**BIRCHCLIFF ENERGY LTD.**

**Annual and Special Meeting of Shareholders**

**3:00 pm on Thursday, May 19, 2011**

**in the Devonian Room of the Calgary Petroleum Club**
**319 – 5th Avenue S.W., Calgary, AB**

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**NOTICE OF MEETING AND INFORMATION CIRCULAR**

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**March 29, 2011**

**BIRCHCLIFF ENERGY LTD.**

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

**TAKE NOTICE THAT** the annual and special meeting (the "**Meeting**") of the holders of common shares ("**Common Shares**") of Birchcliff Energy Ltd. (the "**Corporation**") will be held at 3:00 pm (Calgary time) on Thursday, May 19, 2011 in the Devonian Room of the Calgary Petroleum Club, 319 - 5$^{th}$ Avenue S.W., Calgary, Alberta for the following purposes:

1. to receive and consider the audited financial statements of the Corporation for the financial year ended December 31, 2010 and the report of the auditors thereon;

2. to fix the numbers of directors to be elected at the Meeting at five;

3. to elect the directors of the Corporation for the ensuing year;

4. to appoint Deloitte & Touche LLP, Chartered Accountants, as the auditors of the Corporation for the ensuing year and to authorize the board of directors to fix their remuneration;

5. to consider and if thought advisable, to pass an ordinary resolution of shareholders approving the unallocated options under the Corporation's stock option plan; and

6. to transact such other business as may properly come before the Meeting.

Information relating to items one through six above is set forth in the Information Circular accompanying this Notice of Meeting.

**A shareholder may attend the Meeting in person or may be represented thereat by proxy.** A form of proxy for use at the Meeting or any adjournment thereof is enclosed with this Notice of Meeting. **Shareholders who are unable to attend the Meeting are requested to date, sign and return the enclosed form of proxy to the Corporation's transfer agent, Olympia Trust Company**, 2300, 125 – 9$^{th}$ Avenue S.E., Calgary, Alberta T2G 0P6 in the enclosed self-addressed envelope. In order to be valid, proxies must be received by Olympia Trust Company at least 48 hours, excluding Saturdays, Sundays and holidays, prior to the Meeting or any adjournment thereof. **Proxies must be received on or before 3:00 pm (Calgary time) on Tuesday, May 17, 2011 to be effective for the Meeting**.

Only shareholders of record as of the close of business on March 31, 2011, the record date, are entitled to receive notice of and vote at the Meeting.

DATED at the City of Calgary, in the Province of Alberta, this 29$^{th}$ day of March, 2011.

**BY ORDER OF THE BOARD OF DIRECTORS**

(Signed) *A. Jeffery Tonken*
President and Chief Executive Officer

## INFORMATION CIRCULAR

### Persons Making the Solicitation

This Information Circular (the "**Information Circular**") is furnished in connection with the solicitation of proxies by or on behalf of the management of Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") for use at the annual and special meeting (the "**Meeting**") of the holders of common shares ("**Common Shares**") of the Corporation or at any adjournment thereof, to be held in the Devonian Room of the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta at 3:00 pm (Calgary time) on Thursday, May 19, 2011 for the purposes set forth in the accompanying Notice of Annual and Special Meeting of Shareholders (the "**Notice of Meeting**").

It is expected that the solicitation of proxies will be primarily by mail. Proxies may also be solicited personally by officers of the Corporation at nominal cost. The cost of solicitation by or on behalf of management will be borne by the Corporation. The information contained in this Information Circular is given as of March 21, 2011, except where otherwise indicated.

### Appointment of Proxies

Those shareholders of the Corporation who wish to be represented at the Meeting by proxy must complete and deliver a proper form of proxy to the Corporation's transfer agent, Olympia Trust Company, 2300, 125 – 9$^{th}$ Avenue S.E., Calgary, Alberta T2G 0P6, in the enclosed self-addressed envelope. In order to be valid, proxies must be received by Olympia Trust Company at least 48 hours, excluding Saturdays, Sundays and holidays, prior to the Meeting or any adjournment thereof. As the Meeting will be held on Thursday, May 19, 2011, proxies must be received on or before 3:00 pm (Calgary time) on Tuesday, May 17, 2011 to be effective for the Meeting. The Chairman of the Meeting will have the discretion, but is not obligated, to accept instruments of proxy which are deposited with Olympia Trust Company or with the Chairman of the Meeting less than 48 hours prior to the time of the Meeting or any adjournment thereof. The persons named as proxyholders in the enclosed form of proxy are directors or officers of the Corporation.

**Each shareholder submitting a proxy has the right to appoint a person (who need not be a shareholder) to attend and act for the shareholder and on behalf of the shareholder at the Meeting other than the persons designated in the form of proxy furnished by the Corporation.** To exercise this right, the shareholder may insert such person's name in the blank space provided in the form of proxy or by completing another proper form of proxy and, in either case, delivering the completed proxy to Olympia Trust Company or to the Corporate Secretary of the Corporation, at the place and within the time specified above for the deposit of proxies.

### Revocation of Proxies

A shareholder of the Corporation who has given a proxy has the power to revoke it. In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing signed by the shareholder or the shareholder's attorney authorized in writing and either delivered to Olympia Trust Company at the place specified above at any time up to and including the close of business on the last business day preceding the day of the Meeting or any adjournment thereof or deposited with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof.

### Exercise of Discretion with Respect to Proxies

**The Common Shares represented by the enclosed form of proxy duly received and not withdrawn will be voted or withheld from voting on any motion, by ballot or otherwise, in accordance with any indicated instructions. In the absence of such instructions, such Common Shares will be voted at the Meeting for the resolutions referred to in items 1, 2, 3, 4 and 5 of the proxy.**

If any amendment or variation to the matters identified in the Notice of Meeting is proposed at the Meeting or any adjournment thereof, or if any other matters properly come before the Meeting or any adjournment thereof, the enclosed form of proxy confers discretionary authority to vote on any such amendment or variation or such other matters according to the best judgment of the appointed proxyholder. As at the date of this Information Circular, the management of the Corporation is not aware of any such amendments or variations or other matters to come before the Meeting.

