

**TWIN BUTTE ENERGY LTD.**

**Notice of the Annual and Special Meeting of Shareholders  
to be held on May 15, 2013**

The annual and special meeting of the holders of our common shares will be held in the Strand/Tivoli Room of the Metropolitan Centre, 333 – 4th Avenue S.W., Calgary, Alberta, on Wednesday, May 15, 2013, at 2:00 p.m., Calgary time, to:

1. receive and consider our financial statements for the fiscal year ended December 31, 2012, together with the report of the auditors thereon;
2. fix the number of our directors to be elected at the meeting at seven (7);
3. elect seven (7) directors for the ensuing year;
4. appoint auditors for the ensuing year and to authorize our directors to fix their remuneration as such;
5. approve an amendment to our articles to change the rights, privileges, restrictions and conditions in respect of our common shares, including changes to set forth the terms and conditions pursuant to which we may issue common shares as payment of stock dividends declared on our common shares; and
6. transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Only shareholders of record at the close of business on March 28, 2013 (the "**Record Date**") are entitled to notice of and to attend the meeting or any adjournment or adjournments thereof and to vote thereat unless after the Record Date a holder of record transfers his or her common shares and the transferee, upon producing properly endorsed certificates evidencing such shares or otherwise establishing that he or she owns such 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 shares at the meeting.

Registered shareholders may vote in person at the meeting or any adjournment or adjournments thereof, or they may appoint another person (who need not be a shareholder) as their proxy to attend and vote in their place.

**Registered shareholders unable to be present at the meeting are requested to date and sign the enclosed form of proxy and return it to Valiant Trust Company, Suite 310, 606 – 4th Street S.W., Calgary, Alberta T2P 1T1, or deliver it by fax to: (403) 233-2857. If a shareholder received more than one proxy form because such shareholder owns our common shares registered in different names or addresses, each proxy form should be completed and returned. In order to be valid, proxies must be received by Valiant Trust Company not less than forty-eight (48) hours (excluding Saturdays, Sundays and holidays) before the time of the meeting or any adjournment thereof. Registered shareholders may also vote via the internet at [www.valianttrust.com](http://www.valianttrust.com). Votes by internet must also be received by the foregoing cut off time. See the information circular – proxy statement accompanying this Notice for further instructions on internet voting.**

A management information circular – proxy statement relating to the business to be conducted at the meeting accompanies this Notice.

Dated at Calgary, Alberta this 28th day of March, 2013.

By order of the Board of Directors

(Signed) James Saunders  
President and Chief Executive Officer

**TWIN BUTTE ENERGY LTD.**

**Information Circular – Proxy Statement  
dated March 28, 2013**

**For the Annual and Special Meeting  
of Shareholders to be held on May 15, 2013**

**PROXIES**

**Solicitation of Proxies**

**This information circular – proxy statement is furnished in connection with the solicitation of proxies by or on behalf of our management** for use at the annual and special meeting of our shareholders (the "**Meeting**") to be held in the Strand/Tivoli Room of the Metropolitan Centre, 333 – 4th Avenue S.W., Calgary, Alberta, on Wednesday, May 15, 2013, at 2:00 p.m., Calgary time, and any adjournment thereof for the purposes set forth in the accompanying Notice of Annual and Special Meeting.

Only shareholders of record at the close of business on March 28, 2013 are entitled to notice of, and to attend and vote at, the Meeting, unless a shareholder has transferred any shares subsequent to that date and the transferee shareholder, not later than 10 days before the Meeting, establishes ownership of such shares and demands that the transferee's name be included on the list of shareholders entitled to vote at the Meeting.

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

The persons named in the enclosed form of proxy are our officers. **As a shareholder, you have the right to appoint a person or company (who need not be a shareholder) to represent you at the Meeting other than the person or persons designated in the form of proxy furnished by us. To exercise this right you should insert the name of the desired representative in the blank space provided on the form of proxy and strike out the other names or submit another appropriate proxy.** In order to be effective, the proxy must be deposited with Valiant Trust Company, Suite 310, 606 – 4th Street S.W., Calgary, Alberta T2P 1T1, Facsimile: (403) 233-2857 not less than forty-eight (48) hours (excluding Saturdays, Sundays and holidays) before the time of the Meeting or any adjournment thereof. Registered shareholders may also use the internet at [www.valianttrust.com](http://www.valianttrust.com) to vote their shares. Shareholders will be prompted to enter the control number which is located on the form of proxy. Votes by internet must be received by 2:00 p.m. (Calgary time) on May 13, 2013 or at least forty-eight (48) hours prior to the time of any adjournment of the Meeting. The website may also be used to appoint a proxy holder to attend and vote at the Meeting on the shareholder's behalf and to convey a shareholder's voting instructions.

**Advice to Beneficial Holders of Common Shares**

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

Applicable regulatory policy requires your broker to seek voting instructions from you in advance of the Meeting. Every broker has its own mailing procedures and provides its own return instructions, which you should carefully follow in order to ensure that your shares are voted at the Meeting. Often, the form of proxy supplied by your broker is identical to the form of proxy provided to registered shareholders. However, its purpose is limited to instructing the registered shareholder how to vote on your behalf. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge

Investor Communications, Canada, which mails a scannable voting instruction form in lieu of the form of proxy. You are asked to complete and return the voting instruction form to them by mail or facsimile. Alternately, you can call their toll-free telephone number or access the internet to vote your shares. They then tabulate the results of all instructions received and provide appropriate instructions respecting the voting of such shares to be represented at the Meeting. If you receive a voting instruction form from Broadridge Investor Communications, Canada it cannot be used as a proxy to vote shares directly at the Meeting as the proxy must be returned to them well in advance of the Meeting in order to have the shares voted.

Although you may not be recognized directly at the Meeting for the purposes of voting common shares registered in the name of your broker (or agent of the broker), you may attend the Meeting as proxyholder for the registered holder and vote your common shares in that capacity. If you wish to attend the Meeting and indirectly vote your common shares as proxyholder for the registered shareholder, you should enter your own name in the blank space on the form of proxy provided to you and return the document to your broker (or the broker's agent) in accordance with the instructions provided by your broker (or agent), well in advance of the Meeting.

### **Revocability of Proxy**

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

### **Persons Making the Solicitation**

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

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

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

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

We are authorized to issue an unlimited number of common shares without nominal or par value which may be issued for such consideration as may be determined by resolution of our board of directors (our "**Board**"). As at March 28, 2013, there were 249,797,912 common shares issued and outstanding. As a holder of common shares, you are entitled to one vote on a ballot at the Meeting for each common share you own. We are also authorized to issue an unlimited number of preferred shares, issuable in series. Each series is issuable upon the terms and conditions as set by our Board at the time of creation, subject to the class priorities. As at March 28, 2013, there were no preferred shares issued and outstanding.

To the knowledge of our directors and officers, as at March 28, 2013, no person or company beneficially owned, or controlled or directed, directly or indirectly, common shares carrying more than 10% of the votes attached to all of the issued and outstanding common shares.

## MATTERS TO BE ACTED UPON AT THE MEETING

### Election of Directors

Directors will be elected at the Meeting. Our Board presently consists of seven members. It is proposed that our Board will be fixed at seven members and the following persons will be nominated at the Meeting:

R. James Brown	James Saunders
John A. Brussa	Warren D. Steckley
David M. Fitzpatrick	William A. Trickett
Thomas J. Greschner	

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

It is the intention of the management designees, if named as proxy, to vote "FOR" an ordinary resolution in favour of fixing our Board at seven members and in favour of the election of the following persons to our Board unless otherwise directed. The accompanying form of proxy provides for individual voting on directors. Management does not contemplate that any of these nominees will be unable to serve as a director. However, if for any reason any of the proposed nominees does not stand for election or is unable to serve as such, **the management designees, if named as proxy, reserve the right to vote for any other nominee in their sole discretion unless you have specified in your proxy that your common shares are to be withheld from voting on the election of directors.**

The following information relating to the nominees as directors is based partly on our records and partly on information received by us from the nominees and sets forth the names and province and country of residence of all of the persons nominated for election as directors, the periods during which they have served as directors, their principal occupations or employments during the five preceding years and the approximate number of common shares beneficially owned, or controlled or directed, directly or indirectly, by each of them as of March 28, 2013.

Name, Province and Country of Residence	Director Since	Principal Occupation During the Five Preceding Years	Number of Common Shares Beneficially Owned, or Controlled or Directed, Directly or Indirectly <sup>(5)</sup>
R. James Brown <sup>(1)(2)</sup> Alberta, Canada	February 8, 2008	Independent businessman since January 1, 2009; and prior thereto, Vice President and Chief Financial Officer of Fording Canadian Coal Trust, Fording (GP) ULC and Elk Valley Coal Partnership.	298,853
John A. Brussa <sup>(2)</sup> Alberta, Canada	March 22, 2011	Partner, Burnet, Duckworth & Palmer LLP (law firm).	290,240
David M. Fitzpatrick <sup>(1)(2)</sup> Alberta, Canada	December 8, 2008	Interim Chief Executive Officer of Lone Pine Resources Inc. (oil and gas company) since February 27, 2013; and prior thereto, independent businessman.	156,071

Name, Province and Country of Residence	Director Since	Principal Occupation During the Five Preceding Years	Number of Common Shares Beneficially Owned, or Controlled or Directed, Directly or Indirectly <sup>(5)</sup>
Thomas J. Greschner <sup>(3)</sup> Alberta, Canada	January 9, 2012	Independent businessman since January 9, 2012; prior thereto, President and Chief Executive of Emerge Oil & Gas Inc. (oil and gas company) from August 2008 until January 9, 2012 and prior thereto, President and Chief Executive Officer of Emerge Energy Ltd. (oil and gas company).	224,006
James Saunders Alberta, Canada	December 30, 2005	President and Chief Executive Officer of Twin Butte Energy Ltd. since November 5, 2008 and prior thereto, Chairman of Twin Butte Energy Ltd.	4,406,397
Warren D. Steckley <sup>(1)(3)</sup> Alberta, Canada	March 20, 2009	President and Chief Operating Officer of Barnwell of Canada, Limited (oil and gas company).	172,391
William A. Trickett <sup>(3)</sup> Alberta, Canada	October 14, 2009	Independent businessman since October 14, 2009 and prior thereto President and Chief Executive Officer of Buffalo Resources Corp. (oil and gas company).	192,677

## Notes:

- (1) Member of our Audit Committee, which committee is required pursuant to the *Business Corporations Act* (Alberta).
- (2) Member of our Compensation, Nominating and Corporate Governance Committee.
- (3) Member of our Reserves Committee.
- (4) We do not have an Executive Committee.
- (5) In addition, Mr. Brussa holds options to purchase 150,000 common shares at an exercise price of \$3.32 per share. Mr. Saunders also holds 225,249 restricted awards and 96,598 performance awards and Messrs. Brown, Brussa, Fitzpatrick, Greschner, Steckley and Trickett also hold 67,464, 45,562, 67,464, 46,630, 67,464 and 91,315 restricted awards, respectively. See "Statement of Executive Compensation – Incentive Plans – Share Award Incentive Plan" for a description of the restricted awards and performance awards granted pursuant to the share award incentive plan.

***Majority Voting for Directors***

Our Board has adopted a majority voting policy stipulating that if the votes in favour of the election of a director nominee at a shareholders' meeting represent less than a majority of our common shares voted and withheld, the nominee will submit his resignation promptly after the meeting, for our Compensation, Nominating and Corporate Governance Committee's consideration. Our Compensation, Nominating and Corporate Governance Committee will make a recommendation to our Board after reviewing the matter, and our Board's decision to accept or reject the resignation offer will be disclosed to the public within 90 days of the applicable shareholders' meeting. Resignations are expected to be accepted except in situations where extenuating circumstances would warrant the applicable director to continue to serve as a Board member. The nominee will not participate in any committee or Board deliberations on the resignation offer unless there are not at least three directors who did not receive a majority withheld vote. The policy does not apply in circumstances involving contested director elections.

### ***Additional Disclosure Relating to Proposed Directors***

#### ***Bankruptcies***

To our knowledge, no proposed director (nor any personal holding company of any of such persons): (a) is, as of the date of this information circular – proxy statement, or has been within the ten years before the date of this information circular – proxy statement, a director or executive officer of any company (including us) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the ten years before the date of this information circular – proxy statement, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

#### ***Cease Trade Orders***

To our knowledge, no proposed director (nor any personal holding company of any of such persons) is, as of the date of this information circular – proxy statement, or was within ten years before the date of this information circular – proxy statement, a director, chief executive officer or chief financial officer of any company (including us), that: (a) was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "**Order**"), that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer; or (b) was subject to an Order that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

#### ***Penalties or Sanctions***

To our knowledge, no proposed director (nor any personal holding company of any of such persons), 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 securityholder in deciding whether to vote for a proposed director.

#### **Appointment of Auditors**

At the Meeting, shareholders will be called upon to appoint the firm of PricewaterhouseCoopers LLP, Chartered Accountants, of Calgary, Alberta, to serve as our auditors until the next annual general meeting of our shareholders and to authorize our directors to fix their remuneration as such. PricewaterhouseCoopers LLP have been our auditors since June 2006.

It is the intention of the management designees, if named as proxy, to vote "**FOR**" the appointment of PricewaterhouseCoopers LLP, Chartered Accountants, Calgary, Alberta, as our auditors, to hold office until the next annual meeting of the shareholders and to authorize our directors to fix their remuneration as such.

Our directors recommend that shareholders vote for the appointment of PricewaterhouseCoopers LLP, Chartered Accountants, Calgary, Alberta, as our auditors, at a remuneration to be fixed by our directors.

The information required by Form 52-110F1 of National Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrators, including information regarding the fees billed to us by PricewaterhouseCoopers LLP, Chartered Accountants, Calgary, Alberta, is contained in our annual information form for the year ended December 31, 2012, under the heading "Audit Committee Information", an electronic copy of which is available on our SEDAR profile at [www.sedar.com](http://www.sedar.com).

## **Approval of Share Capital Amendment to Implement Stock Dividend Program**

At the Meeting, shareholders will be asked to vote on a special resolution to amend our articles to change the rights, privileges, restrictions and conditions in respect of our common shares, including to set forth the terms and conditions pursuant to which we may issue common shares as payment of all or any portion of dividends declared on our common shares (referred to herein as "**stock dividends**") for those shareholders who elect to receive stock dividends instead of cash dividends. A copy of the proposed terms of our common shares after giving effect to the amendment is attached hereto as Appendix "A".

### ***Reasons for the Share Capital Amendment***

We currently have a dividend reinvestment plan in place that is available only to Canadian common shareholders. **We will permit common shareholders that are resident in the United States or "US persons" as defined in Regulation S adopted under the Securities Act of 1933, as amended, to participate in the stock dividend program provided that the shareholder is not a resident in the state of California or any other state where the issuance of securities under the stock dividend program would not qualify for a self-executing exemption or exclusion from registration under the securities laws of the applicable state.**

We expect to maintain our dividend reinvestment plan as a complement to the stock dividend program indefinitely.

While the stock dividend program is similar to our dividend reinvestment plan, we believe that the stock dividend program has certain income tax attributes that make it more attractive to both Canadian and non-Canadian shareholders that hold their common shares in taxable accounts, while there would be effectively no impact on shareholders holding common shares in tax-deferred accounts. Participation in the stock dividend program will be optional: common shareholders will continue to receive dividends as declared by our Board in the form of cash, unless they elect to receive stock dividends. Furthermore, our Board may discontinue the declaration and payment of stock dividends at any time, in which case common shareholders would receive dividends as declared by our Board in the form of cash (referred to herein as "**cash dividends**").

Accordingly, we are proposing an amendment to our articles to clarify our ability to issue, and to set forth the terms and conditions pursuant to which common shareholders may elect to receive, stock dividends on their common shares while not prejudicing common shareholders who desire to receive cash dividends. The stock dividend program will allow common shareholders to accumulate additional common shares issued from treasury at an effective 5% discount to the market price of the common shares (the same as our dividend reinvestment plan) on, in certain cases, a more income tax-efficient basis as compared to our dividend reinvestment plan, all as described in more detail below.

The stock dividend program will serve as a source of capital for us by allowing us to retain cash that would otherwise be paid out as dividends. This balance of cash flow retention and maintaining a regular dividend will support long-term value maximization and allow us to retain funds to support our strategic growth initiatives. Subject to approval of the special resolution, it is anticipated that our Board will declare our first stock dividend to be paid on June 17, 2013 to common shareholders of record on May 31, 2013.

**The approval of the special resolution and adoption by us of the stock dividend program will not prevent common shareholders from continuing to receive dividends, when declared by our Board, in the form of cash. As is the case with our existing dividend reinvestment plan, participation by shareholders in the proposed stock dividend program and the election to receive stock dividends is completely voluntary and shareholders are not required to participate in the stock dividend program. If a shareholder wishes to receive dividends declared by us in the form of cash, no action is required to be taken by a shareholder. Only shareholders who validly elect to participate in the stock dividend program, as described below, will receive stock dividends.**

### ***Benefits of the Stock Dividend Program***

As described above, the stock dividend program is intended to provide us with the same capital retention attributes of our dividend reinvestment plan, while both expanding the availability of the program to eligible common shareholders outside of Canada and providing many common shareholders with Canadian tax treatment that is expected to be more favourable than our dividend reinvestment plan. Under our dividend reinvestment plan, a cash dividend is paid to the common shareholder and then immediately reinvested in new common shares.

