporate Governance Committee with the ability to reward individual and corporate performance and individual behaviour that the Board of Directors and the Compensation and Corporate Governance Committee consider to be aligned with the best intent of the Corporation.

### ***Share Based Awards***

The Corporation does not grant share-based awards to executive officers on a regular basis and, as such, there is currently no formal process in place for determining the terms of such grants.

### ***Summary of Compensation Received by Named Executive Officers***

For the purposes of compensation disclosure under *National Instrument 51-102 – “Continuous Disclosure Obligations”*, the NEOs of the Corporation are Norman Holton (President and Chief Executive Officer) and Paul Rose (Chief Financial Officer). In November 2010, Mr. Holton was issued 100,000 Common Shares for his services provided as an executive officer of the Corporation. At the same time, three executive officers of Serinus Energy were issued an aggregate of 250,000 shares of the Corporation for services provided by them to the Corporation. In addition, stock options have been

awarded to the NEOs in 2010 and 2012. The options granted to Norman Holton in 2010 were cancelled during 2012. Other than as noted above, no executive officer has received compensation in his capacity as an executive officer of the Corporation, whether by cash payment or otherwise, from the time of incorporation up to December 31, 2014. The Corporation does not currently have a pension plan or similar benefit program in place and no perquisites have been received by the NEOs from the Corporation during such period.

Mr. Holton is the Vice Chairman of Serinus Energy, the company that provides the Corporation with management services under the Services Agreement. The object of this arrangement is to provide certain economies of scale that can be obtained by Serinus Energy and the Corporation sharing management services. As Vice Chairman of Serinus Energy, Mr. Holton is a full-time employee of Serinus Energy. For the year ended December 31, 2014, Mr. Holton received a salary of CAD\$288,000 from Serinus Energy, which comprised his total compensation from Serinus Energy in that year. Mr. Holton's compensation is in respect of all of his duties, including the management services he provides to the Corporation under the Services Agreement. No specified portion of his total compensation is specifically attributable to the services rendered to the Corporation under the Services Agreement.

Mr. Rose was the Chief Financial Officer of Serinus Energy until his resignation in December 2013 and was the Chief Financial Officer of the Corporation during all of the 2014 fiscal year. During the 2014 fiscal year Mr. Rose was paid a consulting fee of CAD\$15,000 per month for ongoing advisory duties to Serinus Energy, including the management services he provided to the Corporation under the Services Agreement. No specified portion of his total compensation is specifically attributable to the services rendered to the Corporation under the Services Agreement.

### Summary Compensation Table

The following table sets forth information concerning the total compensation paid by the Corporation to the NEOs for the Corporation's three most recently completed financial years, ending on December 31, 2014, 2013 and 2012, respectively.

Name and principal position	Year	Salary	Share-based awards <sup>(1)</sup>	Option-based awards <sup>(2)</sup>	Non-equity incentive plan compensation		Pension value	All other compensation	Total compensation
		(\$)	(\$)	(\$)	Annual incentive plans (\$)	Long-term incentive plans (\$)	(\$)	(\$)	(\$)
Norman W. Holton <i>President and Chief Executive Officer</i>	2014	0	0	-	N/A	N/A	N/A	N/A	-
	2013	0	0	-	N/A	N/A	N/A	N/A	-
	2012	0	0	-	N/A	N/A	N/A	N/A	-
Paul H. Rose <i>Chief Financial Officer</i>	2014	0	0	314	N/A	N/A	N/A	N/A	314
	2013	0	0	1,193	N/A	N/A	N/A		1,193
	2012	0	0	3,641	N/A	N/A	N/A		3,641

Notes:

(1) Based on fair value at grant date.

- (2) Comprised of options issued pursuant to the Corporation's Option Plan. All options vest 1/3 upon grant and 1/3 annually for each of the two subsequent years following the grant. The value of the options is based on the grant date fair value of the options using the Black-Scholes method, calculated in accordance with IFRS 2 Share-based payments, as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Weighted average fair value per option	CAD\$0.05	CAD\$0.12
Exercise Price	CAD\$0.16	CAD\$1.30
Volatility	85%	184%
Interest rate	1.33%	1.77%
Expected life (years)	5	2.9
Forfeiture rate	Nil	5%
Dividends	-	Nil

The above table reflects the issuance of options in 2010 after taking into consideration the share consolidation that occurred during April 2012.

In April 2012, the Corporation's shareholders authorized the re-pricing of the exercise price for the stock options granted by the Corporation on November 25, 2010 from CAD\$1.30 to CAD\$0.16. This re-pricing allows the holders of such options to exercise their stock options at a lower price than the exercise price specified in the original grant. The re-pricing affects stock options held by Paul Rose.

## Incentive Plans

### *Stock Option Plan*

The Corporation has an Option Plan which permits the granting of stock options to purchase Common Shares to directors, officers, employees and consultants of the Corporation. The purpose of the Option Plan is to afford persons who provide services to the Corporation, whether as directors, officers, management, employees or otherwise, an opportunity to obtain a proprietary interest in the Corporation by allowing them to purchase Common Shares in the capital of the Corporation and to aid in attracting as well as encouraging the continued involvement of such persons with the Corporation.