**Advice to Beneficial Holders of Securities**

The information set forth in this section is of significant importance to many shareholders of Birchcliff, as a substantial number of shareholders do not hold Common Shares that are registered in their own name. In most cases they are the beneficial holders of Common Shares registered in the name of an intermediary such as a broker or trustee. Shareholders who do not hold their Common Shares in their own name (referred to in this Information Circular as "**Beneficial Shareholders**") should note that only proxies deposited by shareholders whose names appear on the records of the Corporation as the registered holders of the Common Shares can be recognized and acted upon at the Meeting.

If Common Shares are listed in an account statement provided to a shareholder by a broker, then in almost all cases those Common Shares will not be registered in the shareholder's name on the records of the Corporation. Such Common Shares will more likely be registered under the name of the shareholder's broker or an agent of that broker.

In Canada, the vast majority of such Common 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). Under Canadian securities laws, Common Shares held by brokers or their nominees for Beneficial Shareholders can only be voted upon the instructions of the Beneficial Shareholder. Without specific instructions, brokers/nominees are prohibited from voting Common Shares for their clients. The directors and officers of Birchcliff do not know for whose benefit the Common Shares registered in the name of CDS & Co. are held.

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Shareholders in advance of shareholders' meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions, which should be carefully followed by Beneficial Shareholders in order to ensure that their Common Shares are voted at the Meeting. Often, the voting instruction form supplied to a Beneficial Shareholder by its broker is identical to the form of proxy provided to registered shareholders. **The purpose of the voting instruction form distributed by the intermediary/broker is limited to instructing the registered shareholders how to vote on behalf of the Beneficial Shareholder.**

The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions Inc. ("**Broadridge**") in Canada. Broadridge typically prepares a machine readable voting instruction form, mails those forms to the Beneficial Shareholders and asks the Beneficial Shareholder to return the forms to Broadridge, or otherwise to communicate voting instructions to Broadridge. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Common Shares to be represented at the Meeting.

A Beneficial Shareholder receiving a Broadridge voting instruction form cannot use that voting instruction form to vote Common Shares directly at the Meeting. The voting instruction form must be returned or voting instructions otherwise conveyed to Broadridge well in advance of the Meeting in order to have the Common Shares voted.

Although a Beneficial Shareholder may not be recognized directly at the Meeting for the purposes of voting Common Shares registered in the name of his broker (or an agent of the broker), a Beneficial Shareholder may attend at the Meeting as proxy holder for the registered shareholder and vote the Common Shares in that capacity. Beneficial Shareholders who wish to attend the Meeting and indirectly vote their Common Shares as proxy holder for the registered shareholder should enter their own names in the blank space on the voting instruction form provided to them and return the same in accordance with the instructions provided, well in advance of the Meeting.

### Interest of Certain Persons or Companies in Matters to be Acted Upon

Management of the Corporation is not aware of any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, of any person who has been a director or executive officer of the Corporation at any time since the beginning of the financial year ended December 31, 2010, or of any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of any of the foregoing, in any matter to be acted on at the Meeting except as disclosed in this Information Circular under the heading "*Business of the Meeting – Fixing the Number of Directors*" and *"Business of the Meeting – Election of Directors"*.

### Voting Securities and Principal Holders of Voting Securities

On March 21, 2011, Birchcliff had 125,919,077 Common Shares issued and outstanding. Only shareholders of record at the close of business on March 31, 2011 (the "**Record Date**") are entitled at the Meeting to one vote for each Common Share held. If a shareholder has transferred the ownership of any of his or her Common Shares after the Record Date and the transferee of those Common Shares produces properly endorsed Common Share certificates or otherwise establishes that he or she owns the Common Shares and demands, not later than ten days before the Meeting, that his or her name be included in the list of shareholders before the Meeting, the transferee shall be entitled to vote such Common Shares at the Meeting.

As at the date of this Information Circular and to the best of the knowledge of the directors and executive officers of the Corporation, no person or company beneficially owns, or controls or directs, directly or indirectly, more than 10% of the outstanding Common Shares other than as indicated in the table below.

| Name and Municipality of Residence of Shareholder | Number and Percentage of Common Shares |
|---|---|
| Seymour Schulich<br>*Toronto, Ontario* | 33,000,000<br>26.2% |

## BUSINESS OF THE MEETING

To the knowledge of the board of directors of the Corporation (the "**Board**"), the only matters to be brought before the Meeting are those set forth in the accompanying Notice of Meeting.

### 1. Annual Report and Financial Statements

Pursuant to the *Business Corporations Act* (Alberta), the directors will place before the shareholders at the Meeting, the audited financial statements of the Corporation for the financial year ended December 31, 2010 and the auditors' report thereon, as presented in the 2010 Annual Report of the Corporation. Shareholder approval is not required in relation to the audited financial statements.

### 2. Fixing Number of Directors

The Corporation is required to have a minimum of three and a maximum of eleven directors. The Board presently consists of five directors, each of whom management propose to nominate for re-election at the Meeting to hold off until the next annual meeting. At the Meeting, shareholders will be asked to fix the number of directors to be elected at the Meeting at five. Each person elected as a director of the Corporation will hold office until their successors are duly elected or appointed. All proposed nominees have consented to be named in this Information Circular and to serve as directors, if elected.