For a common shareholder that is a Canadian resident that is not exempt from taxation, the mechanics of our dividend reinvestment plan require the full amount of the reinvested dividend to be included in the common shareholder's income where it is subject to tax at the dividend tax rates applicable to such shareholder. If the dividend reinvestment plan were to be made available to common shareholders that are not residents of Canada, any applicable Canadian withholding tax would be deducted from the cash dividend payable to those shareholders and only the remaining after tax portion of the dividend could be reinvested in common shares.

Under the proposed stock dividend program, there is no cash dividend that is subsequently reinvested; instead, the dividend is paid directly in common shares. As discussed under the heading "Canadian Federal Income Tax Considerations" in Appendix "B" to this information circular – proxy statement, the amount or value of a stock dividend for the purposes of computing a common shareholder's Canadian tax liability is not the market value of the common shares being issued in satisfaction of the dividend but the amount that our directors choose to add to our stated capital account as a result of the payment of the stock dividend.

It is anticipated that our directors will add only a nominal amount to stated capital when a stock dividend is paid under the stock dividend program. As a result, taxable common shareholders resident in Canada who hold their common shares as capital property are not expected to have any material amounts included in their income as a result of the receipt of the stock dividends. However, because no amount is being reinvested and no portion of the stock dividend is being included in a common shareholder's income, a common shareholder who receives a stock dividend will be deemed to have no initial tax cost in the common shares comprising the stock dividend. As a result, the shareholder may realize a larger capital gain when the shareholder sells the common shares in the future. In essence, the immediate dividend income inclusion that would arise under our dividend reinvestment plan is not recognized under the stock dividend program but is converted to a future capital gain. This provides common shareholders with a tax deferral opportunity and an opportunity to utilize any capital losses the shareholder may have available to shelter these future capital gains. In addition, since the taxation rates applicable to dividends generally differ from those applicable to capital gains, common shareholders participating in the stock dividend program may benefit from these rate discrepancies. However common shareholders should consult their own tax advisors with respect to the tax implications of the stock dividend program to their particular circumstances. For Canadian-resident shareholders that are exempt from taxation, there will be no meaningful difference between our dividend reinvestment plan and the stock dividend program.

For eligible common shareholders who are not residents of Canada, the anticipated nominal amount of the stock dividend for Canadian tax purposes is expected to eliminate any Canadian withholding tax exposure in respect of stock dividends. This means that the number of common shares received under the stock dividend program should reflect the entire amount of the stock dividend rather than the net amount of the cash dividend that would remain after the payment of any applicable Canadian withholding tax on a reinvested cash dividend under the dividend reinvestment plan. As discussed in more detail in Appendix "B" to this information circular, most common shareholders that are not residents of Canada will not be subject to Canadian taxation on any capital gains associated with a disposition of common shares. Accordingly, the fact that common shares received in satisfaction of a stock dividend will have no initial tax cost for Canadian purposes is not expected to have any adverse Canadian tax consequence for such non-resident shareholders.

**All shareholders, wherever resident, are encouraged to consult their own tax advisors regarding the tax consequences to them of receiving cash or stock dividends.**

**The approval of the special resolution and adoption by us of the stock dividend program should not be construed as a guarantee that future dividends will continue to be paid by us or as to the amount of future dividend payments. Our Board continually evaluates our dividend policy and any decision to pay dividends on our common shares will be made by our Board on the basis of the relevant conditions existing at the applicable time. Furthermore, the declaration and payment of stock dividends is solely within the discretion of our Board and there can be no assurance that we will declare stock dividends or otherwise continue the stock dividend program in the future.**

Outlined below is a description of the key terms of the proposed stock dividend program and how common shareholders may elect to participate in the stock dividend program, provided the special resolution is approved and our Board declares stock dividends in respect of our common shares.

### ***Payment of Stock Dividends***

The proposed amendments to our articles will provide our Board with the flexibility, where a common shareholder has validly elected to receive payment of dividends in the form of common shares in the manner set forth below, to declare and pay dividends on the common shares through the issuance of common shares. To facilitate payment of such stock dividends, the amended share terms also implement procedures for: (i) a common shareholder to elect to accept stock dividends; (ii) determining the value and number of common shares to be distributed by way of a stock dividend; (iii) accounting for the entitlement of shareholders to fractional common shares resulting from stock dividends; (iv) authorizing the sale of common shares issued in respect of stock dividends to satisfy tax withholding obligations or to comply with foreign laws or regulations applicable to a shareholder, if required; and (v) payment of cash in respect of fractional common shares upon a person ceasing to be a registered shareholder.

Dividends would be declared in an amount expressed in dollars per common share and, for common shareholders who confirm that they are willing to receive dividend payments in common shares, would be paid by way of the issuance of a fraction of a common share ("**stock dividend share**") per outstanding common share determined by dividing the dollar amount of the dividend per common share by 95% of the "volume weighted average trading price" (as defined below) of the common shares on the Toronto Stock Exchange. The "volume weighted average trading price" of the common shares would be calculated by dividing the total value of common shares traded on the Toronto Stock Exchange by the total volume of common shares traded on the Toronto Stock Exchange over the five trading day period immediately prior to the payment date of the applicable dividend. The result of the foregoing is that common shareholders who elect to receive stock dividends will receive additional common shares at a 5% discount to the market price, which is effectively identical to the price at which common shares are currently issued to Canadian-resident shareholders under our dividend reinvestment plan, and may benefit from certain tax efficiencies as described above.

The stock dividends would be paid by way of the issuance of a stock dividend share only to registered common shareholders who have delivered to our transfer agent, Valiant Trust Company, on or before a date specified by our Board (currently being the fourth business day prior to a dividend record date), a notice in writing (a "**Stock Dividend Confirmation Notice**") confirming that they will accept the stock dividend share as payment of the dividend on all or a portion of their common shares entitled to receive the applicable dividend. Beneficial common shareholders who hold their common shares through a broker, investment dealer, financial institution or other nominee may participate in the stock dividend program through such nominee.

Common shareholders who do not elect to receive stock dividends will continue to receive cash dividends as declared by our Board, in the usual manner. Therefore, if a registered common shareholder does not deliver a Stock Dividend Confirmation Notice by the Stock Dividend Confirmation Notice Deadline, or delivers a Stock Dividend Confirmation Notice confirming that the holder accepts the Stock Dividend Share as payment of the dividend on some but not all of the holder's common shares, the dividend on common shares for which no Stock Dividend Confirmation Notice was delivered, or the dividend on those of the holder's common shares in respect of which the holder did not deliver a Stock Dividend Confirmation Notice, will be paid in cash in the usual manner. See "*Procedure to Confirm Acceptance of Stock Dividends*" below for additional information.

To the extent that any accumulated stock dividends paid on the common shares represent one or more whole common shares payable to a registered holder of common shares that has confirmed that it will accept payment in common shares (a "**Participating Shareholder**"), such whole common shares will be registered in the name of such holder. For greater clarity, the term "Participating Shareholder" only refers to registered common shareholders (i.e. common shareholders who hold a physical share certificate in their own name evidencing registered ownership of common shares) and not to beneficial holders who hold their common shares through a broker, investment dealer, financial institution or other nominee.

### ***Procedure to Confirm Acceptance of Stock Dividends***

Common shareholders who are participants in our dividend reinvestment program will not be automatically enrolled in the stock dividend program. Registered and beneficial common shareholders must take the steps outlined below in order to enroll in the stock dividend program and elect to receive stock dividends declared by us rather than receive dividends in the form of cash. **If a common shareholder desires to receive dividends in the form of cash, no action is required to be taken by such a shareholder.**

### ***Registered common shareholders***

Registered common shareholders that are willing to accept the payment of future dividends declared by our Board in the form of common shares are required to complete and deliver to Valiant Trust Company a Stock Dividend Confirmation Notice in a form prescribed by Valiant Trust Company at least four business days prior to the record date of a declared dividend. The Stock Dividend Confirmation Notice will permit such common shareholders to confirm that they will accept the stock dividend share as payment of the dividend on all or a stated number of their common shares entitled to receive such dividend. A Stock Dividend Confirmation Notice will remain in effect for all dividends declared on the common shares to which it relates and which are held by the registered common shareholder, unless the shareholder delivers a revocation notice to Valiant Trust Company, in which case the Stock Dividend Confirmation Notice will not be effective for any dividends having a record date that is more than four business days following receipt of the revocation notice by Valiant Trust Company. A Stock Dividend Confirmation Notice or a revocation notice may only be delivered to Valiant Trust Company in respect of common shares for which trades have settled prior to the applicable deadline for notice.

**Accordingly, if the special resolution is approved at the Meeting, registered common shareholders who desire to receive payment in the form of common shares in respect of the dividend expected to be declared by us having a record date of May 31, 2013 and a payment date of June 17, 2013 must return a Stock Dividend Confirmation Notice to Valiant Trust Company by no later than May 27, 2013.** A copy of the Stock Dividend Confirmation Notice may be obtained from Valiant Trust Company at [www.valianttrust.com](http://www.valianttrust.com) or from our website at [www.twinbutteenergy.com](http://www.twinbutteenergy.com). The completed Stock Dividend Confirmation Notice must be returned to Valiant Trust Company at Suite 310, 606 – 4th Street S.W., Calgary, Alberta T2P 1T1.

Notwithstanding the foregoing, CDS Clearing and Depository Services Inc. ("CDS"), The Depository Trust & Clearing Corporation ("DTC") and other similar depositories, as registered common shareholders, may participate in the Stock Dividend Program and elect to receive stock dividends on behalf of beneficial shareholders who hold common shares through their brokers and the respective depository services by communicating appropriate election and enrollment instructions to Valiant Trust Company in accordance with standard and customary industry practices.

### ***Beneficial Shareholders***

Beneficial owners of common shares held through brokers, investment dealers, financial institutions or other nominees and which are registered in the name of depositories such as CDS in Canada and DTC in the United States, or another nominee, may not directly confirm their acceptance of stock dividends in respect of those common shares with Valiant Trust Company, but must instead either: (i) make appropriate arrangements with the broker, investment dealer, financial institution or other nominee who holds their common shares to confirm acceptance of stock dividends on their behalf, either as a nominee that delivers a completed and executed Stock Dividend Confirmation Notice to Valiant Trust Company or, if applicable, as a CDS or DTC participant by providing the appropriate instructions to CDS or DTC, as applicable, within the timeframes required by such depositories; or (ii) transfer the common shares such that they are registered in their own name and then confirm acceptance of stock dividends in respect of such common shares directly.

Beneficial owners of common shares should contact the broker, investment dealer, financial institution or other nominee who holds their common shares to provide instructions regarding their acceptance of stock dividends and to inquire about any applicable deadlines that the nominee may impose or be subject to. By confirming their willingness to receive stock dividends and enrolling in the stock dividend program, a beneficial holder (or where such confirmation or enrollment is made by a nominee on behalf of a beneficial shareholder, the applicable nominee) will be deemed to represent and warrant to us and Valiant Trust Company that the beneficial shareholder has made such confirmation, election and enrollment prior to the record date for the relevant stock dividend.

### ***Fractional Entitlements***

Fractional common shares, which might otherwise have been payable to Participating Shareholders by reason of a stock dividend, will be issued to Valiant Trust Company as the agent of such shareholders. Valiant Trust Company will credit to an account for each Participating Shareholder all fractions of a common share amounting to less than one whole share issued by us to a Participating Shareholder by way of stock dividends. From time to time, when the fractional interests in a common share held by Valiant Trust Company for the account of a Participating Shareholder are equal to or exceed in the aggregate one additional whole common share, Valiant Trust Company will cause an additional whole common share to be registered in the name of the Participating Shareholder. The crediting of fractional common shares (or payment of cash in lieu of fractional

common shares) to beneficial owners who receive stock dividends on common shares held through a broker, investment dealer, financial institution or other nominee will depend on the policies of that broker, investment dealer, financial institution or other nominee.

A shareholder that ceases to be a registered holder of one or more common shares is entitled to receive payment in cash equal to the value of the fractional common share held by Valiant Trust Company for the account of the shareholder. The value of the fractional common share would be calculated by reference to the value assigned to the common shares for purposes of the last stock dividend paid by us prior to the date of payment to the former registered shareholder.

#### ***Authority to Sell Stock Dividend Shares***

We have the right to sell, or require Valiant Trust Company to sell, all or any part of the stock dividend shares, through the facilities of the Toronto Stock Exchange or other stock exchange on which our common shares are listed for trading if: (i) we have reason to believe that tax should be withheld and remitted to a taxation authority in respect of any stock dividend paid or payable to a shareholder in common shares, in which case we would or would cause Valiant Trust Company to pay the sale proceeds to such taxation authority for the purposes of remitting the applicable tax, with any balance not remitted in payment of tax being payable to the common shareholder; or (ii) we have reason to believe that the payment of a stock dividend in common shares to any holder thereof who is resident in or otherwise subject to the laws of a jurisdiction outside Canada might contravene the laws or regulations of such jurisdiction, or could subject us to any penalty or any legal or regulatory requirements not otherwise applicable to us, in which case the cash sale proceeds would be delivered to the common shareholder.

#### ***Taxation of Stock Dividends***

Participation in the stock dividend program will have income tax consequences to common shareholders who receive stock dividends that are different from the income tax consequences applicable to cash dividends. Please refer to Appendix "B" to this information circular for a summary of certain Canadian federal income tax considerations. **The United States tax consequences for common shareholders who are resident in, or citizens of, the United States are not described herein. All shareholders should consult their own tax advisors for advice with respect to the tax consequences of participation in the stock dividend program based on their particular circumstances.**

#### ***Reporting and Entitlement to Common Share Certificates***

An account will be maintained by the Valiant Trust Company for each Participating Shareholder. Each Participating Shareholder's account will include information with respect to the number of whole and fractional common shares registered or held in the name of the Participating Shareholder on the record date for the stock dividend, as well as the number of additional whole and fractional stock dividend shares to which the Participating Shareholder has become entitled by reason of the stock dividend. An unaudited statement regarding each Participating Shareholder's account will be mailed on a quarterly basis to each participating shareholder. Beneficial shareholders will continue to receive reports with respect to their holdings of common shares and receipt of stock dividends from the broker, investment dealer, financial institution or other nominee through whom their common shares are held. A certificate representing the number of whole stock dividend shares registered in the name of a Participating Shareholder as a result of a stock dividend will only be provided upon request in writing to Valiant Trust Company.

#### ***Text of Special Resolution***

To be effective, the special resolution to amend our articles to give effect to the proposed amendments to our share capital and to allow us to implement the stock dividend program must be passed by a majority of not less than two-thirds of the votes cast thereon by the common shareholders represented in person or by proxy at the Meeting. **Our Board unanimously recommends that shareholders vote in favour of the special resolution.** The persons designated in the enclosed form of proxy, unless instructed otherwise, intend to vote "FOR" the special resolution. The text of the special resolution is set out below.

"BE IT RESOLVED as a special resolution of the holders of common shares of Twin Butte Energy Ltd. (the "**Corporation**") that:

1. pursuant to section 173 of the *Business Corporations Act* (Alberta) (the "**Act**"), the articles of amalgamation of the Corporation be amended to change the rights, privileges, restrictions and conditions in respect of the common shares, substantially in the form set forth in Appendix "A" to the Corporation's Information Circular – Proxy Statement dated March 28, 2013;
2. any one of the directors or officers of the Corporation is hereby authorized to sign all such documents, including without limitation, Articles of Amendment, and to do all such acts and things, including without limitation, delivering such Articles of Amendment to the Registrar of Corporations under the Act, as such director or officer determines, in his or her discretion, to be necessary or advisable in order to properly implement and give effect to the foregoing; and
3. the directors of the Corporation may, in their discretion, without further approval of the shareholders of the Corporation, revoke this special resolution at any time prior to the filing of Articles of Amendment giving effect to the foregoing."

## COMPENSATION GOVERNANCE

### Composition of our Compensation, Nominating and Corporate Governance Committee

Our Board has appointed a Compensation, Nominating and Corporate Governance Committee (referred to hereafter as our "**committee**", our "**Committee**", our "**Compensation Committee**" and our "**Compensation, Nominating and Corporate Governance Committee**") of our Board comprised of John A. Brussa (Chair), R. James Brown and David M. Fitzpatrick. The following table sets forth the assessment of each current committee member's independence for the purpose of National Instrument 58-101 – *Corporate Governance Guidelines* and the relevant skills and experience of each member of our committee that enables such member to make decisions on the suitability of our compensation policies and practices.