The Option Plan currently limits the number of Common Shares that may be delivered upon the exercise of Options to a number not exceeding 10% of the number of Common Shares which are outstanding at the time of granting (on a non-diluted basis). Stock options granted pursuant to the Option Plan have a term not exceeding five years and vest in such manner as determined by the Board of Directors. The exercise price of the Options granted pursuant to the Option Plan is determined by the Board of Directors at the time of grant, provided that the exercise price shall not be less than the price permitted by any stock exchange on which the Common Shares are listed or any other regulatory body having jurisdiction.

In the event that a holder of stock options ceases to be a director, officer, employee or consultant of the Corporation or a subsidiary of the Corporation for any reason, including without limitation, resignation, dismissal or otherwise but excluding death, that holder of stock options may within 90 days from the date of ceasing to be a director, officer, employee or consultant, exercise his or her stock options, but only to the extent that he or she was entitled to exercise such stock options at the date of cessation. In the event of death of the holder, the stock options previously granted to him or her shall be exercisable only within six months following the date of the death of the holder or prior to the time of expiry of such stock options, whichever is earlier, and then only by the person or persons to whom the holder's rights shall pass by the holder's will or the laws of descent and distribution, and if and to the extent that the holder was entitled to exercise the stock option at the date of his or her death.

The policies of the TSX-V require that the Option Plan be approved every year by the shareholders of the Corporation. As of December 31, 2014 there are 688,500 options outstanding at weighted average exercise price of CAD\$0.13.

### ***Outstanding Share-Based Awards and Option-Based Awards as at December 31, 2013 – NEOs***

The following table sets forth all awards outstanding as at December 31, 2014 held by NEOs, including awards made before the most recently completed year.

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised options	Option exercise price	Option exercise date	Value of unexercised in-the-money options	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 share-based awards not paid out or distributed
	(#)	(CAD\$)		(CAD\$) <sup>(1)</sup>	(#)	(CAD\$)	(CAD\$)
Norman W. Holton <i>President and Chief Executive Officer</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Paul H. Rose <i>Chief Financial Officer</i>	39,000 61,000	0.16 0.10	25-Nov15 28-Aug-17	- -	- -	- -	- -

Notes:

(1) Calculated based on the difference between the closing price of the Common Shares of CAD\$0.025 on the TSX-V as at December 31, 2014 and the exercise of the option multiplied by the number of Common Shares underlying the options.

The above table reflects the issuance of options in 2010 after taking into consideration the share consolidation that occurred during April 2012.

In April 2012, the Corporation's shareholders authorized the re-pricing of the exercise price for the stock options granted by the Corporation on November 25, 2010 from CAD\$1.30 to CAD\$0.16. This re-pricing allows the holders of such options to exercise their stock options at a lower price than the exercise price specified in the original grant. The re-pricing affects stock options held by Paul Rose.

### ***Incentive and Pension Plans***

The Corporation has no other incentive plans in place, nor is there a pension plan or similar benefit program in place.

### ***Incentive Plan Awards – Value Vested or Earned During the Most Recently Completed Financial Year – NEOs***

No option-based or share-based awards or non-equity incentive plan compensation of any value vested for any of the NEOs in 2014.

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

There are currently no contracts, agreements, plans or arrangements currently in place for any of the NEOs that provide for payments to an NEO following or in connection with any termination, resignation, retirement, change in control of the Corporation or a change in an NEO's responsibility.

## Director Compensation

The directors of the Corporation were entitled to be paid an honorarium of CAD\$3,000 per quarter and a fee of CAD\$1,000 for each Board of Directors or committee meeting attended up to March 31, 2012, when the Board resolved to suspend Directors fees, given the current activities of the Corporation. This amount was intended to compensate the directors for their time and effort in overseeing the management of the Corporation. Each of the non-management directors are also entitled to participate in the Option Plan. Directors of the Corporation who are also officers of Serinus Energy are not eligible to receive any honorarium or meeting fees. No honoraria or fees were earned by or paid to any of the non-management directors in the fiscal years ended December 31, 2014 or 2013 and no director received any share awards, non-equity incentives, pension-related compensation or any other compensation of any kind in those fiscal years.

### *Outstanding Share-Based Awards and Option-Based Awards as at December 31, 2014 – Directors*

The following table sets forth all outstanding awards held by the non-executive directors of the Corporation as at December 31, 2014.

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised options	Option exercise price	Option exercise date	Value of unexercised in-the-money options	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 share-based awards not paid out or distributed
	(#)	(CAD\$)		(CAD\$) <sup>(1)</sup>	(#)	(CAD\$)	(CAD\$)
Richard W. Elliott	22,000	0.16	25-Nov-2015	-	N/A	N/A	N/A
Kenneth R. Heuchert	22,000	0.16	25-Nov-2015	-	N/A	N/A	N/A
Manoj N. Madnani	22,000	0.16	25-Nov-2015	-	N/A	N/A	N/A
Michael A. McVea	22,000	0.16	25-Nov-2015	-	N/A	N/A	N/A

#### Notes:

- (1) Calculated based on the difference between the closing price of the Common Shares of CAD\$0.025 on the TSX-V as at December 31, 2014 and the exercise of the option multiplied by the number of Common Shares underlying the options.

The above table reflects the issuance of options in 2010 after taking into consideration the share consolidation that occurred during 2012.

In April 2012, the Corporation's shareholders authorized the re-pricing of the exercise price for the stock options granted by the Corporation on November 25, 2010 from CAD\$1.30 to CAD\$0.16. This re-pricing allows the holders of such options to exercise their stock options at a lower price than the exercise price specified in the original grant. The re-pricing affects stock options held by all the above non-executive directors.