**It is the intention of the persons named in the enclosed form of proxy, if not expressly directed to the contrary, to vote proxies in favour of the ordinary resolution to fix the number of directors to be elected at the Meeting at five.**

### 3. Election of Directors

The following table sets forth the name of each of the persons proposed to be nominated for election as a director, their province and country of residence, their principal occupation, the period served as a director and the number of Common Shares that each proposed nominee beneficially owns, or exercises control or direction over, directly or indirectly, as of the date of this Information Circular. The information as to Common Shares owned beneficially, not being within the knowledge of the Corporation, has been provided by each nominee.

| Name and Province and Country of Residence | Principal Occupation within Past Five Years | Director Since | Number of Common Shares |
|---|---|---|---|
| Gordon W. Cameron<br>*Alberta, Canada* | Corporate director and independent businessman | January 18, 2005 | 116,000 |
| Kenneth N. Cullen<br>*Alberta, Canada* | Corporate director and Partner,<br>Deloitte and Touche LLP (retired May 2006) | February 16, 2011 | 10,000(1) |
| Larry A. Shaw<br>*Alberta, Canada* | Corporate director and President,<br>Western Automotive Management Ltd. | January 18, 2005 | 2,839,544(2) |
| Werner A. Siemens<br>*Alberta, Canada* | Corporate director and independent businessman | January 18, 2005 | 1,000 |
| A. Jeffery Tonken<br>*Alberta, Canada* | President and Chief Executive Officer,<br>Birchcliff Energy Ltd. | July 6, 2004 | 2,686,042(3) |

**Notes:**

(1) 10,000 Common Shares held by Mr. Cullen's spouse, over which Mr. Cullen exercises control and direction.

(2) Includes 163,000 Common Shares held by Mr. Shaw's spouse and 2,282,600 Common Shares held by Western Automotive Management Ltd., over which Mr. Shaw exercises control or direction.

(3) Includes 1,402,724 Common Shares held by Mr. Tonken's spouse and 150,064 Common Shares held by a trust for the benefit of Mr. Tonken's children, in each case over which Mr. Tonken does not exercise control or direction.

**Voting for the election of the above named directors will be conducted on an individual, and not slate, basis. It is the intention of the persons named in the enclosed form of proxy, if not expressly directed to the contrary, to vote proxies for the election of each of the nominees listed herein as directors of the Corporation for the ensuing year.**

#### *Corporate Cease Trade Orders or Bankruptcies*

No proposed director of the Corporation is, or has been within the past ten years, a director, chief executive officer or chief financial officer of any company, including the Corporation, that was subject to a 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 that was in effect for a period of more than 30 consecutive days, which was issued: (i) while that person was acting in such capacity; or (ii) after that person ceased to act in such capacity but which resulted from an event that occurred while that person was acting in such capacity.

No proposed director of the Corporation is, or has been within the past ten years, a director or executive officer of any company, including the Corporation, that while such 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.

No proposed director of the Corporation has, within the past ten years, 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.

### *Penalties or Sanctions*

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

## 4. Appointment of Auditors

The persons named in the enclosed form of proxy intend to have nominated and to vote for the re-appointment of Deloitte & Touche LLP, Chartered Accountants, of Calgary, Alberta as auditors of the Corporation to hold such office until the next annual meeting of shareholders of the Corporation, to conduct the usual audit of the annual financial statements of the Corporation and to conduct such other audits as are necessary in connection with the Corporation's conversion to international financial reporting standards and to authorize the Board to fix the remuneration to be paid to the auditors. The appointment of the auditors must be approved by a majority of votes cast by the shareholders.

**It is the intention of the persons named in the enclosed form of proxy, if not expressly directed to the contrary, to vote proxies in favour of the re-appointment of Deloitte & Touche LLP as the auditors of the Corporation, at a remuneration to be fixed by the Board.**

## 5. Approval of Unallocated Options under the Stock Option Plan

The Corporation's amended and restated stock option plan (the "**Stock Option Plan**") is described under "*Executive Compensation – Compensation Discussion and Analysis – Stock Option Plan*" and is an integral component of compensation arrangements for employees and officers. Pursuant to the Stock Option Plan, options to purchase Common Shares ("**Options**") may be granted to directors, officers, employees and consultants of the Corporation. When Options have been granted, Common Shares reserved for issuance under an outstanding Option are referred to as allocated options. Additional Common Shares that may be issued pursuant to the Stock Option Plan, but are not subject to current Option grants are referred to as unallocated Options.

The Stock Option Plan is a "rolling plan" whereby the Corporation is entitled to issue Options in respect of a maximum number of Common Shares equal to 10% of the issued and outstanding Common Shares of the Corporation. A "rolling plan" allows the number of shares covered by Options that have been exercised, to be available for subsequent grants under the Stock Option Plan. Pursuant to the rules of Toronto Stock Exchange ("**TSX**"), every three years, all unallocated options, rights or other entitlements available under the Stock Option Plan must be approved by a majority of the Corporation's directors and the Corporation's shareholders.

Based on 125,919,077 issued and outstanding Common Shares as at March 21, 2011, the number of Options that may be issued under the Stock Option Plan is currently limited to 12,591,907, of which Options to purchase 11,116,343 Common Shares are outstanding, leaving unallocated 1,475,564 Common Shares available for future Option grants.

At the Meeting, shareholders will be asked to consider and if deemed appropriate, to pass the following ordinary resolution (the "**Stock Option Plan Resolution**"), with or without variation, relating to the approval of unallocated Options as described above:

> **RESOLVED THAT** all unallocated options, rights or other entitlements available under the Stock Option Plan dated January 18, 2005 as Amended and Restated on April 21, 2005 and May 15, 2008 are hereby approved until May 19, 2014.

The Directors unanimously approved all unallocated Options, rights or other entitlements available under the Stock Option Plan at a meeting of the Board on March 17, 2011. The Stock Option Plan must also be approved by an ordinary resolution of the shareholders, being a simple majority of votes cast by the shareholders of the Corporation who vote in person or by proxy at the Meeting in favour of the Stock Option Resolution.