Name	Independent <sup>(1)</sup>	Relevant Skills and Experience
John A. Brussa	Yes	Mr. Brussa's skills and experience that enable him to make decisions on the suitability of our compensation policies and practices are derived from his service on boards and compensation committees of numerous publicly traded oil and gas companies. Mr. Brussa holds a Bachelor of Arts, History and Economics degree and a Bachelor of Laws degree from the University of Windsor.
R. James Brown	Yes	Mr. Brown's skills and experience that enable him to make decisions on the suitability of our compensation policies and practices are derived from his 25 years of experience in the oil and gas and mining industry including as Chief Financial Officer with Fording Canadian Coal Trust, High Point Resources Inc., Dorset Exploration Ltd., Richland Petroleum Inc. and Terraquest Energy Inc., all public oil and gas companies. He has also developed practical experience in executive compensation from his service on boards and compensation committees of numerous publicly traded companies. Mr. Brown holds a Bachelor of Commerce degree from the University of Calgary and is a Chartered Accountant.
David M. Fitzpatrick	Yes	Mr. Fitzpatrick's skills and experience that enable him to make decisions on the suitability of our compensation policies and practices are derived from his experience as President, Chief Executive Officer and a director of Shiningbank Energy Ltd. from 1996 to 2007 and his over 29 years of experience in the oil and gas industry. He has also developed practical experience in executive compensation from his service on boards and compensation committees of numerous publicly traded oil and gas companies. Mr. Fitzpatrick obtained his BSc. in Geological Engineering from Queens University, and has obtained the Chartered Director Designation from the DeGroot School of Business.

Note:

- (1) A director is independent for the purpose of National Instrument 58-101 – *Corporate Governance Guidelines* if he or she is independent within the meaning of section 1.4 of National Instrument 52-110 – *Audit Committees*.

### **Mandate and Terms of Reference of our Compensation Committee**

Our Board has adopted a mandate for our Compensation, Nominating and Corporate Governance Committee which has, as part of its mandate, the responsibility for reviewing matters relating to the human resource policies and compensation of our directors, officers and employees in the context of our budget and business plan. Without limiting the generality of the foregoing, the committee has the following duties:

- (i) to review the compensation philosophy and remuneration policy for our officers and to recommend to our Board changes to improve our ability to recruit, retain and motivate officers;
- (ii) to review and recommend to our Board the retainer and fees to be paid to members of our Board;
- (iii) to review and approve corporate goals and objectives relevant to the compensation of our Chief Executive Officer and to evaluate our Chief Executive Officer's performance in light of those corporate goals and objectives, and determine (or make recommendations to our Board with respect to) our Chief Executive Officer's compensation level based on such evaluation;
- (iv) to recommend to our Board with respect to non-Chief Executive Officer officer and director compensation including to review management's recommendations for proposed stock option, share purchase plans and other incentive-compensation plans and equity-based plans for non-Chief Executive Officer officer and director compensation and make recommendations in respect thereof to our Board;
- (v) to administer the stock option plan approved by our Board in accordance with its terms including the recommendation to our Board of the grant of stock options in accordance with the terms thereof;
- (vi) to administer the share award incentive plan approved by our Board in accordance with its terms including the recommendation to our Board of the grant of share awards in accordance with the terms thereof;
- (vii) to determine and recommend for approval of our Board bonuses to be paid to our officers and employees and to establish targets or criteria for the payment of such bonuses, if appropriate; and
- (viii) to prepare and submit a report of our committee for inclusion in annual disclosure required by applicable securities laws to be made by us including our Compensation Committee Report required to be included in our information circular – proxy statement and review other executive compensation disclosure before we disclose such information.

Our Compensation Committee is required to be comprised of at least three of our directors or such greater number as our Board may determine from time to time. All members of our committee are required to be independent as such term is defined for purposes of National Instrument 58-101. Our Board is from time to time to designate one of the members of our committee to be the Chair of our committee. Pursuant to the Mandate and Terms of Reference of our Compensation Committee, meetings of our committee are to take place at least one time per year and at such other times as the Chair of our committee may determine.

### **Compensation Consultant or Advisor**

At no time in our previous two completed financial years has a compensation consultant or advisor been retained by us to assist our Board or our Compensation Committee to determine the compensation of our directors or executive officers. However, we did utilize compensation data contained in the independent "2011 Mercer Total Compensation Survey for the Energy Sector".

## COMPENSATION DISCUSSION AND ANALYSIS

Our executive compensation program is administered by our Compensation Committee. In establishing our annual compensation program, our President and Chief Executive Officer provides recommendations to our Compensation Committee with respect to compensation for our executive officers, including our President and Chief Executive Officer, and our employees. In making such recommendations, our President and Chief Executive Officer reviews a number of factors including general industry compensation data and compensation data compiled for our informal peer group, corporate performance as well as individual performance. Prior to submitting recommendations to our Compensation Committee, the recommendations are reviewed and discussed with the Chairman of the Compensation Committee and adjustments may be made as a result of those discussions. Our Compensation Committee reviews the data and information provided and recommendations for compensation are then made by our Compensation Committee to our full Board for consideration. As our President and Chief Executive Officer is also a member of our Board, our Board meets in the absence of our President and Chief Executive Officer to discuss the recommendations made by our committee for executive compensation, including the recommendation for our President and Chief Executive Officer's compensation. Discussions, both formal and informal, may ensue between both our Compensation Committee and our Board and our President and Chief Executive Officer with respect to the recommendations and adjustments may be made prior to final approval by our Board.

### Objectives and Principles of Executive Compensation Program

The objectives of our executive compensation program are twofold, namely: (i) to enable us to attract and retain highly qualified and experienced individuals to serve as executive officers (including our Named Executive Officers); and (ii) to align the compensation levels available to our executive officers to the successful implementation of our strategic plans and annual objectives. Our executive compensation program is designed to reward our executive officers where they have contributed to our success and growth.

A significant component of our compensation program is based on a "pay-for-performance" philosophy which supports our commitment to delivering strong performance for our shareholders. Our compensation policies are designed to attract, recruit and retain individuals of high calibre to serve as our officers, to motivate their performance in order to achieve our strategic objectives and to align the interests of executive officers with the long-term interests of our shareholders and enhancement in share value. Compensation of all executive officers, including our President and Chief Executive Officer, is based on the underlying philosophy that such compensation should be competitive with other corporations of similar size and should be reflective of the experience, performance and contribution of the individuals involved and our overall performance. Our committee also recognizes that the executive compensation program must be sufficiently flexible in order to adapt to unexpected developments in the oil and gas industry and the impact of internal and market related occurrences from time to time.

Our executive compensation program is comprised of the following principal components: (a) base salary and perquisites; (b) short-term incentive compensation comprised of cash bonuses; and (c) long-term incentive compensation comprised of share awards. Together, these components support our long-term growth strategy and are designed to address the key objectives of our compensation program.

### Compensation and Market Position

When determining executive compensation, including the assessment of the competitiveness of our compensation practices, the committee reviews the compensation policies of companies in our informal peer group. In 2012, the peer group used consisted of approximately 12 similar sized companies with production ranging from 8,000 to 30,000 barrels of oil equivalent per day; however, other factors besides production such as revenues, cash flows generated, areas in which the companies operate and number of employees are considered when determining which companies to include in our informal peer group. Some of the salary information available in the public domain with respect to companies in our informal peer group can be outdated and therefore we will also obtain industry reports providing salary levels. The industry reports provide general information about levels of compensation in the oil and gas industry or with respect to specific professions and not specific metrics about companies in our informal peer group. At the time of establishment of 2012 base salaries for our executive officers, compensation information referred to was in respect of 2011 compensation practices. At the time of determination of bonuses for our executive officers in respect of 2012, compensation information referred to was also in respect of 2011.

The competitiveness of our Named Executive Officers compensation is assessed based on total compensation defined as the aggregate of salary, bonuses and long-term incentives valued as of the time of grant. It is our philosophy to target total compensation for our Named Executive Officers at the 50th percentile of our informal peer group based on available market data with the potential for increase depending on both individual and corporate performance.

### **Elements of Our Executive Compensation Program**

The principal elements of our executive compensation program are the following:

- base salary and perquisites;
- cash bonus; and
- incentive awards, comprised of share awards.

Our executive officers' compensation package provides a balanced set of elements designed to deliver the objectives of our compensation philosophy and includes a strong performance orientation. The fixed elements, salary and perquisites provide a competitive base of secure compensation necessary to attract and retain executive talent. The variable elements, bonus and long-term incentives, are designed to balance short-term goals with our long-term interests and motivate superior performance of both. The long-term incentive plan also aligns executive officers with our shareholders and helps retain executive talent. The combination of the fixed elements and the variable incentive opportunities delivers a competitive, performance-orientated compensation package as compared to our informal peer group.

Each element of our executive compensation program is described in more detail below.

#### ***Base Salaries***

The first element of our compensation program is the payment of base salaries. The payment of base salaries is a fundamental component of our compensation program and serves to attract and retain highly qualified executives. In addition, executive officers are paid a base salary to compensate those officers for providing the leadership and skills necessary to fulfill their responsibilities.

Salaries are reviewed annually based on a review of corporate and personal performance and individual levels of responsibility. Salaries for executive officers are not determined based on benchmarks, performance goals or a specific formula. The base salaries for the financial year ended December 31, 2012, were set to be competitive with industry levels and our Compensation Committee had regard to the contributions made by our executive officers. Base salaries for 2012 were set at approximately the 50th percentile of that of our informal peer group.

#### ***Employee Stock Savings Plan and Other Perquisites***

We also provide executive officers with certain perquisites and other benefits, including participation in the employee stock savings plan ("**ESSP**") established effective April 1, 2009. The purpose of the ESSP is to make available to our permanent employees and directors a means of acquiring through regular payroll deductions and our additional contribution, common shares so that the employee can benefit from the growth in our value. See "Statement of Executive Compensation – Incentive Plans – Employee Stock Savings Plan" for a description of the ESSP.

#### ***Short-Term Incentive Compensation – Cash Bonuses***

We have a discretionary bonus plan pursuant to which our Board, upon recommendation of our committee, may award annual cash bonuses to executive officers. The annual cash bonus element of the executive compensation program is designed to reward both corporate and individual performance during our last completed financial year. It is our committee's philosophy that an individual bonus should be tied primarily to that individual's contribution to corporate performance. In addition, the discretionary bonus plan is intended to help ensure that overall executive cash compensation (i.e. salary and bonus) is comparable to the average cash compensation of executives at peer surveyed companies during the year in question. The amount of the bonus paid is not set in relation to any formula or specific criteria but is the result of a subjective determination of our performance and the individual's performance during the last fiscal year. While our committee has not established strict pre-determined quantitative performance criteria linked to the payment of bonuses, our committee will consider certain performance indicators including, but not limited to (i) growth in production on an absolute and per share basis; (ii) growth in

reserves on both a proven and proven plus probable basis; (iii) finding and development costs; (iv) recycle ratio; (v) operating costs in the context of the overall market; (vi) cash flow per common share; and (vii) our performance for all of the above relative to our goals and objectives and in relation to the performance of our industry peer group. The payment of bonuses is ultimately subject to the final approval of our Board and our Board has the discretion to amend or suspend the bonus plan at any time in its sole discretion.

### ***Long Term Incentive Compensation***

#### ***Share Award Incentive Plan***

With the approval of our share award incentive plan ("**Share Award Plan**") by our shareholders on January 9, 2012, we discontinued the grant of options under the Option Plan and commenced granting restricted awards ("**Restricted Awards**") and performance awards ("**Performance Awards**") pursuant to the Share Award Plan. See "Statement of Executive Compensation – Incentive Plans – Share Award Incentive Plan" for a description of the terms of the Share Award Plan. Grants of Restricted Awards and Performance Awards (collectively, "**Share Awards**") are based on a director's, officer's and employee's organizational level, individual performance and role within our business, with the mix changing with organizational level and role in creating and sustaining organizational and shareholder value. Our Compensation Committee intends to review the Share Award Plan annually to ensure the long-term compensation program is effective in delivering on its intended purpose.

#### ***Stock Options***

In connection with us becoming a dividend paying company in 2012, our Board considered the appropriateness of our share option plan (the "**Option Plan**") and determined that such plan was not ideally suited for a dividend paying company as it does not recognize the value of the dividends payable on the underlying common shares. Our Compensation Committee and our Board determined that the Share Award Plan would be more appropriate to reflect our business. In connection with eliminating outstanding share options for the aforementioned reason, in January 2012, our Board accepted the voluntary surrender of options granted to officers, directors and employees pursuant to the Option Plan to purchase an aggregate of 8,895,336 common shares at exercise prices ranging from \$0.48 to \$2.46 per share for cancellation. See "Statement of Executive Compensation – Incentive Plans – Share Option Plan" for a description of the detailed terms of the Option Plan which will govern the outstanding stock options as at the date hereof.

### **Review of Risks Associated with Compensation Policies and Practices**

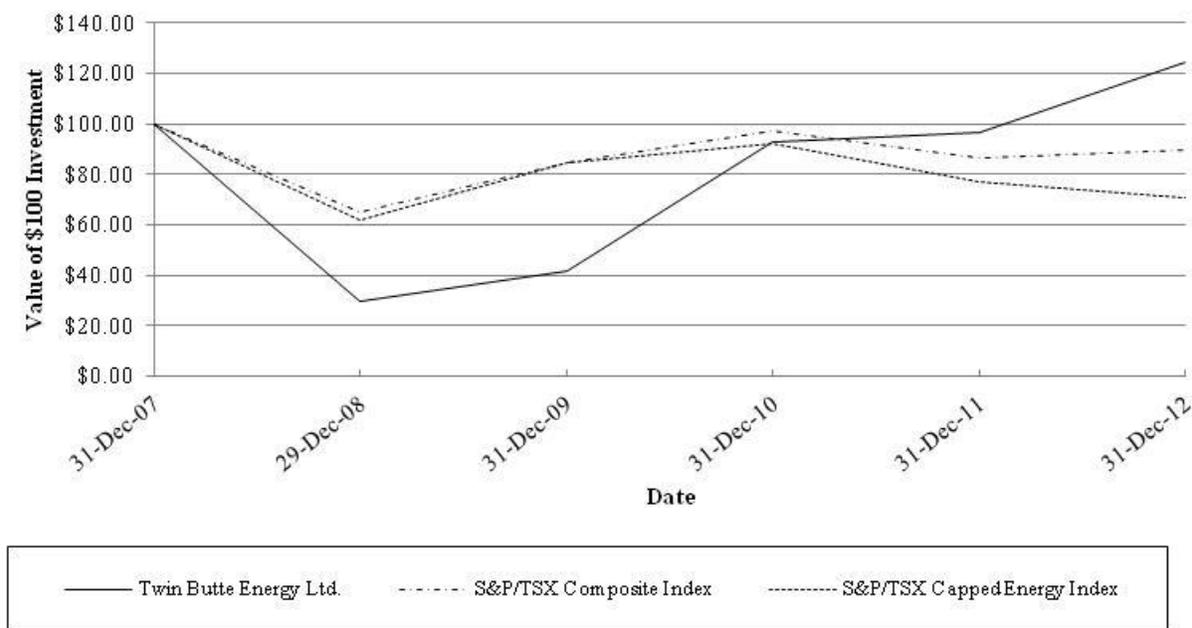
As described herein, our executive compensation program is administered by our Compensation Committee. In carrying out its mandate the implications of the risks associated with our compensation policies and practices were discussed both by our Compensation Committee and our Board. Our Compensation Committee does not believe our compensation programs encourage our executive officers to take inappropriate or excessive risks. This assessment is based on a number of considerations including, without limitation, the following: (i) our compensation policies and practices are uniform throughout our organization and there are no significant differences in compensation structure among our senior executives; (ii) the overall compensation program is market based and aligned with our business plan and long-term strategies; (iii) the compensation package for executive officers consists of fixed (base salary and perquisites) and variable elements (cash bonus and Share Awards) which are designed to balance our short term goals and our long-term interests and are aimed at creating sustainable value for our shareholders; (iv) in exercising its discretion under the cash bonus plan and Share Award grants, our Compensation Committee reviews individual and corporate performance taking into account our long-term interests; and (v) Share Awards granted under the Share Award Plan generally vest over a three year period which further mitigates any short-term risk taking potential.

### **Short Sales, Puts, Calls and Options**

Our Disclosure, Confidentiality and Trading Policy provides that our directors, officers and all of our employees, shall not knowingly sell, directly or indirectly, a security of us if such person selling such security does not own or has not fully paid for the security to be sold. In addition, the Disclosure, Confidentiality and Trading Policy provides that our directors, officers and employees shall not, directly or indirectly, buy or sell a call or put in respect of a security of us. Notwithstanding these prohibitions, our directors, officers and employees may sell a security which such person does not own if such person owns another security convertible into the security sold or an option or right to acquire the security sold and, within 10 days after the sale, such person: (i) exercises the conversion privilege, option or right and delivers the security so associated to the purchaser; or (ii) transfers the convertible security, option or right, if transferable to the purchaser.

## Performance Graph

The following graph compares the cumulative total shareholder return for \$100 invested in the common shares for the period from December 31, 2007 to December 31, 2012, as measured by the closing price of the common shares at the end of each year, with the cumulative total return on each of the S&P/TSX Composite Index and the S&P/TSX Capped Energy Index, assuming the reinvestment of dividends, where applicable, for the same period.



## Comparison of Cumulative Total Return <sup>(1)(2)</sup>

	December 31, 2007	December 31, 2008	December 31, 2009	December 31, 2010	December 31, 2011	December 31, 2012
Twin Butte	\$100.00	\$29.55	\$41.82	\$92.73	\$96.82	\$124.15
S&P/TSX Composite Index	\$100.00	\$64.97	\$84.91	\$97.18	\$86.42	\$89.88
S&P/TSX Capped Energy Index	\$100.00	\$61.82	\$84.91	\$92.27	\$76.75	\$70.96

Note:

(1) Assuming an investment of \$100 on December 31, 2007.