***Incentive Plan Awards – Value Vested or Earned During the Most Recently Completed Financial Year – Directors***

No option-based or share-based awards or non-equity incentive plan compensation of any value vested for any of the non-executive directors in 2014.

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

The following sets forth information relating to securities authorized for issuance under the Corporation's equity compensation plans as at December 31, 2014:

<b>Plan Category</b>	<b>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</b>	<b>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (a))</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
Equity Compensation Plans Approved by Securityholders	688,500	CAD\$0.13	1,306,414
Equity Compensation Plans not Approved by Securityholders	Nil	Nil	Nil
Total	688,500	CAD\$0.13	1,306,414

**INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND EMPLOYEES**

No director or executive officer of the Corporation, or any affiliates or associates of such director or executive officer, has ever been indebted to the Corporation other than routine indebtedness incurred in the ordinary course of business.

**CORPORATE GOVERNANCE DISCLOSURE**

The following disclosure describes the Corporation's current corporate governance and compensation practices, as required by *National Instrument 58-101 – "Disclosure of Corporate Governance Practices"* and Section 2.4 of *National Instrument 51-102F6 – "Statement of Executive Compensation"*, respectively.

**Board of Directors**

The Board of Directors is currently comprised of seven directors. Three of the Corporation's seven directors, being Richard W. Elliott, Kenneth R. Heuchert, and Michael A. McVea, are independent

directors. Timothy M. Elliott, Jock M. Graham and Norman W. Holton, as officers of the Corporation or as officers of Serinus Energy, are not independent and Manoj N. Madnani, as a senior executive of KI (which owns approximately 33.9% of the issued and outstanding Common Shares of the Corporation), is not independent. The Chairman of the Board of Directors is Timothy M. Elliott.

## **Directorships**

Some directors of the Corporation are presently directors of other reporting issuers.

<b><u>Name of Director:</u></b>	<b><u>Name of Reporting Issuer:</u></b>
Timothy M. Elliott	Serinus Energy Inc. (WSE & TSX) Jura Energy Corporation (TSX)
Norman W. Holton	Serinus Energy Inc. (WSE & TSX)
Manoj N. Madnani	Serinus Energy Inc. (WSE & TSX)
Michael A. McVea	Serinus Energy Inc. (WSE & TSX)

“TSX” is the Toronto Stock Exchange

“WSE” is the Warsaw Stock Exchange

## **Orientation and Continuing Education**

The Corporation does not currently have a formal orientation and education program for new members of the Board of Directors. However, the Corporation provides orientation and education on an informal basis to new directors. As new directors join the Board of Directors, management provides these individuals with corporate information, as well as information on the general duties and responsibilities entailed in carrying out their duties. All directors are encouraged to participate in educational opportunities for directors that are available through third parties.

## **Ethical Business Conduct**

The Board believes that the fiduciary duties placed on individual directors by the ABCA, the common law and securities legislation have been sufficient to ensure that the Board of Directors operates independently of management and in the best interests of the Corporation.

## **Nomination of Directors**

At present, the Board of Directors has not identified the need to add any new directors and the Board of Directors does not have a nomination committee. However, all members of the board are mindful of the potential value of new board members. Due to the current size of the Board of Directors and the fact that there are no mandatory terms or term limits, the Corporation expects that, in most circumstances, it will receive adequate notice to replace any current member of the Board of Directors who should wish to retire.

It is expected that any new candidates will be identified having regard to: (i) the competence and skills that the Board of Directors considers to be necessary for the Board of Directors, as a whole, to possess; (ii) the competence and skills that the Board of Directors considers each existing director to possess; (iii) the competencies and skills that each new nominee will bring to the boardroom; and (iv) whether or

not each new nominee can devote sufficient time and resources to his or her duties as a member of the Board of Directors.

## **Compensation**

The Board of Directors has a Compensation and Corporate Governance Committee. The Compensation and Corporate Governance Committee is responsible for (i) evaluating senior management; and (ii) developing appropriate compensation policies for the senior management and directors of the Corporation. No honoraria and fees have been paid to directors for attending meetings of the Board of Directors and committee meetings since March 31, 2012. Such amounts were intended to compensate the directors for their time and effort in overseeing the management of the Corporation. Other than as noted under the headings “Management Contracts” and “Statement of Executive Compensation”, no compensation is directly paid by the Corporation to its officers. Accordingly, the Compensation and Corporate Governance Committee does not currently have a formal process for determining executive compensation. The Compensation and Corporate Governance Committee has not, at any time since the beginning of the Corporation’s fiscal year ending December 31, 2010, retained a compensation consultant or advisor to assist in determining compensation levels or for any other reason.

### ***Composition of the Compensation Committee***

The Compensation and Corporate Governance Committee is comprised of Timothy M. Elliott, Manoj N. Madnani and Michael A. McVea. Michael A. McVea is “independent” within the meaning of Section 1.4 of NI 52-110. Timothy M. Elliott, as an officer of Serinus Energy, and Manoj N. Madnani, as a senior executive of KI (which owns approximately 33.9% of the Common Shares of the Corporation), are not independent within the meaning of Section 1.4 of NI 52-110. Mr. Madnani will retire from the board of directors and from the Compensation and Corporate Governance Committee at the Meeting.