If at the Meeting, the shareholders of the Corporation do not approve all unallocated Options, rights or other entitlements available under the Stock Option Plan, all currently outstanding Options will be unaffected, however the Corporation will not issue any further Options under the Stock Option Plan and any outstanding Options that are thereafter cancelled or expire will not be available for re-grant until such time as shareholder approval is obtained.

**It is the intention of the persons named in the enclosed form of proxy, if not expressly directed to the contrary, to vote proxies in favour of the Stock Option Resolution set forth above.**

### 6. Other Business

As of the date of this Information Circular, the Board does not know of any other matters to be brought to the Meeting, other than those set forth in the Notice of Meeting. If other matters are properly brought before the Meeting, the persons named in the enclosed proxy will vote the proxy on such matters in accordance with their best judgment.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

The Compensation Committee of the Board determines the compensation to be provided to the executive officers of the Corporation and, in doing so, receives input from the President and Chief Executive Officer in respect of all executive officers. Executive compensation for the 2010 financial year including salaries and option grants were set by the Compensation Committee on the recommendation of the President and Chief Executive Officer in January 2010 and bonuses in respect of 2010 were set by the Compensation Committee on the recommendation of the President and Chief Executive Officer in January 2011.

The objective of the Corporation's compensation program is to attract, motivate, reward and retain the management talent that is needed to achieve the Corporation's business objectives. The compensation program is designed to ensure that compensation is competitive with other companies of similar size and is reflective of the experience, performance and contribution of the individuals involved and the overall performance of the Corporation. Based on a pay-for-performance philosophy, the compensation program of the Corporation is designed to reward executive officers and the other employees of the Corporation on the basis of individual performance and the achievement of corporate objectives.

The executive compensation program of the Corporation is comprised of both long and short-term elements and includes both cash and equity-based compensation. Specifically, the significant elements of the Corporation's compensation program are base salary, the payment of discretionary bonuses where appropriate, participation in the Stock Option Plan (as hereinafter defined) and, historically, additional incentive-based compensation in the form of Performance Warrants (as hereinafter defined), which were issued to executive management members at the Corporation's inception. See *"Executive Compensation – Compensation Discussion and Analysis - Performance Warrants"*. In addition, extended health care, dental, health spending, and life, disability and medical insurance benefits are provided to all employees, including the executive officers. The Compensation

Committee believes that Options and Performance Warrants will provide above-market compensation to the executive officers of the Corporation only upon the significant enhancement of shareholder value.

***Base Salaries***

The first element of the Corporation's compensation program is the payment of base salaries. The payment of base salaries is a fundamental component of the Corporation's compensation program and serves to attract and retain highly qualified executives while providing those executives with sufficient income so that they can maintain a reasonable standard of living. 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 for executive officers are reviewed annually by the President and Chief Executive Officer, based on a review of corporate and personal performance and individual levels of responsibility. Salaries of the executive officers are not determined based on benchmarks, performance goals or by using a specific formula. The Compensation Committee considers, and, if thought appropriate, approves salaries recommended by the President and Chief Executive Officer for the executive officers (excluding the President and Chief Executive Officer). The Compensation Committee of the Corporation submits its recommendation to the full Board as to the salary of the President and Chief Executive Officer.

The base salaries for the executive officers for the financial year ended December 31, 2010, were set to be competitive with industry levels. The Compensation Committee had regard to the contributions made by the officers, how their compensation levels related to compensation packages that would be achievable by such officers from other opportunities and available salary survey data and other information publicly disclosed by some of the Corporation's competitors.

***The Bonus Plan***

The second element of the Corporation's compensation program is the discretionary bonus plan (the "**Bonus Plan**"), which consists of discretionary cash bonuses paid to the executive officers and other employees, where deemed appropriate by the Compensation Committee. The Bonus Plan is designed to reward the Corporation's executive officers and other employees for their performance and for their contribution to the achievement of the Corporation's annual goals and objectives. In addition, the Bonus Plan serves as a short-term retention incentive to encourage employees to remain in the employ of the Corporation. The Bonus Plan is complemented and balanced by the Stock Option Plan, which is designed as a long-term retention incentive.

In January 2011, the Compensation Committee and the Board approved the payment of a bonus in the amount of $225,000 to each of the executive officers in recognition of the extraordinary efforts made during 2010 in executing the Corporation's business plan. Further, the bonuses recognized the increased value of the Corporation's asset base that had been achieved and the success that has been achieved in all other aspects of the Corporation's business. The bonuses were based on overall contribution and effort and were not based on a formula or previously prescribed guidelines.

***The Stock Option Plan***

The third element of the Corporation's compensation program is the Stock Option Plan. Pursuant to the Stock Option Plan, Options may be granted to directors, officers, employees and consultants of the Corporation. The Stock Option Plan is an integral component of the Corporation's total compensation program and serves to enhance shareholder value by aligning the interests of executives and employees with the interests of shareholders in the growth and profitability of the Corporation. The Stock Option Plan is designed, through the grant of Options, to reward key individuals in relation to the share price of the Corporation. The longer-term focus of Stock Option Plan is complimented and balanced by the cash-based compensation features of the Corporation's compensation program, specifically base salaries and the Bonus Plan.

Pursuant to the Stock Option Plan, the Board may, on the recommendation of the Compensation Committee, grant Options from time to time to directors, officers, employees and consultants of the Corporation. Generally, the number of Options granted to any optionee is a function of the level of authority and responsibility of the optionee, the contribution that has been made by the optionee to the business and affairs of the Corporation, the number of Options that have already been granted to the optionee and such other factors as the Compensation Committee may consider relevant. In determining the number of Options to be granted to the executive officers during 2010, the Compensation Committee had regard to the amount, terms and vesting levels of existing Options and Performance Warrants held by the officers and also the number of Options remaining available for grant by the Corporation in the future to attract and maintain qualified technical and administrative staff.