Compensation levels for our Named Executive Officers over the period indicated above are generally consistent with the trend of total return on investment charted for us in the performance graph, reflecting the higher proportion of "at risk" compensation for our Named Executive Officers in the form of stock option grants until 2012 and in the form of Share Awards since 2012, with the value of such options and Share Awards being directly affected by changes in share price. However, as described under "Compensation Discussion and Analysis", base salaries are not determined on benchmarks, performance goals or specific formula but are set to be competitive with industry levels in our peer group. In addition, the trading price of the common shares may be affected by various factors not related to our results such as changes in commodity prices and general economic conditions. Accordingly, it is difficult to specifically correlate total compensation to the trends shown in the above performance graph.

## STATEMENT OF EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table sets forth information concerning the compensation during each of our three most recently completed fiscal years paid to our Chief Executive Officer and Chief Financial Officer and each of our three other most highly compensated executive officers, other than our Chief Executive Officer and Chief Financial Officer, for the year ended December 31, 2012 whose total compensation was more than \$150,000 (collectively, our "Named Executive Officers").

Name and principal position	Year	Salary	Share-based awards <sup>(2)</sup>	Option-based awards <sup>(3)</sup>	Non-equity annual incentive plan compensation		Pension value	All other compensation <sup>(5)</sup>	Total compensation
					Annual incentive plans <sup>(4)</sup>	Long-term incentive plans			
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
James Saunders	2012	242,500	281,252	Nil	250,000	Nil	Nil	14,550	788,302
President and Chief Executive Officer	2011	217,950	Nil	106,250	110,000	Nil	Nil	10,898	445,088
	2010	207,000	Nil	266,071	110,000	Nil	Nil	10,350	593,421
R. Alan Steele	2012	227,500	264,375	Nil	235,000	Nil	Nil	13,650	740,525
Vice President, Finance, Chief Financial Officer and Corporate Secretary	2011	201,594	Nil	102,000	95,000	Nil	Nil	10,080	408,674
	2010	187,000	Nil	235,171	95,000	Nil	Nil	9,350	526,521
Bruce Hall	2012	227,500	264,375	Nil	235,000	Nil	Nil	13,650	740,525
Chief Operating Officer	2011	203,750	Nil	102,000	75,000	Nil	Nil	10,188	390,938
	2010	190,000	Nil	235,171	95,000	Nil	Nil	9,500	529,671
Preston Kraft	2012 <sup>(1)</sup>	220,096	421,877	Nil	225,000	Nil	Nil	13,206	880,179
Vice President, Engineering									
Claude Gamache	2012 <sup>(1)</sup>	200,532	384,375	Nil	185,000	Nil	Nil	12,032	781,939
Vice President, Heavy Oil Geosciences									

Notes:

- (1) Messrs. Kraft and Gamache commenced employment with us on January 10, 2012.
- (2) Refers to Restricted Awards and Performance Awards granted under the Share Award Plan. The fair value of the Share Awards granted is obtained by multiplying the number of Share Awards granted by the closing price of the common shares on the TSX on the date of grant. A Payout Multiplier (as defined below in "Statement of Executive Compensation – Incentive Plan – Share Award Incentive Plan") of 1x has been assumed for the Performance Award grants. See "Statement of Executive Compensation – Incentive Plans – Share Award Incentive Plan". The fair value of Share Award grants have been determined using the same methodology and values used in determining the Share Award value for our financial statements as we believe it represents the best estimate of fair value of the Share Awards at the time of the grant.
- (3) Refers to options granted under the Option Plan. See "Statement of Executive Compensation – Incentive Plans – Share Option Plan". The fair value of the options granted annually is obtained by multiplying the number of options granted by their value established according to the Black, Scholes and Merton model. This value is the same as the fair book value established in accordance with generally accepted accounting principles and accounting for the following assumptions: expected volatility – 70%, risk free rate of return – 2%, expected stock option life – three years, dividend yield rate – 0%. The fair value of option grants have been determined using the same methodology and values used in determining the share option value for our financial statements as we believe it represents the best estimate of fair value of the options at the time of the grant.
- (4) The amounts set forth in the column are the cash bonuses earned by our Named Executive Officers in fiscal 2010, 2011 and 2012, as the case may be, and paid or to be paid to our Named Executive Officers in fiscal 2011, 2012 and 2013, as the case may be.
- (5) The amounts set forth in the column represent our matching contributions to the ESSP. See "Compensation Discussion and Analysis – Elements of Our Executive Compensation Program – Employee Stock Savings Plan and Other Perquisites". The value of perquisites received by each of our Named Executive Officers, including property or other personal benefits provided to our Named Executive Officers that are not generally available to all employees, were not in the aggregate greater than \$50,000 or 10% of our Named Executive Officer's total salary for the financial year.

## Incentive Plan Awards

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

The following table sets forth all option-based awards and share-based awards outstanding for each of our Named Executive Officers as at December 31, 2012.

Name	Option-based Awards <sup>(1)</sup>				Share-based Awards		
	Number of securities underlying unexercised options	Option exercise price	Option expiration date	Value of unexercised in-the-money options <sup>(2)</sup>	Number of shares or units of shares that have not vested <sup>(3)</sup>	Market or payout value of share-based awards that have not vested <sup>(3)</sup>	Market or payout value of vested share-based awards not paid out or distributed
	(#)	(\$)		(\$)	(#)	(\$)	(\$)
James Saunders	Nil	N/A	N/A	Nil	231,368	596,929	Nil
R. Alan Steele	Nil	N/A	N/A	Nil	210,420	542,884	Nil
Bruce Hall	Nil	N/A	N/A	Nil	210,420	542,884	Nil
Preston Kraft	Nil	N/A	N/A	Nil	220,526	568,957	Nil
Claude Gamache	Nil	N/A	N/A	Nil	200,922	518,379	Nil

Notes:

- (1) Our Named Executive Officers do not own any share options. As described under the heading "Compensation Discussion and Analysis – Elements of Our Executive Compensation Program", in 2012, we discontinued the grant of options under the Option Plan and commenced granting Restricted Awards and Performance Awards pursuant to the Share Award Plan.
- (2) Calculated based on the closing price of the common shares on the TSX on December 31, 2012, which was \$2.58 per share, less the exercise price of the options.
- (3) Calculated based on the closing price of the common shares on the TSX on December 31, 2012, which was \$2.58 per share, multiplied by the number of unvested or vested Share Awards, as applicable. A Payout Multiplier of 1x has been assumed for the Performance Award grants with the exception of the Performance Awards vesting in 2013 in respect of which a Payout Multiplier of 2x has been assumed. The calculated value includes the value of dividend equivalents that have accumulated on the underlying grants.

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

The following table sets forth the value of option-based awards and share-based awards which vested during the year ended December 31, 2012, and the value of non-equity incentive plan compensation earned during the year ended December 31, 2012, for each Named Executive Officer.

Name	Option-based awards – Value of options vested during the year (as at vesting date) <sup>(1)</sup>	Share-based awards – Value vested during the year <sup>(2)</sup>	Non-equity incentive plan compensation – Value earned during the year <sup>(3)</sup>
	(\$)	(\$)	(\$)
James Saunders	Nil	1,056,163	250,000
R. Alan Steele	Nil	831,504	235,000
Bruce Hall	Nil	830,964	235,000
Preston Kraft	Nil	Nil	225,000
Claude Gamache	Nil	Nil	185,000

Notes:

- (1) Our Named Executive Officers do not own any share options.
- (2) Calculated based on the closing price of the common shares on the TSX on the date of vesting multiplied by the number of vested Share Awards. The calculated value includes the value of dividend equivalents that accumulated on the underlying grants.
- (3) The amounts set forth in the column are the cash bonuses earned by our Named Executive officers in 2012 to be paid in April 2013.

## Pension Plan Benefits

We do not have a pension plan or similar benefit program.

## Termination and Change of Control Benefits

We have entered into an executive employment agreements with each of our Named Executive Officers. Each of the executive employment agreements and employment continue indefinitely until terminated in accordance with the terms. Each of the Named Executive Officers are entitled to participate in and receive all rights and benefits under our benefit plans, and any other benefits and perquisites provided to our executives from time to time. All such benefits and perquisites cease as of the last day of employment, regardless of why employment ceases, and we have no obligation to extend benefit coverage past the last day of employment.

The executive employment agreements may be terminated at any time for just cause (in which instance there are no payments other than accrued compensation) and without just cause (including constructive dismissal). If the employment of any of the Named Executive Officers is terminated without just cause (including constructive dismissal) each Named Executive Officer in such circumstances is, in addition to accrued compensation, entitled to a retiring allowance equal to one times his annual base salary, a twenty percent top-up for loss of benefits, perquisites and savings plan, and one times the average of the cash bonuses paid during the two prior years. In the event of a change of control (as defined in the executive employment agreements), Messrs. Saunders and Steele have the right for a period of 90 days thereafter to elect to terminate their executive employment agreement and their employment (by providing us with two week's advance written notice), and in such circumstances obtain a retiring allowance payment calculated on the same basis as if employment had been terminated by us without just cause. In the event of a change of control (as defined in the executive employment agreements), Messrs. Hall, Kraft and Gamache have an election to terminate their executive employment agreement and employment if there is good reason (an adverse change in any of their duties, powers, rights, discretions, salary, title, or lines of employment such that immediately after such change or changes the executive's responsibilities and status taken as a whole are not substantially equivalent to those prior to the change or changes) and to receive the retiring allowance payment calculated on the same basis as if employment had been terminated by us without just cause. Any retiring allowance payment made to any of our Named Executive Officers (regardless of whether before or after a change of control) is less required withholdings and subject to the requirement that we have received a full and final release. In addition, each of our Named Executive Officers have agreed that in the event of a termination of employment (regardless of the reason) that they will immediately resign from any positions they may hold as a director or officer, if so requested. All of our Named Executive Officers must, both during employment and thereafter, keep all of our confidential and proprietary information strictly confidential, any fiduciary obligations that they owe to us are not limited by the terms of their executive employment agreements, and they have expressly agreed that for one year following the last day of employment that they will not directly or indirectly solicit or encourage any of our employees or consultants.

Where the executive employment agreements for the Named Executive Officers are terminated by us without just cause (including constructive dismissal), or in the event that our Named Executive Officers have an entitlement to a retiring allowance following a change of control, the payments to them, calculated as at December 31, 2012 are as follows:

<b>Named Executive Officer</b>	<b>Triggering Event</b>	<b>Cash Payment (\$)</b>	<b>Share Awards <sup>(1)(2)</sup> (\$)</b>	<b>Total (\$)</b>
James Saunders	Termination without Just Cause	410,000	Nil	410,000
	Termination following a Change of Control	410,000	596,929	1,006,929
R. Alan Steele	Termination without Just Cause	377,000	Nil	377,000
	Termination following a Change of Control	377,000	542,884	919,884
Bruce Hall	Termination without Just Cause	367,000	Nil	367,000
	Termination following a Change of Control	367,000	542,884	909,884
Preston Kraft	Termination without Just Cause	310,000	Nil	310,000
	Termination following a Change of Control	310,000	568,957	878,957
Claude Gamache	Termination without Just Cause	296,000	Nil	296,000
	Termination following a Change of Control	296,000	518,379	814,379

## Notes:

- (1) The Share Award Plan provides that if a Grantee (as defined below) ceases to be a service provider to us for any reason other than in the case of death, termination for cause or voluntary resignation, effective as of that date that is 30 days after the cessation date and notwithstanding any other severance entitlements or entitlement to notice or compensation in lieu thereof, all outstanding Share Awards which have been made to such Grantee, whether Restricted Awards or Performance Awards, shall be terminated and all rights to receive common shares thereunder shall be forfeited by the Grantee.
- (2) In the event of a change of control pursuant to the terms of the Share Award Plan, the Share Award Plan provides that the issue date(s) applicable to the Share Awards will be accelerated such that the common shares to be issued pursuant to such Share Awards will be issued immediately prior to the date upon which the change of control is completed and the Payout Multiplier applicable to any Performance Awards shall be determined by our Compensation, Nominating and Corporate Governance Committee. The amounts shown in the table are calculated by multiplying the number of Restricted Awards and Performance Awards by the closing price of the common shares on the TSX on December 31, 2012 (being \$2.58). For Performance Awards, a Payout Multiplier of 1x has been assumed with the exception of the Performance Awards vesting in 2013 in respect of which a Payout Multiplier of 2x has been assumed. The calculated value includes the value of dividend equivalents that have accumulated on the underlying grants.

## Incentive Plans

### *Share Award Incentive Plan*

Listed below is a summary of the principal terms of the Share Award Plan. A copy of the Share Award Plan is accessible on the SEDAR website at [www.sedar.com](http://www.sedar.com) (filed on March 13, 2013 under the filing category Securityholders Documents).

#### *Purpose of the Share Award Plan*

Subsequent to our shareholders approving the Share Award Plan on January 9, 2012, we commenced granting Restricted Awards and Performance Awards pursuant to the Share Award Plan and discontinued the grant of options under the Option Plan. The principal purposes of the Share Award Plan are: (i) to retain and attract employees, officers, directors, consultants and other service providers that we require; (ii) to promote a proprietary interest in us by such service providers and to encourage such persons to remain in our employ or service and put forth maximum efforts for the success of our business; and (iii) to focus our management on our operating and financial performance and long-term total shareholder return.

Incentive-based compensation, such as the Share Award Plan, is an integral component of compensation for our service providers. The attraction and retention of qualified service providers has been identified as one of the key risks to our long-term strategic growth plan. The Share Award Plan is intended to maintain our competitiveness within the North American oil and gas industry to facilitate the achievement of our long-term goals. In addition, this incentive-based compensation is intended to reward service providers for meeting certain pre-defined operational and financial goals which have been identified for increasing long-term total shareholder return.

#### *Overview*

Our Board has delegated the authority to administer the Share Award Plan to our Compensation Committee.

Under the terms of the Share Award Plan, any service provider may be granted Restricted Awards or Performance Awards. In determining the service providers to whom Share Awards may be granted ("**Grantees**"), the number of common shares to be covered by each Share Award and the allocation of the award between Restricted Awards and Performance Awards, our Compensation Committee may take into account such factors as it shall determine in its sole discretion, including any one or more of the following factors:

- (a) compensation data for comparable benchmark positions among our peer group;
- (b) the duties, responsibilities, position and seniority of the Grantee;
- (c) the corporate performance measures ("**Corporate Performance Measures**") for the applicable period compared with internally established performance measures approved by our Compensation Committee and/or similar performance measures of members of our peer group for such period;
- (d) the individual contributions and potential contributions of the Grantee to our success;

- (e) any bonus payments paid or to be paid to the Grantee in respect of his or her individual contributions and potential contributions to our success;
- (f) the fair market value or current market price of the common shares at the time of such Share Award; and
- (g) such other factors as our Compensation Committee shall deem relevant in its sole discretion in connection with accomplishing the purposes of the Share Award Plan.

### ***Restricted Awards***

Each Restricted Award will entitle the holder to be issued the number of common shares designated in the Restricted Award with such common shares to be issued as to one-third on each of the first, second and third anniversary dates of the date of grant (or such earlier or later dates as may be determined by our Compensation Committee).

### ***Performance Awards***

Each Performance Award will entitle the holder to be issued as to one-third on each of the first, second and third anniversary dates of the date of grant (or such earlier or later dates as may be determined by our Compensation Committee) the number of common shares designated in the Performance Award multiplied by a payout multiplier ("**Payout Multiplier**").

The Payout Multiplier is determined by our Compensation Committee based on an assessment of the achievement of the pre-defined Corporate Performance Measures in respect of the applicable period. Corporate Performance Measures may include: relative total shareholder return; recycle ratio; activities related to our growth; average production volumes; unit costs of production; total proved reserves; health, safety and environmental performance; the execution of our strategic plan and such additional measures as our Compensation Committee shall consider appropriate in the circumstances. The Payout Multiplier for a particular period can be one of 0x (for fourth quartile ranking), 1x (for third quartile ranking), 1.5x (for second quartile ranking) or 2x (for first quartile ranking). For those Performance Awards where the issue date is the second or third anniversary of the grant date, the Payout Multiplier will be the arithmetic average of the Payout Multiplier for each of the two or three preceding fiscal years, respectively.

### ***Dividend Equivalents***

The Share Award Plan provides for cumulative adjustments to the number of common shares to be issued pursuant to Share Awards on each date that dividends are paid on the common shares ("**Dividend Payment Date**") by an amount equal to a fraction having as its numerator the amount of the dividend per common share and having as its denominator the price, expressed as an amount per common share, paid by participants in our dividend reinvestment plan, if any, to reinvest their dividends in additional common shares on the applicable dividend payment date (the "**Reinvestment Price**"), provided that if we have suspended the operation of such plan or do not have such a plan, then the Reinvestment Price shall be equal to the fair market value of the common shares on the trading day immediately preceding the Dividend Payment Date.