### ***Relevant Education and Experience***

#### ***Timothy M. Elliott***

Mr. Elliott has been President and Chief Executive Officer of Serinus Energy since February 2006 and a director of Serinus Energy since April 2001. Mr. Elliott started his international oil and gas career working with Adolf Lundin and companies of the Lundin Group from 1987 to 1999 where he was a director and Vice President of International Petroleum Corporation and also provided services to other Lundin Group companies. He has been a director of Jura Energy since March 2007 and chair of its reserves committee and a member of its compensation committee. In these roles, Mr. Elliott has acquired experience in and exposure to executive compensation.

#### ***Manoj N. Madnani, Director***

Mr. Madnani has been Managing Director and a Board Member of Kulczyk Investments S.A. (Luxembourg) and related companies since June 2007. Prior to joining the Management Board of Kulczyk Investments S.A. he was Managing Director of The Marab Group, an oil and gas consultancy and investment banking firm based in Kuwait focusing on sovereign energy security and global investments in the energy sector (from July 2005 to May 2007). Mr. Madnani has a background in corporate finance, deal sourcing, international transactions and corporate strategy. His areas of expertise are the energy and infrastructure sectors and emerging markets. Prior to joining Kulczyk Investments S.A., he worked for several years in central and eastern Europe and the Middle East, focusing on energy security and investments in the energy sector. He has been a director of Serinus Energy since October 2007 and is a member of its compensation & corporate governance committee. In these roles, Mr. Madnani has acquired experience in and exposure to executive compensation.

*Michael A. McVea, Director*

Mr. McVea has been a retired barrister and solicitor since 2004. Prior to that, he was senior partner of McVea, Shook, Wickham & Bishop, a general practice law firm from September 1981 to December 2002 and associate counsel with that firm from January 2003 to June 2004. Mr. McVea practiced mainly in the areas of business and corporate commercial law. Mr. McVea was a director of TKE Energy Trust from November 2004 to November 2005. Since February 2006 he has been a director of Serinus Energy and is currently a member of its compensation & corporate governance committee and the chair of its audit committee. In these roles, Mr. McVea has acquired experience in and exposure to executive compensation.

### **Other Board Committees**

The Corporation has a reserve evaluation committee. This committee reviews the Corporation's procedures for providing information to the independent qualified reserves evaluator, meets with the independent qualified reserves evaluator to determine whether any restrictions affect the ability of the independent qualified reserves evaluator to report without reservation and reviews the reserves data with management and the independent qualified reserves evaluator. The reserve evaluation committee also reviews the Corporation's procedures for assembling and reporting other information associated with oil and gas activities and it reviews this information with management.

### **Assessments**

The Board of Directors expects to make annual assessments regarding the effectiveness of the Board of Directors itself, committees and individual directors in fulfilling their responsibilities.

## **AUDIT COMMITTEE**

The Board of Directors has established an audit committee (the "**Audit Committee**"). The Audit Committee reviews, along with management and the external auditors, any significant financial reporting issues, the consolidated financial statements and any other matters of relevance to the parties. The Audit Committee meets quarterly to review and approve the interim financial statements prior to their release, as well as annually to review the Corporation's annual consolidated financial statements and management's discussion and analysis and to recommend their approval to the Board of Directors. The external auditors have unrestricted access to the Audit Committee.

In response to *National Instrument 52-110 – Audit Committees* ("**NI 52-110**"), the Corporation has established an audit committee charter to address certain matters, which include but are not limited to the following: (a) the procedure to nominate the external auditor and the recommendation of its compensation; (b) the overview of the external auditor's work; (c) pre-approval of non-audit services; (d) the review of financial statements, management's discussion and analysis and financial sections of other public reports requiring board approval; (e) 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 (f) the review of the Corporation's hiring policies towards present or former employees or partners of the Corporation's present or former external auditor.

The full text of the Audit Committee's mandate is attached as Schedule B.

### ***Exemption***

The Corporation is relying upon the exemption in section 6.1 of NI 52-110 as the Corporation, as a venture issuer within the meaning ascribed thereto in NI 52-110, is exempt from the requirements of Part 3 (*Composition of the Audit Committee*) and 5 (*Reporting Obligations*) of NI 52-110.

### ***Composition of the Audit Committee***

The Audit Committee is comprised of Richard W. Elliott, Kenneth R. Heuchert and Michael A. McVea. Each of these members is “independent” and “financially literate” within the meanings of Sections 1.4 and 1.6 of NI 52-110, respectively.

### ***Relevant Education and Experience***

#### ***Richard W. Elliott, Director***

Mr. R. Elliott has been the President of ExSpace, Corporate Space Advisors Inc., a private commercial real estate company based in Montreal, Quebec, since April 1995. Prior to that time he was managing director of Persona Real Estate Consultants, a commercial real estate company, from 1992 to 1995. From 1988 to 2002 he was legal counsel of Leopold Property Consultants Inc., a commercial real estate company. Mr. Elliott received his bachelor of commerce degree from Concordia University in 1981 and his bachelor of laws (LL.B.) and bachelor of civil law (B.C.L.) degrees from McGill University in 1985. He was admitted to the bar in Quebec in 1986 and in Ontario in 1991. Mr. Elliott was an independent director of Loon Energy Inc. (now Serinus Energy) from June 2001 to December 2008 and was a member of its audit committee.