Based on 125,919,077 issued and outstanding Common Shares as at March 21, 2011, the number of Options that may be issued under the Stock Option Plan is currently limited to 12,591,907, of which Options to purchase 11,116,343 Common Shares are outstanding, leaving unallocated 1,475,564 Common Shares available for future Option grants.

The maximum number of Common Shares that may be issued under the Stock Option Plan at any time shall not exceed 10% of the aggregate number of Common Shares actually outstanding at that time, as determined on a non-diluted basis. The maximum number of Common Shares that may be issued under the Stock Option Plan to insiders of the Corporation at any time and within any one-year period, together with all Common Shares issuable to insiders under all other share compensation arrangements, may not exceed 10% of the outstanding Common Shares. The maximum number of Common Shares that may be issued under the Stock Option Plan to any single participant in the Stock Option Plan may not exceed 5% of the outstanding Common Shares. All of the Options granted to date under the Stock Option Plan provide for: (a) expiry of such Options not later than the fifth anniversary of the date of grant; and (b) the vesting of such Options with respect to one-third of the Common Shares issuable thereunder on each of the first, second and third anniversaries of the date of grant.

The Stock Option Plan provides that the Board may at any time, but subject always to the receipt of required regulatory approvals, alter, amend or revise the terms and conditions of the Stock Option Plan or of any outstanding Options, or suspend, discontinue or terminate the Stock Option Plan or any portion thereof, all provided that, without the prior written consent of an optionee, no such action shall adversely affect (except as specifically provided in the Stock Option Plan or an applicable Option agreement) any Options previously granted to such optionee.

The Stock Option Plan provides an optionee that has ceased to be a participant under the Stock Option Plan, for any reason, a limited amount of time to exercise any or all of his or her vested Options, after which time such vested Options shall expire. All of such optionee's unvested Options expire immediately upon cessation of participation. In the context of an optionee ceasing to be a participant under the Stock Option Plan, the directors of the Corporation have the discretion to vest unvested Options and to extend the expiry date of Options, provided that such extended expiry date shall be no later than the earlier of the original expiry date of such Options and the third anniversary date of the date upon which the optionee ceased to be a participant under the Stock Option Plan. Additionally, the expiry date is automatically extended if the expiry date of an Option falls within any period during which the employees of the Corporation are prohibited from trading securities of the Corporation that is imposed by the Corporation, or within two business days thereafter, for a period of 10 business days following the end of such period. Further, Options granted under the Stock Option Plan will expire at the earlier of the expiry date and: (a) three years after the optionee's death; (b) one year after the optionee became disabled; (c) one year after the optionee ceases to be a director; or (d) 30 days after the optionee ceases to be a participant for any other reason. Options granted under the Stock Option Plan are for the benefit of the Corporation's officers, directors, employees and consultants and are not assignable to any third party under any circumstance.

Options are to be granted by the Board who shall, at the time of grant, fix the exercise price, vesting date(s) and expiry date of such Options. The Stock Option Plan provides that the expiry date of an Option shall be no later than 10 years from the date of grant of such Option and that the exercise price of an Option shall be determined by the Directors but shall not be lower than the higher of the closing price of the Common Shares on TSX on the first trading day immediately preceding the date of grant or the lowest price as may be permitted by TSX.

At the annual and special meeting of the shareholders of the Corporation held on May 15, 2008, the shareholders of the Corporation approved certain amendments to the Stock Option Plan. Specifically, the Stock Option Plan was amended in order to: (a) restate the amendment provisions of the Stock Option Plan to better align such provisions with the requirements of TSX; (b) restate the aggregate number of Common Shares that may be issued pursuant to Options granted under the Stock Option Plan at any time in order that such number is limited to 10% of the aggregate number of Common Shares outstanding at the time of such grant; and (c) effect ancillary or consequential amendments relating to the foregoing amendments.

### *Performance Warrants*

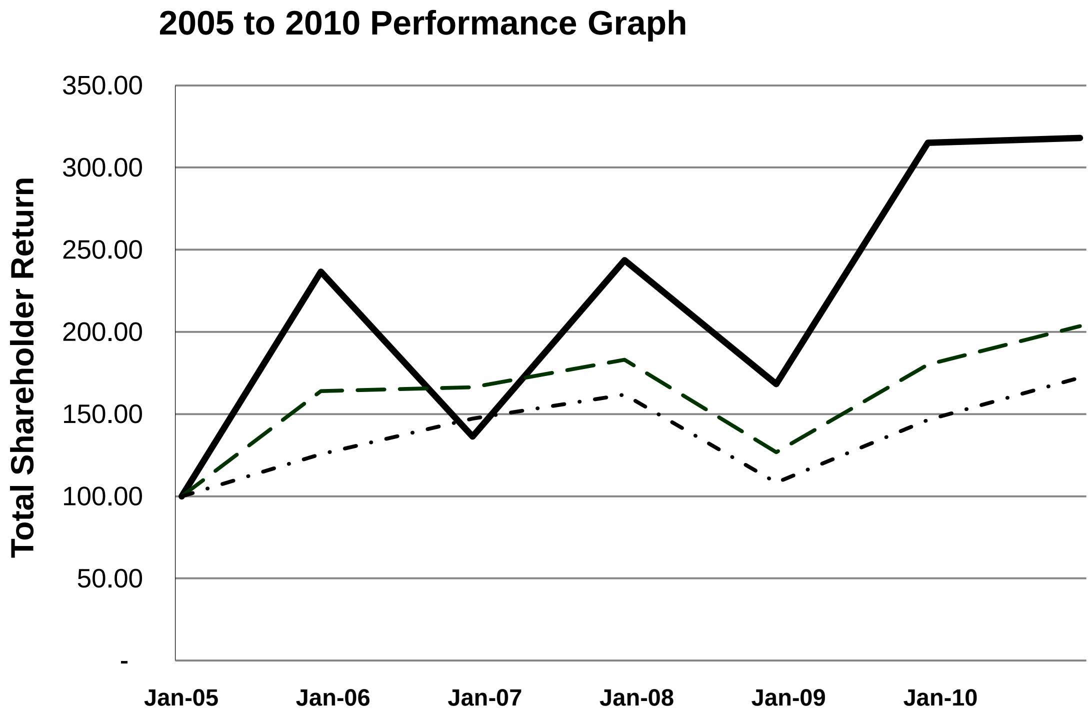
The Corporation currently has 2,939,732 performance warrants ("**Performance Warrants**") issued and outstanding to purchase an aggregate of 2,939,732 Common Shares, which represents approximately 2.3% of the issued and outstanding Common Shares at March 21, 2011. Each Performance Warrant entitles the holder thereof to acquire one Common Share at an exercise price of $3.00 per Common Share. The Performance Warrants were originally granted on January 18, 2005 at the founding of the Corporation as a long-term incentive, on an equal basis, to the members of the Corporation's executive team. The Performance Warrants became exercisable on November 18, 2005, being the first day on which the weighted average trading price of the Common Shares was greater than $6.00 for a period of 20 consecutive trading days. The Performance Warrants will expire on January 31, 2015. No additional Performance Warrants may be issued in the future without approval of the shareholders.