Under the Share Award Plan, in the case of a non-cash dividend, including common shares or other securities or property, our Compensation Committee will, in its sole discretion and subject to the approval of the TSX, determine whether or not such non-cash dividend will be provided to the Share Award holder and, if so provided, the form in which it shall be provided.

### ***Limitation on Common Shares Reserved***

The Share Award Plan provides that the maximum number of common shares reserved for issuance from time to time pursuant to Share Awards and pursuant to all of our other security based compensation arrangements, at any time, shall not exceed a number of common shares equal to 10% of the aggregate number of issued and outstanding common shares.

### ***Limitations on Share Awards***

The aggregate number of Share Awards granted to any single service provider shall not exceed 5% of the issued and outstanding common shares, calculated on an undiluted basis. In addition: (i) the number of common shares issuable to insiders at any time, under all of our security based compensation arrangements (including the Option Plan), shall not exceed 10% of the issued and outstanding common shares; and (ii) the number of common shares issued to insiders, within any one year

period, under all of our security based compensation arrangements, shall not exceed 10% of the issued and outstanding common shares. The number of common shares issuable pursuant to the Share Award Plan to non-management directors, in aggregate, is limited to a maximum of 0.5% of the issued and outstanding common shares and the value of all Share Awards granted to any non-management director during a calendar year, as calculated on the date of grant, cannot exceed \$100,000 (for purposes of monitoring compliance with these limitations, a Payout Multiplier of 1x will be assumed for any Performance Awards).

### ***Issue Dates***

If a Grantee is prohibited from trading in our securities as a result of the imposition by us of a trading blackout (a "**Blackout Period**") and the issue date of a Share Award held by such Grantee falls within a Blackout Period (or within ten business days following the end of a Blackout Period), then the issue date of such Share Award shall be extended to the date that is ten business days following the end of such Blackout Period.

### ***Payment of Share Awards***

On the issue date, we shall have the option of settling any amount payable in respect of a Share Award by any of the following methods or by a combination of such methods:

- (a) common shares issued from our treasury; or
- (b) with the consent of the Grantee, cash in an amount equal to the aggregate fair market value of such common shares that would otherwise be delivered in consideration for the surrender by the Grantee to us of the right to receive such common shares under such Share Award.

The Share Award Plan does not contain any provisions for financial assistance by us in respect of Share Awards granted thereunder.

### ***Change of Control***

In the event of a change of control of us, the issue date(s) applicable to the Share Awards will be accelerated such that the common shares to be issued pursuant to such Share Awards will be issued immediately prior to the date upon which the change of control is completed and the Payout Multiplier applicable to any Performance Awards shall be determined by our Compensation Committee.

Under the Share Award Plan, a change of control means:

- (a) a successful take-over bid, pursuant to which the offeror as a result of such take-over bid beneficially owns in excess of 50% of the outstanding common shares; or
- (b) any change in the beneficial ownership or control of the outstanding securities or other interests which results in (i) a person or group of persons acting jointly or in concert, or (ii) an affiliate or associate of such person or group of persons, holding, owning or controlling, directly or indirectly, more than 50% of the outstanding voting securities or other interests of us; or
- (c) incumbent directors no longer constituting a majority of our Board; or
- (d) the completion of an arrangement, merger or other form of reorganization of us where the holders of the outstanding voting securities or interests of us immediately prior to the completion of the arrangement, merger or other form of reorganization will hold 50% or less of the outstanding voting securities or interests of the continuing entity upon completion of the arrangement, merger or other form of reorganization; or
- (e) the winding up or termination of us or the sale, lease or transfer of all or substantially all of the directly or indirectly held assets of us to any other person or persons (other than pursuant to an internal reorganization or in circumstances where our business is continued and where the securityholdings in the continuing entity and the constitution of the

board of directors or similar body of the continuing entity is such that the transaction would not be considered a change of control if paragraphs (b) and (c) above were applicable to the transaction); or

- (f) any determination by a majority of our Board that a change of control has occurred or is about to occur and any such determination shall be binding and conclusive for all purposes of the Share Award Plan;

provided that a change of control shall be deemed not to have occurred if a majority of our Board, in good faith, determines that a change of control was not intended to occur in the particular circumstances in question.

### ***Early Termination Events***

Pursuant to the Share Award Plan, unless otherwise determined by our Compensation Committee or unless otherwise provided in the agreement pertaining to a particular Share Award or any written employment or consulting agreement governing a Grantee's role as a service provider, the following provisions shall apply in the event that a Grantee ceases to be a service provider:

- (a) **Death** – If a Grantee ceases to be a service provider as a result of the Grantee's death, the issue date for all common shares awarded to such Grantee under any outstanding agreements pertaining to a particular Share Award shall be accelerated to the cessation date, provided that our President and Chief Executive Officer in the case of a Grantee who is not a director or officer and our Compensation Committee in all other cases, taking into consideration the performance of such Grantee and our performance since the date of grant of the Share Award(s), may determine in its sole discretion the Payout Multiplier to be applied to any Performance Awards held by the Grantee.
- (b) **Termination for Cause** – If a Grantee ceases to be a service provider as a result of termination for cause, effective as of the cessation date all outstanding agreements under which Share Awards have been made to such Grantee, whether Restricted Awards or Performance Awards, shall be immediately terminated and all rights to receive common shares thereunder shall be forfeited by the Grantee.
- (c) **Voluntary Resignation** – If a Grantee ceases to be a service provider as a result of a voluntary resignation, effective as of the day that is fourteen (14) days after the cessation date, all outstanding agreements under which Share Awards have been made to such Grantee, whether Restricted Awards or Performance Awards, shall be terminated and all rights to receive common shares thereunder shall be forfeited by the Grantee.
- (d) **Other Termination** – If a Grantee ceases to be a service provider for any reason other than as provided for in (a), (b) and (c) above, effective as of the date that is thirty (30) days after the cessation date and notwithstanding any other severance entitlements or entitlement to notice or compensation in lieu thereof, all outstanding agreements under which Share Awards have been made to such Grantee, whether Restricted Awards or Performance Awards, shall be terminated and all rights to receive common shares thereunder shall be forfeited by the Grantee.
- (e) **Non-Management Directors** – If a Grantee who is a non-management director ceases to be a service provider as a result of: (A) a voluntary resignation or voluntarily not standing for re-election as a director, such events shall be treated as a voluntary resignation under (c) above; or (B) failing to be re-elected as a director by the shareholders, such event shall be treated as other termination under (d) above.

### ***Assignment***

Except in the case of death, the right to receive common shares pursuant to a Share Award granted to a service provider may only be exercised by such service provider personally. Except as otherwise provided in the Share Award Plan, no assignment, sale, transfer, pledge or charge of a Share Award, whether voluntary, involuntary, by operation of law or otherwise, vests any interest or right in such Share Award whatsoever in any assignee or transferee and, immediately upon any assignment, sale, transfer, pledge or charge or attempt to assign, sell, transfer, pledge or charge, such Share Award shall terminate and be of no further force or effect.

### ***Amendment and Termination of Plan***

The Share Award Plan and any Share Awards granted pursuant thereto may, subject to any required approval of the TSX, be amended, modified or terminated by our Board without the approval of our shareholders. Notwithstanding the foregoing, the Share Award Plan or any Share Award may not be amended without shareholder approval to:

- (a) increase the percentage of common shares reserved for issuance pursuant to Share Awards in excess of the 10% limit currently prescribed;
- (b) extend the issue date of any Share Awards issued under the Share Award Plan beyond the latest issue date specified in the agreement pertaining to a particular Share Award (other than as permitted by the terms and conditions of the Share Award Plan);
- (c) permit a Grantee to transfer Share Awards to a new beneficial holder other than for estate settlement purposes;
- (d) change the limitations on the granting of Share Awards described above under "Limitations on Share Awards"; and
- (e) change the amending provision of the Share Award Plan.

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

### ***Employee Stock Savings Plan***

On April 1, 2009, we adopted the ESSP. The purpose of the ESSP is to make available to our permanent employees and directors a means of acquiring, through regular payroll deductions and our additional contribution, common shares so that the employee or director can benefit from the growth in our value. All permanent employees, including executive officers and directors, are eligible to participate in the ESSP one month after the date of hire. Participation is voluntary and eligible participants may contribute, by monthly payroll deductions, up to 20% of their regular salary. We will, on a monthly basis, contribute an amount of funds equal to one times the employee's contribution, to a maximum of 5% of the employee's regular salary in their first year of employment and increasing thereafter by 1% per year to a maximum of 10% of the employee's regular salary, accumulated during that month, which contribution will be combined with the employee's contribution to acquire common shares on the open market on a monthly basis. Our contributions vest to the respective participant immediately upon being made by us. We have designated an independent third party brokerage firm to maintain accounts in the names of the participants and to arrange for the purchase of common shares through the facilities of the TSX. Allocations are made to each participant's account in proportion to the contributions received in common shares acquired. All common shares are registered in the name of the brokerage firm and remain so registered until delivery is requested. Participants may request that a share certificate for any or all of the common shares credited to their accounts be delivered to them at any time. Participants may instruct the brokerage firm at any time, subject to the terms and conditions of the ESSP, to sell any or all of their common shares. We pay all administration expenses in connection with the operation of the ESSP including commission on the initial acquisition of common shares. Commissions and other charges in connection with sales, withdrawals and share certificate issuing fees are payable by the participants who order the transactions for their account. If a participant ceases to be an employee for any reason, including death or retirement, the participant shall be deemed to have ceased to be a participant in the ESSP.

### ***Share Option Plan***

We have discontinued the grant of options pursuant to the Option Plan. The Option Plan will remain in place to govern the current balance of options to acquire 885,434 common shares representing approximately 0.35% of our currently outstanding common shares. The Option Plan is administered by a special committee of our Board appointed from time to time by our Board to administer the Option Plan, or, if no such committee is appointed, our Board (our Board, or, if appointed, such committee is referred to as our "**Committee**"). Currently, our Compensation Committee administers the Option Plan.

The Option Plan was intended to aid us in attracting, retaining and motivating our officers, directors, employees and other eligible service providers.

All options currently outstanding under the Option Plan expire five years from the date of the grant and vest over three years commencing one year after the date of grant subject to accelerated vesting in the case of a change of control. Options granted under the Option Plan are non-assignable. The exercise price of options granted was determined by our Committee at the time of grant and was not be less than the volume weighted average trading price of the common shares on the TSX for the five trading days immediately preceding the date of grant.

In case of death of an optionee, options terminate on the date determined by our Committee which may not be more than 12 months from the date of death and, if the optionee shall no longer be a director or officer of or be in the employ of, or a consultant or other service provider to, either us or a subsidiary of us (other than by reason of death or termination for cause), their options terminate on the expiry of a period not in excess of six months as determined by our Committee at the time of grant. The number of common shares that an optionee (or his or her heirs or successors) is entitled to purchase until such date of termination: (i) shall in the case of death of the optionee, be all of the common shares that may be acquired on exercise of the options held by such optionee (or his or her heirs or successors) whether or not previously vested and the vesting of all such options shall be accelerated on the date of death for such purpose; and (ii) in any case other than death or termination for cause, shall be the number of common shares which the optionee was entitled to purchase on the date the optionee ceased to be a service provider. In the case of the termination of an optionee for cause, options will terminate immediately on such termination for cause (whether notice of such termination occurs verbally or in writing).

Except if not permitted by the TSX, if any options may not be exercised due to any Black-Out Period at any time within the three business day period prior to the normal expiry date of such options (the "**Restricted Options**"), the expiry date of all Restricted Options shall be the seventh business day following the end of the Black-Out Period (or such longer period as permitted by the TSX and approved by our Committee). A "**Black-Out Period**" means the period of time when, pursuant to any or our policies, any of our securities may not be traded by certain persons as designated by us, including any holder of an option.

An optionee may, under the terms of the Option Plan, make an offer (the "**Surrender Offer**") to us, at any time, for the disposition and surrender by the optionee to us (and the termination thereof) of any options for an amount (not to exceed the fair market value thereof) specified in the Surrender Offer and we may, but are not obligated to, accept the Surrender Offer, subject to any required regulatory approval.

In the event: (a) of any change in the common shares through subdivision, consolidation, reclassification, amalgamation, merger or otherwise; or (b) that any rights are granted to shareholders to purchase common shares at prices substantially below fair market value; or (c) that, as a result of any recapitalization, merger, consolidation or other transaction, the common shares are converted into or exchangeable for any other securities; then our Committee may make such adjustments to the Option Plan, to any options and to any option agreements outstanding under the Option Plan as our Committee may, in its sole discretion, subject to TSX approval, consider appropriate in the circumstances to prevent dilution or enlargement of the rights granted to optionees under the Option Plan.

If there takes place a Change of Control of us, as defined in the Option Plan, all issued and outstanding options shall be exercisable (whether or not then vested) immediately prior to the time such Change of Control takes place and shall terminate on the 90th day after the occurrence of such Change of Control, or at such earlier time as may be established by our Committee, in its absolute discretion, prior to the time such Change of Control takes place.

Our Committee may amend or discontinue the Option Plan at any time without the consent of a holder of options, provided that such amendment shall not alter or impair any options previously granted under the Option Plan (except as otherwise permitted under the Option Plan). In addition, our Committee may, by resolution, amend the Option Plan and any options granted under it without shareholder approval provided, however, that our Committee will not be entitled to amend the Option Plan without TSX and shareholder approval to: (i) increase the maximum number of common shares issuable pursuant to the Option Plan; (ii) reduce the exercise price of an option held by an insider; or (iii) extend the term of an option held by an insider.

No financial assistance has been provided by us to optionees to exercise stock options granted under the Option Plan.

### ***Securities Authorized for Issuance Under Equity Compensation Plans***

The following sets forth information in respect of securities authorized for issuance under the Share Award Plan and the Option Plan, which were our only equity compensation plans, as at December 31, 2012.

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</b>
Equity compensation plans approved by securityholders			
Share Awards <sup>(1)</sup>	4,212,652 common shares <sup>(3)</sup>	Not applicable	19,723,077 common shares <sup>(4)</sup>
Stock Options <sup>(2)</sup>	895,434 common shares	\$2.67 per common share	Nil
Equity compensation plans not approved by securityholders	Nil	Not applicable	Nil
<b>Total</b>	<b>5,108,086 common shares</b>		<b>19,723,077 common shares</b>

Notes:

- (1) Our shareholders approved the Share Award Plan at the annual and special meeting of shareholders held on January 9, 2012.
- (2) Our shareholders approved the Option Plan at the annual and special meeting of shareholders held on May 14, 2009. On January 9, 2012, we discontinued the grant of options pursuant to the Option Plan. The Option Plan remains in place solely to govern the options which were outstanding as at January 9, 2012.
- (3) A Payout Multiplier of 1x has been assumed for the Performance Award grants with the exception of the Performance Awards vesting in 2013 in respect of which a Payout Multiplier of 2x has been assumed. The calculated value includes the value of dividend equivalents that have accumulated on the underlying grants.
- (4) Calculated as 10% of the issued and outstanding common shares as at December 31, 2012, less the then outstanding Share Awards and stock options. The number of common shares issuable pursuant to the Share Award Plan does not include the dividend equivalents that will accumulate on the underlying grants and assumes a Payout Multiplier of 1x for the Performance Award grants.

### **DIRECTOR COMPENSATION**

Our Compensation Committee annually conducts a review of directors' compensation for board and committee service and recommends changes to our Board where appropriate. Our Board considers and approves the adequacy and form of the compensation of directors upon recommendation of our Compensation Committee and ensures the compensation realistically reflects the responsibilities and time involved in being an effective director.

For the purpose of conducting its 2012 annual review of directors' compensation, our Compensation Committee, among other things, referred to various governance reports on current trends in directors' compensation and compensation data for directors of reporting issuers of comparative size to us. The compensation philosophy for directors is similar to that for Named Executive Officers in that compensation includes a base retainer, meeting fees, and participation under the Option Plan, prior to 2012, and now the Share Award Plan, the benefit of which is tied to shareholder return.

For the year ended December 31, 2012, our non-management directors were each paid an annual retainer in the amount of \$5,000 and a fee of \$1,000 per meeting of our Board in which they participated. The Chairman of our Board was paid an annual retainer in the amount of \$10,000. The Chairman of our Audit Committee was paid an annual retainer in the amount of \$3,500 and the Chairman of our Compensation, Nominating and Corporate Governance Committee and our Reserves Committee were each paid an annual retainer in the amount of \$2,500. Members of the committees of our Board were each paid a fee of \$1,000 per meeting of the committees of our Board in which they participated. In addition, our directors were reimbursed for transportation and other expenses incurred for attendance at Board and committee meetings and for their reasonable expenses incurred in carrying out their duties as directors. During the year ended December 31, 2012, our directors were entitled to participate in the Share Award Plan and our non-management directors were granted Restricted Awards in respect of 264,924 common shares during 2012. In addition, as at December 31, 2012, a non-management director held options to purchase 150,000 common shares at an exercise price of \$3.32 per share.

### Directors' Summary Compensation Table

The following table sets forth information concerning the compensation paid to our directors, other than a director who was also a Named Executive Officer (as defined in "Statement of Executive Compensation"), for the year ended December 31, 2012.