#### ***Kenneth R. Heuchert, Director***

Mr. Heuchert has been a retired civil engineer since 2011. Prior to that he provided consulting services in water and wastewater treatment engineering since 2000. Prior to 2000 he was Manager of Engineering and Business Development for US Filter Corporation (now a part of Siemens A.G.) since 1997. For more than twenty years prior to that he was a partner in PETWA Canada Ltd., a private company which designed, manufactured and marketed water and wastewater treatment systems worldwide prior to its acquisition by US Filter Corporation in 1997. Mr. Heuchert is a professional engineer, receiving his Bachelor of Science degree in civil engineering in 1970 and a Master of Science degree in 1972 from the University of Saskatchewan. Mr. Heuchert was an independent director of Loon Energy Inc. (now Serinus Energy) from March 1998 to December 2008 and was a member of its audit committee.

#### ***Michael A. McVea, Director***

Mr. McVea has been a retired barrister and solicitor since 2004. Prior to that, he was senior partner of McVea, Shook, Wickham & Bishop, a general practice law firm from September 1981 to December 2002 and associate counsel with that firm from January 2003 to June 2004. Mr. McVea practiced mainly in the areas of business and corporate commercial law. He graduated from the University of British Columbia with a bachelor of laws degree in 1974. Mr. McVea was an independent director of TKE Energy Trust from November 2004 to November 2005. Mr. McVea is also an independent director of Serinus Energy and is the chair of the Serinus Energy audit committee and a member of its compensation & corporate governance committee.

## Audit Committee Oversight

No recommendation of the Audit Committee to nominate or compensate an external auditor was not adopted by the Board of Directors since the incorporation of the Corporation.

### ***Reliance on Certain Exemptions***

Since the commencement of the Corporation's most recently completed fiscal year, the Corporation has not relied on the exemptions contained in section 2.4 (*De Minimis Non-audit Services*) or Part 8 of NI 52-110 (*Exemptions*).

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

The Audit Committee pre-approves engagements for non-audit services provided by the external auditors or their affiliates, together with estimated fees and potential issues of independence.

### ***External Auditor Service Fees***

The table below summarizes the fees billed in CAD by KPMG LLP, the Corporation's external auditor, during the two years ended December 31, 2014 and 2013.

	2014	2013
Audit fees <sup>(1)</sup>	\$ 15,300	\$30,600
Audit-related fees <sup>(2)</sup>	-	-
Tax fees <sup>(3)</sup>	\$6,635	9,345
All other fees <sup>(4)</sup>	-	-
Total	\$21,935	\$39,945

#### *Notes:*

1. "Audit fees" includes fees billed regarding the annual audit and, when applicable, the review of interim financial statements.
2. "Audit-related fees" includes amounts billed for assurance and related services that are reasonably related to the performance of the audit or the review of interim financial statements that are not reported under "Audit fees".
3. "Tax fees" are fees in connection with preparation of income and other tax returns.
4. "All other fees" are other fees charged by the auditors.

## **INTERESTS OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

The management of the Corporation is not aware of any material interest, direct or indirect, of any informed person of the Corporation or any proposed nominee as a director of the Corporation, or any associate or affiliate of any such person in any transaction since the commencement of the Corporation's most recently completed financial year, or in any proposed transaction, that has materially affected or would materially affect the Corporation or any of its subsidiaries.

## **ADDITIONAL INFORMATION**

Additional information respecting the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information respecting the Corporation is provided in the Corporation's comparative financial statements and management's discussion and analysis for its most recently completed financial year. Shareholders can access this information on SEDAR or by request to Norman W. Holton, President and Chief

Executive Officer of the Corporation, at the following address: Suite 1500, 700 - 4<sup>th</sup> Avenue S.W., Calgary, Alberta, Canada T2P 3J4, phone: (403) 264-8877 and facsimile: (403) 264-8861.

## **SCHEDULE A STOCK OPTION PLAN**

Any capitalized terms within the Stock Option Plan that are not defined shall have the meaning ascribed to such as set out in the TSX Venture Exchange Corporate Finance Manual.

### **1. Purpose**

The purpose of the Stock Option Plan (the “**Plan**”) of Loon Energy Corporation (the “**Corporation**”), is to advance the interests of the Corporation and its subsidiaries by encouraging the Directors, Employees or Consultants of the Corporation and its subsidiaries and those who provide services to the Corporation to acquire shares in the Corporation thereby increasing their proprietary interest in the Corporation, encouraging them to remain associated with the Corporation and furnishing them with the additional incentive in their efforts on behalf of the Corporation and its subsidiaries in the conduct of their affairs.

### **2. Administration and Granting of Options**

The Plan shall be administered by the Board of Directors of the Corporation (the “**Board**”), or if appointed by a special committee of directors appointed from time to time by the Board (such committee, or if no such committee is appointed, the Board, is hereinafter referred to as the “**Committee**”) pursuant to rules of procedure fixed by the Board.

The Committee may from time to time grant options to purchase common shares (the “**Common Shares**”) of the Corporation (the “**Options**”) to any Director, Employee or Consultant of the Corporation or its subsidiaries (the “**Participant**”) or any Participant conducting Investor Relation Activities and shall designate the number of Common Shares to be optioned to each Participant, provided that the total number of Common Shares to be optioned shall not exceed the number provided in Sections 3 and 4 hereof. The judgment of the Committee in designating Participants and the extent of their participation in the Plan shall be final and conclusive; provided, however, that each designated Participant shall have the right not to participate in the Plan and any decision not to participate therein shall not affect the Participant’s employment by or engagement with the Corporation.