The Performance Warrants were designed to act as a long-term retention incentive for the holders thereof and to enhance shareholder value by aligning the interests of the holders with the interest of the shareholders in the growth and profitability of the Corporation. The Performance Warrants were specifically designed to provide a financial incentive to the holders upon the trading price of the Common Shares exceeding $6.00.

At the annual and special meeting of the shareholders of the Corporation held May 14, 2009, the shareholders of the Corporation approved the extension of the Performance Warrants from January 31, 2010 to January 31, 2015. Specifically, the Performance Warrants were extended to provide to the members of the Corporation's executive, who are holders of such Performance Warrants, a continuing long-term incentive to continue their efforts to create additional value for all shareholders by enhancing the value of the Corporation's business and assets and indirectly the trading value of the Common Shares, to directly align the interests of the holders of Performance Warrants with the interests of the shareholders of the Corporation and to promote such executive's continued employment with the Corporation on a long-term basis.

## Performance Graph

The following graph compares the cumulative total shareholder return for the five most recently completed financial years, assuming a notional $100.00 investment in the Common Shares (at the private placement price of $3.00 per share) and the reinvestment of all dividends, with the cumulative total shareholder return on the S&P/TSX Composite Total Return Index and the TSX Oil & Gas Exploration & Production Total Return Sub-Index.




| | 18-Jan-05 | 31-Dec-05 | 31-Dec-06 | 31-Dec-07 | 31-Dec-08 | 31-Dec-09 | 31-Dec-10 |
|---|---|---|---|---|---|---|---|
| Birchcliff Shares | 100.00 | 236.67 | 136.33 | 243.67 | 168.33 | 315.00 | 318.00 |
| Oil & Gas Total Return Index | 100.00 | 164.07 | 166.24 | 183.08 | 126.73 | 180.23 | 203.56 |
| S&P TSX Total Return Index | 100.00 | 125.63 | 147.32 | 161.80 | 108.40 | 146.40 | 172.18 |

During the five most recently completed financial years, the share price of the Common Shares has generally increased. Overall, the price of the Common Shares has outperformed each of the S&P/TSX Composite Total Return Index and the TSX Oil & Gas Exploration & Production Total Return Sub-Index. Compensation for executive officers has increased over this same period, but is not directly linked to the share price of the Common Shares.

**Summary Compensation for Named Executive Officers**

Securities legislation requires the disclosure of the compensation received by each "Named Executive Officer" ("**Named Executive Officer**") of the Corporation for the most recently completed financial year. "Named Executive Officer" is defined by the legislation to mean: (i) the Chief Executive Officer of the Corporation; (ii) the Chief Financial Officer of the Corporation; (iii) each of the Corporation's three most highly compensated executive officers or the three most highly compensated individuals acting in a similar capacity, other than the Chief Executive Officer and Chief Financial Officer, at the end of the most recently completed financial year and whose total compensation was, individually, more than $150,000.00 for that financial year; and (iv) each individual who would be a "Named Executive Officer" under paragraph iii above but for the fact that the individual was neither an executive officer of the Corporation, nor acting in a similar capacity, at the end of the most recently completed financial year. "Executive Officer" is defined by the legislation to mean: (i) the chair, vice-chair or president; (ii) a vice-president in charge of a principal business unit, division or function including sales, finance or production; or (iii) an individual performing a policy-making function in respect of an issuer.

During the financial year ended December 31, 2010, the Corporation had six Named Executive Officers. The following table and the notes thereto provide a summary of the compensation paid to each Named Executive Officer of the Corporation for the three most recently completed financial years.