Name	Fees earned	Share-based awards <sup>(1)</sup>	Option-based awards	Non-equity incentive plan compensation	Pension value	All other compensation <sup>(2)</sup>	Total <sup>(3)</sup>
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
R. James Brown	20,625	100,000	Nil	Nil	Nil	20,000	140,625
John A. Brussa	16,500	100,000	Nil	Nil	Nil	20,000	136,500
David M. Fitzpatrick	24,000	100,000	Nil	Nil	Nil	20,000	144,000
Thomas J. Greschner	12,000	100,000	Nil	Nil	Nil	20,000	132,000
Warren Steckley	20,500	100,000	Nil	Nil	Nil	20,000	140,500
William A. Trickett	13,000	100,000	Nil	Nil	Nil	20,000	133,000

Notes:

- (1) Refers to Restricted Awards granted under the Share Award Plan. See "Statement of Executive Compensation – Incentive Plans – Share Award Incentive Plan". The fair value of the Restricted Awards granted is obtained by multiplying the number of Restricted Awards granted by the closing price of the common shares on the TSX on the date of grant. The fair value of Restricted Award grants have been determined using the same methodology and values used in determining the Restricted Award value for our financial statements as we believe it represents the best estimate of fair value of the Restricted Awards at the time of the grant.
- (2) The amounts set forth in the column represent our matching contributions to the ESSP. "Statement of Executive Compensation – Incentive Plans – Employee Stock Savings Plan".
- (3) In addition, our directors were eligible to be reimbursed for transportation and other expenses incurred for attendance at Board and committee meetings and for their reasonable expenses incurred in carrying out their duties as directors.
- (4) Compensation information for James Saunders who was a Named Executive Officer (as defined below) in fiscal 2012 is contained in "Statement of Executive Compensation".

### Directors' Outstanding Option-Based Awards and Share-Based Awards

The following table sets forth the aggregate option-based awards and share-based awards outstanding for each of our directors, other than a director who was also a Named Executive Officer, as at December 31, 2012.

Name	Option-based Awards			Share-based Awards			
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options <sup>(1)</sup> (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested <sup>(2)</sup> (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
R. James Brown	Nil	N/A	N/A	Nil	65,157	168,105	Nil
John A. Brussa	150,000	3.32	April 16, 2016	Nil	43,255	111,598	Nil
David M. Fitzpatrick	Nil	N/A	N/A	Nil	65,157	168,105	Nil
Thomas J. Greschner	Nil	N/A	N/A	Nil	40,323	104,033	Nil
Warren Steckley	Nil	N/A	N/A	Nil	65,157	168,105	Nil
William A. Trickett	Nil	N/A	N/A	Nil	89,278	230,337	Nil

Notes:

- (1) Calculated based on the closing price of the common shares on the TSX on December 31, 2012, which was \$2.58 per share, less the exercise price of the options.
- (2) Calculated based on the closing price of the common shares on the TSX on December 31, 2012, which was \$2.58 per share, multiplied by the number of unvested or vested Restricted Awards, as applicable.

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

The following table sets forth the value of option-based awards and share-based awards which vested for each of our directors, other than a director who was also a Named Executive Officer, during the year ended December 31, 2012 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2012.

Name	Option-based awards – Value vested during the year (as at vesting date) <sup>(1)</sup>	Share-based awards – Value vested during the year <sup>(2)</sup>	Non-equity incentive plan compensation – Value earned during the year
	(\$)	(\$)	(\$)
R. James Brown	Nil	113,175	Nil
John A. Brussa	Nil	3,296	Nil
David M. Fitzpatrick	Nil	64,055	Nil
Thomas J. Greschner	Nil	Nil	Nil
Warren Steckley	Nil	104,627	Nil
William A. Trickett	Nil	98,566	Nil

Notes:

- (1) Calculated based on the difference between the closing price of the common shares on the TSX on the vesting date and the exercise price of the options on the vesting date. The calculated value includes the value of dividend equivalents that accumulated on the underlying grants.
- (2) Calculated based on the closing price of the common shares on the TSX on the vesting date multiplied by the number of vested Restricted Awards.

### CORPORATE GOVERNANCE DISCLOSURE

National Instrument 58-101 entitled "Disclosure of Corporate Governance Practices" ("**NI 58-101**") requires that if management of an issuer solicits proxies from its securityholders for the purpose of electing directors that certain prescribed disclosure respecting corporate governance matters be included in its management information circular. The TSX also requires listed companies to provide, on an annual basis, the corporate governance disclosure which is prescribed by NI 58-101.

The prescribed corporate governance disclosure for us is that contained in Form 58-101F1 which is attached to NI 58-101 ("**Form 58-101F1 Disclosure**").

Set out below is a description of our current corporate governance practices, relative to the Form 58-101F1 Disclosure (which is set out below in bold).

#### 1. Board of Directors

##### (a) Disclose the identity of directors who are independent.

Our Board has determined that our following five (5) directors are independent (for purposes of NI 58-101):

R. James Brown  
 John A. Brussa  
 David M. Fitzpatrick  
 Warren Steckley  
 William A. Trickett

- (b) **Disclose the identity of directors who are not independent, and describe the basis for that determination.**

Our Board has determined that two members of our Board are not independent. Our Board has determined that James Saunders is not independent as Mr. Saunders is also our President and Chief Executive Officer. Our Board has also determined Thomas J. Greschner is not independent as Mr. Greschner was the President and Chief Executive Officer of Emerge Oil & Gas Inc. which we acquired on January 9, 2012.

- (c) **Disclose whether or not a majority of directors are independent. If a majority of directors are not independent, describe what the board of directors (the "board") does to facilitate its exercise of independent judgement in carrying out its responsibilities.**

Our Board has determined that a majority (five of seven) of our directors are independent.

- (d) **If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.**

Our following nominees for directors of us are presently directors of other issuers that are reporting issuers (or the equivalent):

<u>Name of Director</u>	<u>Name of Other Issuer</u>
R. James Brown	Trinidad Drilling Ltd.
John A. Brussa	Argent Energy Ltd. (administrator of Argent Energy Trust) Baytex Energy Corp. Crew Energy Inc. Enseco Energy Services Corp. Just Energy Group Inc. Long Run Exploration Ltd. Penn West Petroleum Ltd. Pinecrest Energy Inc. RMP Energy Inc. Storm Resources Ltd. TORC Oil & Gas Ltd. Yoho Resources Inc.
David M. Fitzpatrick	Eagle Energy Inc. (administrator of Eagle Energy Trust) Lone Pine Resources Inc.
James Saunders	RMP Energy Inc. Savanna Energy Services Corp.
Warren Steckley	Eagle Energy Inc. (administrator of Eagle Energy Trust)

- (e) **Disclose whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held since the beginning of the issuer's most recently completed financial year. If the independent directors do not hold such meetings, describe what the board does to facilitate open and candid discussion among its independent directors.**

Our independent directors regularly meet for a portion of each Board meeting without non-independent directors and management participation, and have met in camera eight times since the beginning of the fiscal year ended December 31, 2012.

- (f) **Disclose whether or not the chair of the board is an independent director. If the board has a chair or lead director who is an independent director, disclose the identity of the independent chair or lead**

**director, and describe his or her role and responsibilities. If the board has neither a chair that is independent nor a lead director that is independent, describe what the board does to provide leadership for its independent directors.**

Our Board has determined that David M. Fitzpatrick, the Chairman of our Board, is an independent director. Our Board has developed a position description for the Chairman of our Board which provides that the Chairman will have the following duties and responsibilities:

- (i) The Chairman will, when present, preside at all meetings of our Board and, unless otherwise determined by the directors, at all meetings of shareholders.
  - (ii) The Chairman will endeavour to provide overall leadership to our Board without limiting the principle of collective responsibility and the ability of our Board to function as a unit.
  - (iii) The Chairman will be responsible to ensure our Board meetings function satisfactorily and that the tasks of our Board are handled in the most reasonable fashion under the circumstances.
  - (iv) The Chairman will endeavour to ensure that our Board's negotiations take place when as many of the directors as possible are present and that essential decisions are made when as many directors as possible are present.
  - (v) The Chairman will endeavour to establish a line of communication with our Chief Executive Officer to ensure our Board meetings can be scheduled to deal with important business that arises outside of the regular quarterly meetings.
  - (vi) The Chairman will endeavour to fulfill his Board leadership responsibilities in a manner that will ensure that our Board is able to function independently of management. The Chairman will consider, and allow for, when appropriate, a meeting of all independent directors, so that Board meetings can take place without management being present. The Chairman will endeavour to ensure reasonable procedures are in place to allow for directors to engage outside advisors at our expense in appropriate circumstances.
  - (vii) With respect to meetings of directors or shareholders, it is the duty of the Chairman to enforce the Rules of Order. These duties include:
    - (A) ensuring that the meeting is duly constituted;
    - (B) ensure the meeting provides for reasonable accommodation;
    - (C) confirming the admissibility of all persons at the meeting;
    - (D) preserving order and the control of the meeting;
    - (E) in respect of shareholders' meetings, appointing scrutineers if requested and instructing them in their duties;
    - (F) rule on the validity of proxies; and
    - (G) to ascertain the sense of the meeting by a vote on all questions properly brought before the meeting.
  - (viii) The Chairman will also liaise with management and our Corporate Secretary to ensure that a proper notice and agenda has been disseminated, and that appropriate accommodations have been made for all Board and shareholder meetings.
  - (ix) The Chairman will be the primary contact for stakeholders who wish to contact independent directors.
- (g) Disclose the attendance record of each director for all board meetings held since the beginning of the issuer's most recently completed financial year.**

The attendance record of each of our directors for board meetings and committee meetings held since January 1, 2012, is as follows:

<b>Name of Director</b>	<b>Attendance Record</b>
R. James Brown	7/8 Board Meetings 6/6 Audit Committee Meetings 2/2 Compensation, Nominating and Corporate Governance Committee Meetings
John A. Brussa	8/8 Board Meetings 2/2 Compensation, Nominating and Corporate Governance Committee Meetings
David M. Fitzpatrick	8/8 Board Meetings 6/6 Audit Committee Meetings 2/2 Compensation, Nominating and Corporate Governance Committee Meetings
Thomas J. Greschner <sup>(1)</sup>	7/7 Board Meetings 2/2 Reserves Committee Meetings
James Saunders	8/8 Board Meetings <sup>(2)</sup>
Warren Steckley	8/8 Board Meetings 6/6 Audit Committee Meetings 2/2 Reserves Committee Meetings
William A. Trickett	8/8 Board Meetings 2/2 Reserves Committee Meetings

Notes:

(1) Mr. Greschner was appointed a director on January 9, 2012.

(2) Represents the number of Board meetings which Mr. Saunders has attended as a director. Mr. Saunders has also attended numerous other committee meetings, in full or in part, as a management invitee.

## 2. Board Mandate

**Disclose the text of the board's written mandate. If the board does not have a written mandate, describe how the board delineates its role and responsibilities.**

The mandate of our Board is attached as Appendix "C" hereto.

## 3. Position Descriptions

**(a) Disclose whether or not the board has developed written position descriptions for the chair and the chair of each board committee. If the board has not developed written position descriptions for the chair and/or the chair of each board committee, briefly describe how the board delineates the role and responsibilities of each such position.**

Our Board has developed written position descriptions for the Chairman of our Board as well as the Chairman of each of our Board committees, being our Audit Committee, our Compensation, Nominating and Corporate Governance Committee and our Reserves Committee.

**(b) Disclose whether or not the board and CEO have developed a written position description for the CEO. If the board and the CEO have not developed such a position description, briefly describe how the board delineates the role and responsibilities of the CEO.**

Our Board, with input from our President and Chief Executive Officer, has developed a written position description for our President and Chief Executive Officer.

#### 4. **Orientation and Continuing Education**

**(a) Briefly describe what measures the board takes to orient new directors regarding:**

- (ii) the role of the board, its committees and its directors; and**
- (iii) the nature and operation of the issuer's business.**

Upon joining our Board, management will provide a new director with access to all of our background documents, including all corporate records, by-laws, corporate policies, organization structure, prior board and committee minutes, copies of the mandate of each of our Board and our committees, and relevant position descriptions. In addition, management will make a presentation to new directors regarding the nature and operations of our business.

**(b) Briefly describe what measures, if any, the board takes to provide continuing education for its directors. If the board does not provide continuing education, describe how the board ensures that its directors maintain the skill and knowledge necessary to meet their obligations as directors.**

No formal continuing education program currently exists for our directors; however, we encourage our directors to attend, enrol or participate in courses and/or seminars dealing with financial literacy, corporate governance and related matters and have agreed to pay the cost of such courses and seminars. Each of our directors has the responsibility for ensuring that he maintains the skill and knowledge necessary to meet his obligations as a director. Individual directors are encouraged to identify their continuing education needs through a variety of means, including discussions with management and at Board and committee meetings.

#### 5. **Ethical Business Conduct**

**(a) Disclose whether or not the board has adopted a written code for the directors, officers and employees. If the board has adopted a written code:**

- (i) disclose how a person or company may obtain a copy of the code;**

Our Board has adopted a Code of Business Conduct and Ethics applicable to our directors, officers and employees. A copy of the Code of Business Conduct and Ethics is available for review on our SEDAR profile at [www.sedar.com](http://www.sedar.com) or on our website at [www.twinbutteenergy.com](http://www.twinbutteenergy.com).

- (ii) describe how the board monitors compliance with its code, or if the board does not monitor compliance, explain whether and how the board satisfies itself regarding compliance with its code; and**

Our Board monitors compliance with the Code of Business Conduct and Ethics by requiring each of our senior officers to affirm in writing on an annual basis their agreement to abide by the Code of Business Conduct and Ethics, as to their ethical conduct and in respect of any conflicts of interest. To the extent that our management is unable to make a determination as to whether a breach of the Code has taken place, our Board will review any alleged breach of the Code to determine whether a breach has occurred. Any waiver of the Code for executive officers or directors will be made only by our Board or a committee of our Board. In addition, our Compensation, Nominating and Corporate Governance Committee has as part of its mandate the responsibility for reviewing management's monitoring of compliance with the Code of Business Conduct and Ethics.

- (iii) **provide a cross-reference to any material change report filed since the beginning of the issuer's most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the code.**

There have been no material change reports filed since the beginning of the year ended December 31, 2012, that pertain to any conduct of a director or executive officer that constitutes a departure from the Code of Business Conduct and Ethics.

- (b) **Describe any steps the board takes to ensure directors exercise independent judgement in considering transactions and agreements in respect of which a director or executive officer has a material interest.**

In accordance with the *Business Corporations Act* (Alberta), directors who are a party to or are a director or an officer of a person who is a party to a material contract or material transaction or a proposed material contract or proposed material transaction are required to disclose the nature and extent of their interest and not to vote on any resolution to approve the contract or transaction. The Code of Business Conduct and Ethics provides that activities that could give rise to conflicts of interest are prohibited unless specifically approved in advance by our Board; provided that the foregoing shall not apply to our directors who act as directors of other public or private companies who shall comply with the provisions of the *Business Corporations Act* (Alberta) in respect thereof and shall advise the Chairman of our Board of the holding of such directorships. The Code of Business Conduct and Ethics provides that any potential conflicts of interest must be reported immediately to senior management, our Board or the Chairman of our Board, as appropriate.

- (c) **Describe any other steps the board takes to encourage and promote a culture of ethical business conduct.**

Our Audit Committee has adopted a "Whistleblower Program" which provides our employees, management, officers, directors, contractors, consultants and our committee members with the ability to report, on a confidential and anonymous basis, any complaints and concerns regarding accounting, internal auditing controls or auditing matters, including, but not limited to, unethical and unlawful accounting and auditing policies, practices or procedures, fraudulent or misleading financial information and instances of corporate fraud. Our Board believes that providing a forum for such individuals to raise concerns about ethical conduct and treating all complaints with the appropriate level of seriousness fosters a culture of ethical conduct within us.

## 6. **Nomination of Directors**

- (a) **Describe the process by which the board identifies new candidates for board nomination.**

Our Board has delegated responsibility to our Compensation, Nominating and Corporate Governance Committee to recommend to our Board suitable candidates as nominees for election or appointment as directors. The committee usually canvasses all members of our Board for their input prior to making a recommendation to our Board. In identifying new candidates for Board nomination, our committee considers, among other things:

- (i) the competencies and skills that our Board considers to be necessary for our Board, as a whole, to possess;
- (ii) the competencies and skills that our Board considers each existing director to possess;
- (iii) the competencies and skills each new nominee will bring to the boardroom; and
- (iv) whether or not each new nominee can devote sufficient time and resources to his duties as a member of our Board.

- (b) **Disclose whether or not the board has a nominating committee composed entirely of independent directors. If the board does not have a nominating committee composed entirely of independent directors, describe what steps the board takes to encourage an objective nomination process.**

Our Board has appointed a Compensation, Nominating and Corporate Governance Committee whose members are John A. Brussa (Chairman), R. James Brown and David M. Fitzpatrick, each of whom has been determined to be independent.

- (c) **If the board has a nominating committee, describe the responsibilities, powers and operation of the nominating committee.**

Our Compensation, Nominating and Corporate Governance Committee has, as part of its mandate, the responsibility for recommending suitable candidates as nominees for election or appointment as directors, and recommending the criteria governing the overall composition of our Board and governing the desirable individual characteristics for directors.