For the purposes of granting options, the Corporation represents that such grants are bona fide to Employees, Consultants or Management Company Employees.

### **3. Shares Subject to Plan**

Subject to adjustment as provided in Section 15 hereof, the shares to be offered under the Plan shall consist of shares of the Corporation’s authorized but unissued Common Shares. The aggregate number of Common Shares to be delivered upon the exercise of all Options granted under the Plan shall not exceed the maximum number of shares permitted under the rules of any stock exchange on which the Common Shares are then listed or other regulatory body having jurisdiction. The aggregate number of Common Shares to be delivered upon the exercise of all Options granted under the Plan shall not exceed 10% of the outstanding listed shares of the Corporation at the time of granting of Options (on a non-diluted basis). If any Option granted hereunder shall expire or terminate for any reason without having been exercised in full, the un-purchased Common Shares subject thereto shall again be available for the purpose of the Plan.

#### **4. Number of Optioned Common Shares**

The number of Common Shares subject to an Option to a Participant shall be determined by the Committee, but no Participant, upon the Corporation becoming listed on any stock exchange, shall be granted an Option which exceeds the maximum number of shares permitted by any stock exchange on which the Common Shares are then listed or other regulatory body having jurisdiction, which maximum number of shares is presently 5% of the issued and outstanding Common Shares of the Corporation (on a non-diluted basis) within a 12 month period. The aggregate number of Options granted to any one Consultant or any one Participant conducting Investor Relation Activities must not exceed more than 2% of the issued Common Shares in any 12-month period.

#### **5. Vesting Requirements**

The Committee may, in its sole discretion, determine the time during which Options shall vest and the method of vesting, or that no vesting restriction shall exist except that Options issued to Consultants performing Investor Relations Activities must vest in stages over 12 months with no more than 1/4 of the options vesting in any three month period.

#### **6. Maintenance of Sufficient Capital**

The Corporation shall at all times during the term of the Plan reserve and keep available such numbers of Common Shares as will be sufficient to satisfy the requirements of the Plan.

#### **7. Participation**

The Committee shall determine to whom Options shall be granted. The terms and provisions of the respective Option agreements, the time or times at which such Options shall be granted, and the number of Common Shares to be subject to each Option. An individual who has been granted an Option may, if he is otherwise eligible, and if permitted by any stock exchange on which the Common Shares are then listed or other regulatory body having jurisdiction, be granted an additional Option or Options if the Committee shall so determine.

#### **8. Exercise Price**

The exercise price of the Common Shares purchased pursuant to each Option shall be determined by the Committee. The exercise price shall be not less than the price permitted by any stock exchange on which the Common Shares are then listed or other regulatory body having jurisdiction.

#### **9. Duration of Option**

Each Option and all rights thereunder shall be expressed to expire on the date set out in its respective Option agreement and shall be subject to earlier termination as provided in Sections 11 and 12 hereof.

#### **10. Option Term, Consideration and Payment**

- (a) The Option term shall be a period of time fixed by the Committee, not to exceed the maximum period permitted by any stock exchange on which the Common Shares are then listed or other regulatory body having jurisdiction, which maximum period is presently five years from the date the Option is granted, provided that the Option term shall be reduced with respect to any Option as provided in Sections 11 and 12 hereof

regarding cessation as a Director, Employee or Consultant of the Corporation or its subsidiary, or death of the Participant.

- (b) Except as set forth in Sections 11 and 12 hereof, no Option may be exercised unless the Participant is at the time of such exercise a Director, Employee or Consultant of the Corporation or its subsidiary.
- (c) The exercise of any Option will be conditional 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 for the full purchase price of such Common Shares with respect to which the Option is being exercised.

#### **11. Ceasing to be a Director, Employee or Consultant**

If applicable and if a Participant ceases to be a Director, Employee or Consultant of the Corporation or its subsidiary for any reason (other than death), the Participant may, but only within 90 days after the Participant's ceasing to be a Director, Employee or Consultant, exercise the Participant's Option, but only to the extent that the Participant was entitled to exercise it at the date of such cessation. For greater certainty, any Participant who is deemed to be an employee of the Corporation pursuant to any medical or disability plan of the Corporation shall be deemed to be an employee for the purposes of the Plan.

Options shall not be affected by any change of employment so long as the Participant continues to be employed by the Corporation or any of its subsidiaries or continues to be a Director, Employee or Consultant of one of the foregoing.

Nothing contained in the Plan, or in any Option granted pursuant to the Plan, shall confer upon any Participant any right with respect to continuance as a Director, Employee or Consultant of the Corporation or any subsidiary of the Corporation.

Any Options granted to a Participant engaged in Investor Relation Activities, who is terminated will expire within 30 days of the date that person ceases to provide Investor Relation Activities.

#### **12. Death of Participant**

In the event of the death of a Participant, the Option previously granted to him shall be exercisable only within six months following the date of the death of the Participant or prior to the time of expiry of such Option, whichever is earlier, and then only:

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

#### **13. Rights of Optionee**

No person entitled to exercise any Option granted under the Plan (an "**Optionee**") shall have any of the rights or privileges of a shareholder of the Corporation in respect of any Common Shares issuable upon exercise of such Option until certificates representing such Common Shares have been issued and delivered.