**Summary Compensation Table for Named Executive Officers**
**For the Financial Year Ended December 31, 2010**

| Name and Principal Position | Year | Salary ($) | Annual Incentive Plans ($) | Option-based awards(1) ($) | All other compensation(2) ($) | Total compensation ($) |
|---|---|---|---|---|---|---|
| A. Jeffery Tonken | 2010 | 326,000 | 225,000 | 577,164 | - | 1,128,164 |
| President and Chief Executive Officer(3) | 2009 | 296,450 | 150,000 | 382,430 | 842,392(6) | 1,671,272 |
| | 2008 | 269,500 | 150,000 | 365,245 | - | 784,745 |
| Myles R. Bosman | 2010 | 280,000 | 225,000 | 577,164 | - | 1,082,196 |
| Vice President, Exploration and Chief | 2009 | 254,100 | 150,000 | 382,430 | 530,383(6) | 1,316,923 |
| Operating Officer | 2008 | 231,000 | 150,000 | 365,245 | - | 746,245 |
| Bruno P. Geremia | 2010 | 280,000 | 225,000 | 577,164 | - | 1,082,196 |
| Vice President and Chief Financial | 2009 | 254,100 | 150,000 | 382,430 | 842,392(6) | 1,628,922 |
| Officer | 2008 | 231,000 | 150,000 | 365,245 | - | 746,245 |
| Dave M. Humphreys(4) | 2010 | 280,000 | 225,000 | 577,164 | - | 1,082,196 |
| Vice President, Operations | 2009 | 57,824 | 37,500 | 1,591,617 | - | 1,692,642 |
| | 2008 | Nil | Nil | Nil | Nil | Nil |
| Karen A. Pagano(5) | 2010 | 280,000 | 225,000 | 577,164 | - | 1,082,196 |
| Vice President, Engineering | 2009 | 254,000 | 150,000 | 382,430 | - | 786,530 |
| | 2008 | 231,000 | 150,000 | 365,245 | - | 746,245 |
| James W. Surbey | 2010 | 280,000 | 225,000 | 577,164 | - | 1,082,196 |
| Vice President, Corporate Development | 2009 | 254,100 | 150,000 | 382,430 | 842,392(6) | 1,628,922 |
| and Corporate Secretary | 2008 | 231,000 | 150,000 | 365,245 | - | 746,245 |

**Notes:**

(1) The Corporation has calculated the grant date fair value of the options granted to Named Executive Officers using the Black-Scholes-Merton model. The Corporation chose this methodology because it is recognized as the most common methodology used for valuing options and doing value comparisons. The Black-Scholes-Merton assumptions used by the Corporation for Options granted January 22, 2010 were: (i) an initial expected life of 5 years; (ii) a forfeiture rate of 0%; (iii) a historical volatility of 61.0%; and (iv) a risk free interest rate of 2.45%. The Black-Scholes-Merton assumptions used by the Corporation for Options granted January 23, 2009 were: (i) an initial expected life of 5 years; (ii) a forfeiture rate of 0%; (iii) a historical volatility of 63.4%; and (iv) a risk free interest rate of 1.8%. The Black-Scholes-Merton assumptions used by the Corporation for Options granted October 9, 2009 were: (i) an initial expected life of 5 years; (ii) a forfeiture rate of 0%; (iii) a historical volatility of 63.9%; and (iv) a risk free interest rate of 2.9%. The Black-Scholes-Merton assumptions used by the Corporation for Options granted January 22, 2008 were: (i) an initial expected life of 5 years; (ii) a forfeiture rate of 0%; (iii) a historical volatility of 46.2%; and (iv) a risk free interest rate of 3.36%. The aggregate number of Options held by each of the Named Executive Officers as at December 31, 2010, is disclosed in the table *"Outstanding Option-Based Awards For Financial Year Ended December 31, 2010".*

(2) The value of perquisites and benefits for each Named Executive Officer is less than $50,000 and less than 10% of each Named Executive Officer's total salary for the three most recently completed financial years.

(3) Mr. Tonken also serves as a director of the Corporation.

(4) Mr. Humphreys was appointed Vice President, Operations on October 9, 2009.

(5) Ms. Pagano was Vice President, Operations during 2009 until October 9, 2009, when she was appointed Vice President, Engineering.

(6) These amounts represent the grant date fair value of the extension of the Performance Warrants that were extended on May 28, 2009. The Corporation has calculated the grant date fair value of the extension of the expiry date of the Performance Warrants held by Named Executive Officers using the Black-Scholes-Merton model using the following assumptions (i) an initial expected life of 5 years; (ii) a forfeiture rate of 0%; (iii) a historical volatility of 63%; and (iv) a risk free interest rate of 2.1%. The fair value of the extension was determined as at May 28, 2009 by the difference between the fair value of the outstanding Performance Warrants with the extended of January 31, 2015 (the "**extended term**") and the fair value of the outstanding Performance Warrants with the original expiration date of January 31, 2010 (the "**original term**"). The fair value of each Performance Warrant with the extended expiration date was $4.27 and of each Performance Warrant with the original expiration date was $3.23.

## Incentive Plan Awards

### *Outstanding Option-Based Awards*

For a description of the process used by the Corporation to grant Option-based awards to executive officers, see the disclosure under the headings *"Executive Compensation – Compensation Discussion and Analysis – The Stock Option Plan"* and *"Executive Compensation – Compensation Discussion and Analysis – Performance Warrants"*. For a more detailed description of the Option Plan, see the disclosure under the heading *"Executive Compensation – Compensation Discussion and Analysis – The Stock Option Plan"*. For a more detailed description of the Performance Warrants, see the disclosure under the heading *"Executive Compensation – Compensation Discussion and Analysis – Performance Warrants".*

The following table sets forth information in respect of all Option-based awards outstanding at the end of the financial year ended December 31, 2010, for the Named Executive Officers of the Corporation.