Pursuant to the mandate of our Compensation, Nominating and Corporate Governance Committee, the committee is to be comprised of at least three (3) of our directors and all of such members shall be independent. Our Board is from time to time to designate one of the members of the committee to be the Chair of the committee. At present, the Chairman of our Compensation, Nominating and Corporate Governance Committee is John A. Brussa.

Our Compensation, Nominating and Corporate Governance Committee meets at least one time per year and at such other times as the Chairman of the committee determines.

## 7. Compensation

- (a) **Describe the process by which the board determines the compensation for the issuer's directors and officers.**

See the disclosure under the heading "Director Compensation" for the process by which the compensation for our directors is determined. See the disclosure under the heading "Compensation Discussion and Analysis" for the process by which the compensation for our officers is determined.

- (b) **Disclose whether or not the board has a compensation committee composed entirely of independent directors. If the board does not have a compensation committee composed entirely of independent directors, describe what steps the board takes to ensure an objective process for determining such compensation.**

Our Board has appointed a Compensation, Nominating and Corporate Governance Committee whose members are John A. Brussa (Chairman), R. James Brown and David M. Fitzpatrick, each of whom has been determined to be independent.

- (c) **If the board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee.**

See the disclosure under the heading "Compensation Governance – Mandate and Terms of Reference of our Compensation Committee" for a description of the responsibilities, powers and operation of our compensation committee.

- (d) **If a compensation consultant or advisor has, at any time since the beginning of the issuer's most recently completed financial year, been retained to assist in determining compensation for any of the issuer's directors and officers, disclose the identity of the consultant or advisor and briefly summarize the mandate for which they have been retained. If the consultant or advisor has been retained to perform any other work for the issuer, state that fact and briefly describe the nature of the work.**

A compensation consultant or advisor has not, at any time since the beginning of the year ended December 31, 2012, been retained to assist in determining compensation for any of our directors and officers.

## 8. Other Board Committees

- (a) **If the board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.**

Our Board has created a Reserves Committee in addition to the Audit Committee and the Compensation, Nominating and Corporate Governance Committee. The members of our Reserves Committee are Warren Steckley (Chairman), Thomas J. Greschner and William A. Trickett. Our Reserves Committee is responsible for:

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

Pursuant to the mandate of the Reserves Committee, the committee is to be comprised of at least three (3) of our directors and a majority of such members shall be independent as defined in the mandate. Our Board is from time to time to designate one of the members of the committee to be the Chair of the committee. At present, the Chairman of our Reserves Committee is Warren Steckley. Our Reserves Committee meets at least one time per year and at such other times as the Chairman of the committee determines.

Our Board has created a Compensation, Nominating and Corporate Governance Committee which, as part of its mandate, has the responsibility for developing our approach to matters concerning corporate governance and, from time to time, shall review and make recommendations to our Board as to such matters. Without limiting the generality of the foregoing, our Compensation, Nominating and Corporate Governance Committee has the following corporate governance duties:

- (i) annually review the mandates of our Board and its committees and recommend to our Board such amendments to those mandates as the committee believes are necessary or desirable;
- (ii) to consider and, if thought fit, approve requests from directors or committees of directors of the engagement of special advisors from time to time;
- (iii) to prepare and recommend to our Board annually a statement of corporate governance practices to be included in our annual report or information circular as required by all of the stock exchanges on which our shares are listed and any other regulatory authority;
- (iv) to make recommendations to our Board as to which directors should be classified as "independent directors", "related" directors or "unrelated" directors pursuant to any such report or circular;
- (v) to review on a periodic basis the composition of our Board and ensure that an appropriate number of independent directors sit on our Board, analyzing the needs of our Board and recommending nominees who meet such needs;
- (vi) to assess, at least annually, the effectiveness of our Board as a whole, the committees of our Board and the contribution of individual directors (including the competencies and skills that each individual director is expected to bring to our Board), including considering the appropriate size of our Board;
- (vii) to act as a forum for concerns of individual directors in respect of matters that are not readily or easily discussed in a full Board meeting, including the performance of management or individual members of management or the performance of our Board or individual members of our Board;
- (viii) to develop and recommend to our Board for approval and periodically review structures and procedures designed to ensure that our Board can function effectively and independently of management;
- (ix) make recommendations to our Board regarding appointments of corporate officers and senior management;
- (x) review annually the committee's mandate and terms of reference;
- (xi) to review and consider the engagement, at our expense, of professional and other advisors by any individual director when so requested by any such director;
- (xii) establish, review and update periodically a code of business conduct and ethics and ensure that management has established a system to monitor compliance with the code; and
- (xiii) review management's monitoring of our compliance with the code of business conduct and ethics.

## 9. Assessments

**Disclose whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If assessments are not regularly conducted, describe how the board satisfies itself that the board, its committees, and its individual directors are performing effectively.**

As part of its mandate our Compensation, Nominating and Corporate Governance Committee is responsible for assessing, at least annually, the effectiveness of our Board as a whole, the committees of our Board and the contribution of individual directors (including the competencies and skills that each individual director is expected to bring to our Board), including considering the appropriate size of our Board. The Chairman of our Compensation, Nominating and Corporate Governance Committee circulates a detailed questionnaire addressed to each director, in his capacity as director and, as the case may be, as a member of one or more of the committees of our Board, aimed at

obtaining their views on the effectiveness of our Board and its committees and contribution of its members. The results of the questionnaires are compiled by the Chairman of our Compensation, Nominating and Corporate Governance Committee, who then shares the results with the members of our Board at a meeting of our Board where any and all issues are discussed. Our Board takes appropriate action based upon the results of the review process.

#### **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

None of our directors, proposed nominees for election as directors, executive officers, employees or former executive officers, directors or employees of us or our subsidiaries, or any associate of any such director, proposed nominee for director, executive officer or employee is, or has been at any time since the beginning of our most recently completed financial year, indebted to us or any of our subsidiaries in respect of any indebtedness that is still outstanding, nor, at any time since the beginning of our most recently completed financial year has any indebtedness of any such person been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by us or any of our subsidiaries, other than routine indebtedness.

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

There were no material interests, direct or indirect, of our directors or executive officers, any shareholder who beneficially owned, or controlled or directed, directly or indirectly, more than 10% of the outstanding common shares, or any other Informed Person (as defined in National Instrument 51-102) or any known associate or affiliate of such persons, in any transaction since the commencement of our last completed financial year or in any proposed transaction that has materially affected or would materially affect us or any of our subsidiaries, except as disclosed elsewhere in this information circular – proxy statement. John Brussa, a director, is a partner of Burnet, Duckworth & Palmer LLP, which firm receives fees for legal services provided to us.

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

Our management is not aware of any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, of any person who has been a director or executive officer at any time since the beginning of our last financial year, of any proposed nominee for election as a director, or of any associates or affiliates of any of the foregoing persons, in any matter to be acted on at the Meeting other than the election of directors.

#### **OTHER MATTERS**

Our 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 and Special Meeting. However, if any other matter properly comes before the Meeting, the accompanying proxy will be voted on such matter in accordance with the best judgment of the person voting the proxy.

#### **ADDITIONAL INFORMATION**

Additional financial information regarding our business is contained in our audited financial statements and management's discussion and analysis for the fiscal year ended December 31, 2012.

Additional information regarding our business including the materials listed in the preceding paragraph may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Our securityholders may contact us to request a copy of our financial statements and management's discussion and analysis at:

Twin Butte Energy Ltd.  
Suite 410, 396 – 11th Avenue S.W.  
Calgary, Alberta T2R 0C5  
Phone: (403) 215-2045  
Fax: (403) 215-2055

## APPENDIX "A"

### COMMON SHARE TERMS AFTER THE SHARE CAPITAL AMENDMENT

#### COMMON SHARES

1. The unlimited number of common shares shall have attached thereto the following rights, privileges, restrictions and conditions:
  - (a) the holders of common shares shall be entitled to notice of, to attend and to one vote per share held at any meeting of the shareholders of the Corporation (other than meetings of a class or series of shares of the Corporation other than the common shares as such);
  - (b) the holders of common shares shall be entitled to receive dividends as and when declared by the Board of Directors of the Corporation on the common shares as a class, subject to prior satisfaction of all preferential rights to dividends attached to shares of other classes of shares of the Corporation ranking in priority to the common shares in respect of dividends; and
  - (c) the holders of common shares shall be entitled in the event of any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, and subject to prior satisfaction of all preferential rights to return of capital on dissolution attached to all shares of other classes of shares of the Corporation ranking in priority to the common shares in respect of return of capital on dissolution, to share rateably, together with the holders of shares of any other class of shares of the Corporation ranking equally with the common shares in respect of return of capital on dissolution, in such assets of the Corporation as are available for distribution.
  
2. If the directors of the Corporation declare a dividend on the common shares payable in whole or in part in fully paid and non-assessable common shares (the portion of the dividend payable in common shares being herein referred to as a "**stock dividend**"), the following provisions shall apply:
  - (a) unless otherwise determined by the directors of the Corporation in respect of a particular stock dividend: (i) the number of common shares (which shall include any fractional common shares) to be issued in satisfaction of the stock dividend shall be determined by dividing (A) the dollar amount of the particular stock dividend, by (B) 95% of the "Average Market Price" of a common share on the Toronto Stock Exchange (the "**TSX**"), with the "**Average Market Price**" calculated by dividing the total value of common shares traded on the TSX by the total volume of common shares traded on the TSX over the five trading day period immediately prior to the payment date of the applicable stock dividend on the common shares; and (ii) the value of a common share to be issued for the purposes of each stock dividend declared by the directors of the Corporation shall be deemed to be the Average Market Price of a common share;
  - (b) to the extent that any stock dividend paid on the common shares represents one or more whole common shares payable to a registered holder of common shares, such whole common shares shall be registered in the name of such holder. Common shares representing in the aggregate all of the fractions amounting to less than one whole common share which might otherwise have been payable to registered holders of common shares by reason of such stock dividend shall be issued to the transfer agent for the common shares as the agent of such registered holders of common shares. The transfer agent shall credit to an account for each such registered holder all fractions of a common share amounting to less than one whole share issued by the Corporation by way of stock dividends in respect of the common shares registered in the name of such holder. From time to time, when the fractional interests in a common share held by the transfer agent for the account of any registered holder of common shares are equal to or exceed in the aggregate one additional whole common share, the transfer agent shall cause such additional whole common share to be registered in the name of such registered holder and thereupon only the excess fractional interest,

if any, will continue to be held by the transfer agent for the account of such registered holder. The common shares held by the transfer agent representing fractional interests shall not be voted;

- (c) if at any time the Corporation shall have reason to believe that tax should be withheld and remitted to a taxation authority in respect of any stock dividend paid or payable to a shareholder in common shares, the Corporation shall have the right to sell, or to require its transfer agent in each case as agent of such shareholder, to sell all or any part of the common shares or any fraction thereof so issued to such holder in payment of that stock dividend or one or more subsequent stock dividends through the facilities of the TSX or other stock exchange on which the common shares are listed for trading, and to cause the transfer agent to remit the cash proceeds from such sale to such taxation authority (rather than such holder) in payment of such tax to be withheld. This right of sale may be exercised by notice given by the Corporation to such holder and to the Corporation or the transfer agent stating the name of the holder, the number of common shares to be sold and the amount of the tax which the Corporation has reason to believe should be withheld. Upon receipt of such notice the transfer agent shall, unless a certificate or other evidence of registered ownership for the common shares has at the relevant time been issued in the name of the holder, sell the common shares as aforementioned and the Corporation or the transfer agent as applicable, shall be deemed for all purposes to be the duly authorized agent of the holder with full authority on behalf of such holder to effect the sale of such common shares and deliver the proceeds therefrom to the applicable taxation authority on behalf of the Corporation. Any balance of the cash sale proceeds not remitted by the Corporation in payment of the tax to be withheld shall be payable to the holder whose common shares were so sold by the transfer agent;
- (d) if at any time the Corporation shall have reason to believe that the payment of a stock dividend to any holder thereof who is resident in or otherwise subject to the laws of a jurisdiction outside Canada might contravene the laws or regulations of such jurisdiction, or could subject the Corporation to any penalty thereunder or any legal or regulatory requirements not otherwise applicable to the Corporation, the Corporation shall have the right to sell, or to require its transfer agent in each case, as agent of such shareholder, to sell through the facilities of the TSX or other stock exchange on which the common shares are listed for trading, the common shares or any fraction thereof so issued and to cause the transfer agent to pay the cash proceeds from such sale to such holder. The right of sale shall be exercised in the manner provided in subparagraph (c) above except that in the notice there shall be stated, instead of the amount of the tax to be withheld, the nature of the law or regulation which might be contravened or which might subject the Corporation to any penalty or legal or regulatory requirement. Upon receipt of the notice, the Corporation or the transfer agent shall, unless a certificate or other evidence of registered ownership for the common shares has at the relevant time been issued in the name of the holder, sell the common shares as aforementioned and the Corporation or the transfer agent, as applicable shall be deemed for all purposes to be the duly authorized agent of the holder with full authority on behalf of such holder to effect the sale of such common shares and to deliver the proceeds therefrom to such holder;
- (e) upon any registered holder of common shares ceasing to be a registered holder of one or more common shares, such holder shall be entitled to receive from the transfer agent, and the transfer agent shall pay as soon as practicable to such holder, an amount in cash equal to the proportion of the value of one common share that is represented by the fraction less than one whole common share at that time held by the transfer agent for the account of such holder, and, for the purpose of determining such value, each common share shall be deemed to have the value equal to the Average Market Price in respect of the last stock dividend paid by the Corporation prior to the date of such payment; and

- (f) for the purposes of the foregoing: (i) the calculation of a fraction of a common share payable to a shareholder by way of a stock dividend and the calculation of the Average Market Price shall be computed to six decimal places, and shall be rounded to the nearest sixth decimal place; and (ii) neither the Corporation nor its transfer agent shall have any obligation to register any common share in the name of a person, to deliver a certificate or other document representing common shares registered in the name of a shareholder or to make a cash payment for fractions of a common share, unless all applicable laws and regulations to which the Corporation and/or the transfer agent are, or as a result of such action may become, subject, shall have been complied with to their reasonable satisfaction.

## APPENDIX "B"

### CANADIAN INCOME TAX CONSIDERATIONS IN RESPECT OF PARTICIPATION IN THE STOCK DIVIDEND PROGRAM

**This summary is of a general nature only and is not intended to be nor should it be construed to be tax advice to any particular shareholder.**

**This summary is not exhaustive of all Canadian federal income tax considerations, or of any tax considerations relevant to any other jurisdiction.** There is no assurance that the Canada Revenue Agency or other applicable taxation authorities will not disagree with or challenge the tax treatment of stock dividends pursuant to our stock dividend program as described below. Shareholders are encouraged to consult their own tax advisors regarding the tax consequences to them of receiving cash or stock dividends. Capitalized terms used in this Appendix "B" and not otherwise defined have the meaning ascribed thereto in our information circular – proxy statement dated March 28, 2013 (the "**Information Circular**").

#### **Canadian Federal Income Tax Considerations**

The following is, as of the date of the Information Circular, a summary of the principal Canadian federal income tax considerations generally applicable under the *Income Tax Act* (Canada) (the "**Tax Act**") to common shareholders who: (i) for purposes of the Tax Act, deal at arm's length and are not affiliated with us; (ii) hold their common shares as capital property; and (iii) participate in the stock dividend program by delivering a valid Stock Dividend Confirmation Notice to Valiant Trust Company, prior to the Stock Dividend Confirmation Notice Deadline, electing to receive all or a portion of any dividends declared by us on the common shares in the form of additional common shares issued by us from treasury (each a "**Participating Holder**"). Common shares will generally be considered capital property to a Participating Holder unless the Participating Holder holds the common shares in the course of carrying on a business of buying and selling securities or acquired the common shares in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary is based on the current provisions of the Tax Act, the regulations thereunder, and our understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency. This summary also takes into account all specific proposals to amend the Tax Act and the regulations thereunder publicly announced by the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and assumes that the Proposed Amendments will be enacted substantially as proposed. However, no assurance can be given that the Proposed Amendments will be enacted in the form proposed, or at all. This summary does not otherwise take into account or anticipate any changes in law or administrative practice, whether by legislative, regulatory or judicial action or interpretation, nor does it take into account provincial, territorial or foreign income tax considerations.

This summary is not applicable to a Participating Holder: (i) that is a "specified financial institution" (as defined in the Tax Act); (ii) that is a "financial institution" (as defined in the Tax Act) for purposes of the "mark-to-market rules"; (iii) an interest in which is a "tax shelter investment" for the purposes of the Tax Act; (iv) that has made a functional currency reporting election under the Tax Act; or (v) that is exempt from tax under Part I of the Tax Act. Such Participating Holder should consult their own tax advisors having regard to their particular circumstances.