**14. Proceeds from Sale of Common Shares**

The proceeds from the sale of Common Shares issued upon the exercise of Options shall be added to the general funds of the Corporation and shall thereafter be used from time to time for such corporate purposes as the Board may determine and direct.

**15. Adjustments**

Appropriate adjustments in the number of Common Shares optioned and in the option price per Common Share, regarding Options granted or to be granted may be made by the Committee in its discretion to give effect to adjustments in the number of Common Shares of the Corporation resulting subsequent to the approval of the Plan by the Committee from subdivisions, consolidations or reclassifications of the Common Shares of the Corporation, the payment of stock dividends by the Corporation or other relevant changes in the capital of the Corporation.

**16. Transferability**

All rights, benefits and Options accruing to any 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 Participant any benefits, rights and Options may only be exercised by the Participant.

**17. Amendment and Termination of Plan**

The Board shall have the unfettered right at any time and from time to time to amend rescind or terminate the Plan as it shall deem advisable, provided, however, that no such rescission or termination shall impair or change the rights and Options theretofore granted under the Plan without the prior written consent of the Participant or Participants affected.

**18. Costs**

The Corporation shall pay all costs of administering the Plan.

**19. Necessary Approvals**

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

Disinterested Shareholder Approval shall be obtained for any reduction in the exercise price if the Options if the Participant is an Insider of the Corporation at the time of the proposed reduction.

**20. Prior Plans**

The Plan shall entirely replace and supersede prior share option plans, if any, enacted by the Board or by the board of directors of any of its predecessor corporations.

**21. Effective Date of Plan**

The Plan has been adopted by the Board subject to the approval of any stock exchange on which the Common Shares of the Corporation are to be listed or other regulatory body having jurisdiction and, if so approved, the Plan shall become effective upon such approvals being obtained.

**SCHEDULE B**  
**AUDIT COMMITTEE TERMS OF REFERENCE**

*Adopted by the Board of Directors on March 18, 2009*

**PURPOSE**

The purpose of the Audit Committee (the “**Committee**”) is to ensure that the Corporation’s management has designed and implemented an effective system of internal financial controls, to review and report on the integrity of the financial statements of the Corporation and to review the Corporation’s compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and disclosure of material facts.

*COMPOSITION, PROCEDURES AND ORGANIZATION*

1. The Committee shall consist of at not less than three members of the Board of Directors (the “**Board**”), the majority of whom may not be officers or employees of the Corporation, or any of its affiliates. The composition of the Committee shall also comply with any other requirements as may be prescribed from time to time by applicable securities regulatory authorities, including, those contained in Multilateral Instrument 52-110 Audit Committees.
2. The Board, at its organizational meeting held in conjunction with each annual general meeting of the shareholders, shall appoint the members of the Committee for the ensuing year. If the Board shall fail to do so, persons who were members of the Committee immediately preceding the most recent annual meeting of shareholders of the Corporation, provided they continue to be directors of the Corporation, shall be deemed to be reappointed to the Committee. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee.

*Chairman*

3. Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair (the “**Chairman**”) from amongst their number.
4. The Chairman will provide leadership to the Committee and will lead the Committee in fulfilling the duties set out in its mandate.
5. The Chairman’s duties will be to
  - (a) provide overall leadership to enhance the effectiveness of the Committee;
  - (b) take all reasonable steps to ensure that the responsibility and duties of the Committee, as outlined in its mandate, are well understood by the Committee members and executed as effectively as possible;
  - (c) foster ethical and responsible decision making by the Committee and its individual members;
  - (d) provide effective Committee leadership, overseeing all aspects of the Committee’s direction and administration in fulfilling the terms of its mandate;
  - (e) oversee the structure, composition, membership and activities delegated to the Committee;

- (f) ensure that the Committee meets at least four times annually and as many additional times as necessary to carry out its duties effectively;
  - (g) establish the agenda for each Committee meeting;
  - (h) chair all meetings of the Committee, including closed sessions and “in camera” sessions. If the Committee Chair is not present at a meeting, the Committee members present will choose a Committee member to chair the meeting;
  - (i) encourage Committee members to ask questions and express viewpoints during meetings;
  - (j) deal effectively with dissent and work constructively towards arriving at decisions and achieving consensus;
  - (k) ensure that the Committee meets in separate, regularly scheduled, non-management, “in camera” sessions;
  - (l) ensure that the Committee meets in separate, regularly scheduled, non-management, closed sessions with the internal auditor and the independent auditors;
  - (m) ensure that the Committee meets in separate, non-management, closed sessions with internal personnel or outside advisors, as needed or appropriate;
  - (n) following each meeting of the Committee, report to the Board on the activities, findings and any recommendations of the Committee;
  - (o) ensure that Committee materials are available to any Director on request;
  - (p) take all reasonable steps to ensure that Committee members receive written information and are exposed to presentations from management to fulfill the Committee mandate;
  - (q) have an effective working relationship with members of Management;
  - (r) ensure that a performance evaluation of the Committee and the Chairman is conducted, soliciting input from all Committee members, other Directors and appropriate members of management;
  - (s) ensure that resources and expertise are available to the Committee so that it may conduct its work effectively and efficiently;
  - (t) retain, oversee, compensate and terminate independent advisors to assist the Committee in its activities; and
  - (u) carry out any other appropriate duties and responsibilities assigned by the Board or delegated by the Committee.
6. The Secretary of the Corporation shall be the secretary of the Committee, unless otherwise determined by the Committee.