**As discussed below, the receipt of stock dividends will have Canadian income tax consequences that are different from the Canadian income tax consequences applicable to the receipt of cash dividends. There is no assurance that the Canada Revenue Agency or other applicable taxation authorities will not disagree with or challenge the description below of the tax treatment to a Participating Holder who receives stock dividends pursuant to the stock dividend program.**

**This summary is not exhaustive of all possible income tax considerations applicable to participation in the stock dividend program or of the holding of our common shares. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any Participating Holder.**

**The United States tax consequences for Participating Holders who are resident in, or citizens of, the United States are not described herein. Participating Holders should consult their own tax advisors for advice with respect to the tax consequences of participation in the stock dividend program based on their particular circumstances.**

### *Residents of Canada*

The following portion of this summary is applicable to a Participating Holder who, for the purposes of the Tax Act and any applicable tax treaty or convention and at all relevant times, is resident or deemed to be resident in Canada (a "**Canadian Holder**"). Certain Canadian Holders to whom the common shares would not otherwise constitute capital property may elect, in certain circumstances, to have the common shares, and every "Canadian security" (as defined in the Tax Act) owned by such person in the taxation year of the election and in all subsequent taxation years, deemed to be capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Persons considering making such election should first consult their own tax advisors.

### *Taxation of Cash Dividends*

As discussed under the heading "*Matters to be Acted Upon at the Meeting – Approval of Share Capital Amendment to Implement Stock Dividend Program – Procedure to Confirm Acceptance of Stock Dividends*" in the Information Circular, Canadian Holders may elect to receive dividends on all or a stated number of their common shares in the form of stock dividends. Canadian Holders who elect to receive only a portion of their dividends as stock dividends will receive the balance of the dividends to which they are entitled as cash dividends. In addition, where our board of directors do not resolve to pay all or a portion of a declared dividend in the form of a stock dividend, Canadian Holders (including Canadian Holders that have delivered a valid Stock Dividend Confirmation Notice to receive their dividends in the form of stock dividends) will receive cash dividends.

The amount of any cash dividends will be included in computing a Canadian Holder's income for purposes of the Tax Act in the taxation year of the Canadian Holder in which the cash dividend is received. The amount of such cash dividends received by a Canadian Holder who is an individual will be subject to the gross-up and dividend tax credit rules in the Tax Act normally applicable to taxable dividends paid by taxable Canadian corporations. To the extent that we designate our dividends as "eligible dividends" within the meaning of the Tax Act in the prescribed manner, the amount of such dividends received as cash dividends will be eligible for the enhanced gross-up and dividend tax credit. Cash dividends received by an individual (other than certain specified trusts) may give rise to a liability for minimum tax as calculated under the detailed rules set out in the Tax Act.

The amount of any cash dividends received by a Canadian Holder that is a corporation will normally be deductible in computing such corporation's taxable income. If a Canadian Holder is a "private corporation" (as defined in the Tax Act) or any other corporation resident in Canada and controlled or deemed to be controlled by or for the benefit of an individual or a related group of individuals, the Canadian Holder may be liable under Part IV of the Tax Act to pay a refundable tax of 33 ⅓% on the amount of such cash dividends to the extent that such cash dividends are deductible in computing the Canadian Holder's taxable income.

### *Taxation of Stock Dividends*

As discussed under the heading "*Matters to be Acted Upon at the Meeting – Approval of Share Capital Amendment to Implement Stock Dividend Program – Procedure to Confirm Acceptance of Stock Dividends*" in the Information Circular, provided our board of directors have resolved to pay all or a portion of a declared dividend in the form of a stock dividend, Canadian Holders who have delivered a valid Stock Dividend Confirmation Notice indicating that they will accept all or a portion of the dividends to which they are entitled in the form of stock dividends will receive all or a portion of their dividends as stock dividends.

For the purposes of computing a Canadian Holder's income for purposes of the Tax Act, the amount of a dividend paid in the form of a stock dividend is the amount by which the "paid-up capital" (as defined in the Tax Act) of the shares is increased as a result of the issuance of the Stock Dividend Shares. Generally speaking, the increase in the paid-up capital of the shares is equal to the increase in the stated capital of those shares for corporate law purposes.

Under the *Business Corporations Act* (Alberta), the corporate statute governing us, our board of directors is permitted to add any amount (up to the fair market value of the shares issued) to the stated capital of the common shares when additional common shares are issued in payment of a stock dividend. The Canadian Holder's pro-rata share of the amount of the increase in the paid-up capital of the common shares as a result of payment of a stock dividend will be included in computing such Canadian Holder's income for purposes of the Tax Act and will be taxed in the same manner as a cash dividend, as described under the heading " – *Taxation of Cash Dividends*" above.

As discussed under the heading "*Matters to be Acted Upon at the Meeting – Approval of Share Capital Amendment to Implement Stock Dividend Program – Benefits of the Stock Dividend Program*" in the Information Circular, it is anticipated that our board of directors will add only a nominal amount to the stated capital of the common shares when common shares are issued as payment of a stock dividend. Therefore, it is expected that where a dividend is paid to a Canadian Holder in the form of a stock dividend, the amount of such stock dividend for the purposes of computing a Canadian Holder's income under the Tax Act will be nominal. As a result, it is expected that Canadian Holders will have no material amounts to include in computing their income for the purposes of the Tax Act as a result of receiving a stock dividend. However, as discussed below under the heading " – *Disposition of Common Shares*" below, the receipt of a stock dividend may increase a capital gain (or decrease a capital loss) realized by a Canadian Holder on a subsequent disposition of common shares.

#### *Disposition of Common Shares*

Upon a disposition or a deemed disposition of a common share (other than in a tax deferred transaction or a disposition to us that is not a sale in the open market in the manner in which shares would normally be purchased by any member of the public in the open market), a Canadian Holder generally will realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the common share, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the common share to the Canadian Holder.

The cost to a Canadian Holder of a common share received as payment of a stock dividend will be equal to such share's pro-rata portion of the aggregate increase in the paid-up capital of the common shares as a result of the payment of all stock dividends paid to shareholders at that time which, as discussed above, is expected to be nominal. This nominal cost to a Canadian Holder of a common share received as a stock dividend generally will be averaged with the adjusted cost base of all other common shares held at that time by such Canadian Holder as capital property for the purposes of determining the adjusted cost base of each such share to the Canadian Holder.

Since the cost to a Canadian Holder of a common share received as a stock dividend is expected to be nominal, the receipt of common shares as stock dividends may increase a capital gain (or decrease a capital loss) realized on a subsequent disposition of common shares by a Canadian Holder.

One half of any such capital gain (a "**taxable capital gain**") realized by a Canadian Holder will be required to be included in computing the Canadian Holder's income, and one half of any such capital loss (an "**allowable capital loss**") realized by a Canadian Holder must generally be deducted against taxable capital gains realized by the Canadian Holder in the year of disposition. Allowable capital losses not deductible in the taxation year in which they are realized may ordinarily be deducted by the Canadian Holder against taxable capital gains realized in any of the three preceding taxation years or any subsequent taxation year, subject to the detailed rules contained in the Tax Act in this regard. Capital gains realized by an individual (other than certain specified trusts) may be subject to minimum tax.

If the Canadian Holder is a corporation, the amount of any capital loss otherwise realized on the disposition or deemed disposition of a common share by the Canadian Holder may be reduced by the amount of dividends received or deemed to have been received by the Canadian Holder on such common share to the extent and in the circumstances prescribed by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or beneficiary of a trust that owns common shares, or where a partnership or trust of which a corporate Holder is a member or beneficiary is itself a member of a partnership or a beneficiary of a trust that owns common shares.

If the Canadian Holder is a "Canadian-controlled private corporation" (as defined in the Tax Act), the Canadian Holder may also be liable to pay a 6 <sup>2</sup>/<sub>3</sub>% refundable tax on certain investment income, including taxable capital gains.

### *Non-Residents of Canada*

The following section summarizes the principal Canadian federal income tax considerations generally applicable to a Participating Holder if: (i) at all relevant times, for purposes of the Tax Act and any applicable tax treaty or convention, the Participating Holder is not resident and is not deemed to be resident in Canada; (ii) the Participating Holder does not use or hold (and will not use or hold) and is not deemed to use or hold the common shares in, or in the course of, carrying on a business in Canada and does not carry on an insurance business in Canada and elsewhere; and (iii) the Participating Holder's common shares do not constitute "taxable Canadian property" for purposes of the Tax Act (a "**Non-Resident Holder**").

Provided that the common shares are listed on a designated stock exchange (which includes the Toronto Stock Exchange) at a particular time, the common shares generally will not constitute taxable Canadian property to a Non-Resident Holder at that time unless at any time during the five year period immediately preceding that time 25% or more of the issued shares of any class or series of the our capital stock were owned by the Non-Resident Holder, by persons with whom the Non-Resident Holder did not deal at arm's length or by the Non-Resident Holder and any such persons. A Non-Resident Holder's common shares can also be deemed to be taxable Canadian property in certain circumstances set out in the Tax Act.

### *Taxation of Cash Dividends*

As discussed under the heading "*Matters to be Acted Upon at the Meeting – Approval of Share Capital Amendment to Implement Stock Dividend Program – Procedure to Confirm Acceptance of Stock Dividends*" in the Information Circular, Non-Resident Holders may elect to receive dividends on all or a stated number of their common shares in the form of stock dividends. Non-Resident Holders who elect to receive only a portion of their dividends as stock dividends will receive the balance of the dividends to which they are entitled as cash dividends. In addition, where our board of directors does not resolve to pay all or a portion of a declared dividend in the form of a stock dividend, Non-Resident Holders (including Non-Resident Holders that have delivered a valid Stock Dividend Confirmation Notice to receive their dividends in the form of stock dividends) will receive cash dividends.

Cash dividends on the common shares paid or credited or deemed under the Tax Act to be paid or credited to a Non-Resident Holder generally will be subject to Canadian withholding tax at the rate of 25%, subject to any applicable reduction in the rate of such withholding under an income tax treaty between Canada and the country where the Non-Resident Holder is resident. For example, under the Canada-United States Income Tax Convention (1980) (the "**Treaty**"), the withholding tax rate in respect of a cash dividend paid to a person who is the beneficial owner of the cash dividend and is resident in the United States for purposes of, and entitled to full benefits under, the Treaty, is generally reduced to 15%.

Under the Treaty, cash dividends paid to certain religious, scientific, literary, educational or charitable tax exempt organizations and certain pension organizations that are resident, and exempt from tax, in the United States are exempt from Canadian withholding tax. Provided that certain administrative procedures are observed regarding registration of such organizations, we will not be required to withhold tax from cash dividends paid to such organizations. Qualifying organizations that fail to follow the required administrative procedures will have to file a claim for refund to recover any amounts withheld.

### *Taxation of Stock Dividends*

As discussed under the heading "*Matters to be Acted Upon at the Meeting – Approval of Share Capital Amendment to Implement Stock Dividend Program – Procedure to Confirm Acceptance of Stock Dividends*" in the Information Circular, provided our board of directors has resolved to pay all or a portion of a declared dividend in the form of a stock dividend, Non-Resident Holders who have delivered a valid Stock Dividend Confirmation Notice indicating that they will accept all or a portion of the dividends to which they are entitled in the form of stock dividends will receive all or a portion of their dividends as stock dividends.

For the purposes of computing the Canadian withholding tax applicable to a stock dividend received by a Non-Resident Holder, the amount of a stock dividend is determined in the same manner as the determination of the

amount of a stock dividend for the purposes of computing the income of a Canadian Holder. In other words, the amount of the stock dividend is the amount by which the "paid-up capital" (as defined in the Tax Act) of the shares is increased as a result of the issuance of the Stock Dividend Shares. Generally speaking, the increase in the paid-up capital of the shares is equal to the increase in the stated capital of those shares for corporate law purposes. Under the *Business Corporations Act* (Alberta), the corporate statute governing us, our board of directors is permitted to add any amount (up to the fair market value of the shares issued) to the stated capital of the common shares when additional common shares are issued in payment of a stock dividend. The Non-Resident Holder's pro rata share of the amount of the increase in the paid-up capital of the common shares as a result of payment of a stock dividend (which, as noted above, is expected to be nominal) will be subject to Canadian withholding tax in the same manner as a cash dividend, as described under the heading " – *Taxation of Cash Dividends*" above.

As discussed under the heading "*Matters to be Acted Upon at the Meeting – Approval of Share Capital Amendment to Implement Stock Dividend Program – Benefits of the Stock Dividend Program*" in the Information Circular, it is anticipated that our board of directors will add only a nominal amount to the stated capital of the common shares when common shares are issued as payment of a stock dividend. Therefore, it is expected that where a dividend is paid to a Non-Resident Holder in the form of a stock dividend, the amount of such stock dividend for the purposes of computing the Canadian withholding tax applicable to a stock dividend received by such Non-Resident Holder will be nominal. As a result, it is expected that stock dividends paid to Non-Resident Holders will not be subject to any material amounts of Canadian withholding tax.

#### *Disposition of Common Shares*

A Non-Resident Holder will generally not be subject to tax under the Tax Act in respect of any capital gain realized on the disposition of common shares so long as the common shares are not "Taxable Canadian Property" in the hands of such Non-Resident Holder. **Non-Resident Holders should consult with their own tax advisors to determine whether a disposition of common shares will be subject to tax in their jurisdiction of residence.**

## APPENDIX "C"

### TWIN BUTTE ENERGY LTD.

#### MANDATE OF THE BOARD OF DIRECTORS

##### GENERAL

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

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

##### SPECIFIC

###### *Executive Team Responsibility*

- Appoint the CEO and senior officers, approve their compensation, and monitor the CEO's performance against a set of mutually agreed corporate objectives directed at maximizing shareholder value.
- In conjunction with the CEO, develop a clear mandate for the CEO, which includes a delineation of management's responsibilities.
- Ensure that a process is established as required that adequately provides for succession planning, including the appointing, training and monitoring of senior management.
- Establish limits of authority delegated to management.

###### *Operational Effectiveness and Financial Reporting*

- Annual review and adoption of a strategic planning process and approval of the corporate strategic plan, which takes into account, among other things, the opportunities and risks of the business.
- Establish or cause to be established systems to identify the principal risks to the Corporation and that the best practical procedures are in place to monitor and mitigate the risks.
- Establish or cause to be established processes to address applicable regulatory, corporate, securities and other compliance matters.
- Establish or cause to be established an adequate system of internal controls.
- Establish or cause to be established due diligence processes and appropriate controls with respect to applicable certification requirements regarding the Corporation's financial and other disclosure.

- Review and approve the Corporation's financial statements and oversee the Corporation's compliance with applicable audit, accounting and reporting requirements.
- Approve annual operating and capital budgets.
- Review and consider for approval all amendments or departures proposed by management from established strategy, capital and operating budgets.
- Review operating and financial performance results relative to established strategy, budgets and objectives.

***Integrity/Corporate Conduct***

- Establish a communications policy or policies to ensure that a system for corporate communications to all stakeholders exists, including processes for consistent, transparent, regular and timely public disclosure, and to facilitate feedback from stakeholders.
- Approve a Business Conduct and Ethics Practice for directors, officers and employees and monitor compliance with the Practice and approve any waivers of the Practice for officers and directors.
- To the extent feasible, satisfy itself as to the integrity of the CEO and other executive officers of the Corporation and that the CEO and other executive officers create a culture of integrity throughout the Corporation.

***Board Process/Effectiveness***

- Attempt to ensure that Board materials are distributed to directors in advance of regularly scheduled meetings to allow for sufficient review of the materials prior to the meeting. Directors are expected to attend all meetings and review Board materials prior to meetings.
- Engage in the process of determining Board member qualifications with the Compensation, Nominating and Corporate Governance Committee including ensuring that a majority of directors qualify as independent directors pursuant to National Instrument 58-101 – Disclosure of Corporate Governance Practices (as implemented by the Canadian Securities Administrators and as amended from time to time) and that the appropriate number of independent directors are on each committee of the Board as required under applicable securities rules and requirements.
- Approve the nomination of directors.
- Provide a comprehensive orientation to each new director and provide continuing education as required.
- Establish an appropriate system of corporate governance including practices to ensure the Board functions independently of management.
- Develop a clear position description for the Chairman of the Board.
- Establish appropriate practices for the regular evaluation of the effectiveness of the Board, its committees and its members.
- Establish committees, approve their respective mandates and the limits of authority delegated to each committee and develop clear position descriptions for the Chair of each committee.
- Review and re-assess the adequacy of the mandate of the committees of the Board on a regular basis, but not less frequently than on an annual basis.

- Review the adequacy and form of the directors' compensation to ensure it realistically reflects the responsibilities and risks involved in being a director.

Each member of the Board is expected to understand the nature and operations of the Corporation's business, and have an awareness of the political, economic and social trends prevailing in all countries or regions in which the Corporation operates, or is contemplating potential operations.

Independent directors shall meet regularly without non-independent directors and management participation.

The Board may retain persons having special expertise and may obtain independent professional advice to assist it in fulfilling its responsibilities at the expense of the Corporation, as determined by the Board.

In addition to the above, adherence to all other Board responsibilities as set forth in the Corporation's By-Laws, applicable policies and practices and other statutory and regulatory obligations, such as issuance of securities, etc., is expected.

#### **DELEGATION**

- The Board may delegate its duties to, and receive reports and recommendations from, any committee of the Board.
- Subject to terms of the Disclosure, Confidentiality and Trading Policy and other policies and procedures of the Corporation, the Chairman of the Board will act as a liaison between stakeholders of the Corporation and the Board (including independent members of the Board).