7. The quorum for meetings shall be a majority of the members (the “Members”) of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and to hear each other.
8. The Committee shall have access to such officers and employees of the Corporation and to the Corporation’s independent auditors, and to such information respecting the Corporation as it considers to be necessary or advisable in order to perform its duties and responsibilities.
9. Meetings of the Committee shall be conducted as follows:
  - (a) The Committee shall meet at least four times annually at such times and at such locations as may be requested by the Chairman. The independent auditors or any member of the Committee may request a meeting of the Committee.
  - (b) The independent auditors shall receive notice of and have the right to attend all meetings of the Committee.
  - (c) the following management representatives shall be invited to attend all meetings, except executive sessions and private sessions with the independent auditors  
  
Chief Executive Officer  
Chief Financial Officer  
Other management representatives shall be invited to attend as necessary.
10. The internal auditors, if any, and the independent, external auditors of the Corporation (the “**Auditors**”) shall, have a direct line of communication to the Committee through the Chairman and may bypass management of the Corporation. The Committee, through the Chairman, may contact directly any employee in the Corporation as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper financial practices or transactions.

#### DUTIES AND RESPONSIBILITIES

11. The overall duties and responsibilities of the Committee shall be to
  - (a) assist the Board in the discharge of its responsibilities relating to the Corporation’s accounting principles, reporting practices and internal controls;
  - (b) overseeing the work of the Auditor engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding external reporting;
  - (c) pre-approve all non-audit services to be provided to the Corporation by the Auditor;
  - (d) review the Corporation’s annual and quarterly consolidated financial statements, MD&A disclosure and annual and interim earnings press releases before they are released to the public;
  - (e) establish and maintain a direct line of communication with the Corporation’s Auditors and assess their performance;

- (f) be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in paragraph (d) above, and must develop a method and procedure of being able to assess, and must periodically assess, the adequacy of those procedures;
  - (g) establish procedures for
    - (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and
    - (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
  - (h) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the Auditor and former external auditor of the Corporation; and
  - (i) report regularly to the Board on the fulfilment of its duties and responsibilities.
12. The duties and responsibilities of the Committee as they relate to the Auditors shall be to
- (a) recommend to the Board a firm of independent auditors to be engaged by the Corporation;
  - (b) review and approve the fee, scope and timing of the audit and other related services rendered by the independent auditors;
  - (c) review the audit plan of the Auditors prior to the commencement of the audit;
  - (d) review with the Auditors, upon completion of their audit:
    - (i) contents of their report;
    - (ii) scope and quality of the audit work performed;
    - (iii) adequacy of the Corporation's financial and auditing personnel;
    - (iv) co-operation received from the Corporation's personnel during the audit;
    - (v) internal resources used;
    - (vi) significant transactions outside of the normal business of the Corporation;
    - (vii) significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems; and
    - (viii) the non-audit services provided by the independent auditors.

13. The duties and responsibilities of the Committee as they relate to the Corporation's internal auditors are to
  - (a) periodically review the internal audit function with respect to the organization, staffing and effectiveness of the internal audit department;
  - (b) review and approve the internal audit plan; and
  - (c) review significant internal audit findings and recommendations, and management's response thereto.
14. The duties and responsibilities of the Committee as they relate to the internal control procedures of the Corporation are to
  - (a) review the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those relating to internal auditing, insurance, accounting, information services and systems and financial controls, management reporting and risk management;
  - (b) review compliance under the Corporation's business conduct policy and to periodically review this policy and recommend to the Board changes which the Committee may deem appropriate;
  - (c) review any unresolved issues between management and the independent auditors that could affect the financial reporting or internal controls of the Corporation; and
  - (d) periodically review the Corporation's financial and auditing procedures and the extent to which recommendations made by the internal audit staff or by the independent auditors have been implemented.
15. The Committee is also charged with the responsibility to
  - (a) review the Corporation's quarterly statements of earnings, including the impact of unusual items and changes in accounting principles and estimates and report to the Board with respect thereto;
  - (b) review and approve the financial sections of:
    - (i) the annual report to shareholders;
    - (ii) the annual information form of the Corporation;
    - (iii) prospectuses; and
    - (iv) other public reports requiring approval by the Board,and report to the Board with respect thereto;
  - (c) review regulatory filings and decisions as they relate to the Corporation's consolidated financial statements;

- (d) review the appropriateness of the policies and procedures used in the preparation of the Corporation's consolidated financial statements and other required disclosure documents, and consider recommendations for any material change to such policies;
- (e) review the minutes of any audit committee meeting of subsidiary companies;
- (f) review with management, the external auditors and if necessary with legal counsel, any litigation, claim or other contingency, including tax assessments that could have a material effect upon the financial position or operating results of the Corporation and the manner in which such matters have been disclosed in the consolidated financial statements; and
- (g) develop a calendar of activities to be undertaken by the Committee for each ensuing year and to submit the calendar in the appropriate format to the Board of Directors following each annual general meeting of shareholders.

#### AUTHORITY OF THE AUDIT COMMITTEE

- 16. The Committee shall have the authority to
  - (a) engage, without the consent of the Corporation, independent counsel and other advisors as it determines necessary to carry out its duties;
  - (b) set and pay the compensation for any advisors retained by the Committee; and
  - (c) communicate directly with the internal and external auditors.