**Outstanding Option-Based Awards**
**For Financial Year Ended December 31, 2010**

| Name | Number of securities underlying unexercised options[1] (#) | Option exercise price[1] ($) | Option expiration date[1] | Value of unexercised in-the-money options[1][2] ($) |
|---|---|---|---|---|
| A. Jeffery Tonken | 75,000[3] | 3.87 | January 23, 2012 | 425,250 |
| President and Chief | 111,000[3] | 7.38 | January 22, 2013 | 239,760 |
| Executive Officer | 140,000[3] | 5.03 | January 22, 2014 | 631,400 |
| | 111,000[3] | 9.72 | January 22, 2015 | Nil |
| | 809,933[4] | 3.00 | January 31, 2015[5] | 5,297,654 |
| Myles R. Bosman | 100,000[3] | 3.87 | January 23, 2012 | 567,000 |
| Vice President, Exploration | 111,000[3] | 7.38 | January 22, 2013 | 239,760 |
| and Chief Operating Officer | 140,000[3] | 5.03 | January 22, 2014 | 631,400 |
| | 111,000[3] | 9.72 | January 22, 2015 | Nil |
| | 509,933[4] | 3.00 | January 31, 2015[5] | 3,335,354 |
| Bruno P. Geremia | 75,000[3] | 3.87 | January 23, 2012 | 425,250 |
| Vice President and Chief | 111,000[3] | 7.38 | January 22, 2013 | 239,760 |
| Financial Officer | 140,000[3] | 5.03 | January 22, 2014 | 631,400 |
| | 111,000[3] | 9.72 | January 22, 2015 | Nil |
| | 809,933[4] | 3.00 | January 31, 2015[5] | 5,297,654 |
| Dave M. Humphreys | 325,000[3] | 8.77 | October 9, 2014 | 250,250 |
| Vice President, Operations | 111,000[3] | 9.72 | January 22, 2015 | Nil |
| Karen A. Pagano | 175,000[3] | 3.87 | January 23, 2012 | 992,250 |
| Vice President, Engineering | 111,000[3] | 7.38 | January 22, 2013 | 239,760 |
| | 140,000[3] | 5.03 | January 22, 2014 | 631,400 |
| | 111,000[3] | 9.72 | January 22, 2015 | Nil |
| James W. Surbey | 75,000[3] | 3.87 | January 23, 2012 | 425,250 |
| Vice President, Corporate | 111,000[3] | 7.38 | January 22, 2013 | 239,760 |
| Development and Corporate | 140,000[3] | 5.03 | January 22, 2014 | 631,400 |
| Secretary | 111,000[3] | 9.72 | January 22, 2015 | Nil |
| | 809,933[4] | 3.00 | January 31, 2015[5] | 5,297,654 |

**Notes:**

(1) Includes information in respect of both Options and Performance Warrants.

(2) Value is calculated based on the difference between the exercise price of the Options or Performance Warrants, as applicable, and the closing price of the Common Shares on the TSX on December 31, 2010 of $9.54.

(3) Represents Options.

(4) Represents Performance Warrants.

(5) On May 28, 2009, the expiry date of the performance warrants was extended to January 31, 2015 from January 31, 2010.

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

The following table sets forth information in respect of the value vested or earned during the Corporation's financial year ended December 31, 2010, in respect of Option-based and non-equity incentive plan awards for the Named Executive Officers of the Corporation.

**Incentive Plan Awards Value Vested or Earned**
**For Financial Year Ended December 31, 2010**

| Name | Option-based awards – Value Vested during the year[(1)] ($) | Non-Equity Incentive Plan Awards – Value Earned during the year[(2)] ($) |
|---|---|---|
| A. Jeffery Tonken<br>President and Chief Executive Officer | 449,520 | 225,000 |
| Myles R. Bosman<br>Vice President, Exploration<br>and Chief Operating Officer | 498,107 | 225,000 |
| Bruno P. Geremia<br>Vice President and Chief Financial Officer | 449,520 | 225,000 |
| Dave M. Humphreys<br>Vice President, Operations | Nil | 225,000 |
| Karen Pagano<br>Vice President, Engineering | 643,857 | 225,000 |
| James W. Surbey<br>Vice President, Corporate Development<br>and Corporate Secretary | 449,520 | 225,000 |

**Notes:**

(1) Value is calculated for each of the options based on the difference between the exercise price of the Options and the closing price of the Common Shares on the TSX on the vesting date for such Options.

(2) Non-equity incentive plan compensation represents the cash bonuses paid under the Bonus Plan for the financial year ended December 31, 2010.

## Pension Plan Benefits

The Corporation does not have a pension plan or any other plan that provides for payments or benefits at, following or in connection with retirement. In addition, the Corporation does not have a deferred compensation plan.

## Termination and Change of Control Benefits

### *Employment Agreements*

Effective December 16, 2009, the Corporation entered into executive employment agreements (the "**Employment Agreements**") with each of the Named Executive Officers, other than the President and Chief Executive Officer. These Employment Agreements are for an indefinite term and contain provisions for payments upon termination with or without cause or resignation or termination or a change in duties or remuneration following a "change of control". A change of control is deemed to have occurred if:

- any person or group of persons acquires effective control of the Corporation (where "control" means the ability to exercise effective control of the management and policies of the Corporation and the ability to elect the majority of the Board of Directors and "group" refers to a combination of persons that act in concert);
- there is an acquisition of 20% or more of the Common Shares of the Corporation or securities convertible into Common Shares of the Corporation (other than by Seymour Schulich and his associates or affiliates);

- an amalgamation, arrangement or other such transaction is completed, which results in the directors of the Corporation comprising less than two-thirds of the directors of the new entity; a sale of all or substantially all of the assets of the Corporation (other than to a partnership of which the Corporation is a partner); the liquidation, dissolution or winding up of the Corporation; or any person, partnership, entity or group acquiring control of the Corporation; or
- the Board determines that a change of control has occurred.

*Summary of Conditions and Potential Payments in Employment Agreements*

| | |
|---|---|
| Conditions and Obligations of Employment | • Confidentiality obligations and non-solicitation of employees for a period of one year following termination. |
| Termination without just cause<br>or<br>Resignation within 30 days following change of control or constructive dismissal<br>or<br>Change of duties or remuneration following change of control | • Lump sum payment equal to current annual salary to the date of termination and an amount equal to annual compensation[1] in effect immediately prior to such termination, multiplied by two.<br>• All outstanding and accrued vacation pay.<br>• All previously unvested convertible securities to acquire Common Shares of the Corporation will be exercisable until the later of 180 days following the date of termination and January 31 of the following calendar year.<br>• All benefits continued until the first to occur of: two months from the date of termination; alternative employment with comparable benefits; or death. |
| Termination for just cause | • Any unpaid portion of salary accrued to the date of termination, any amounts due for unused vacation and any outstanding expenses not yet reimbursed. |

**Note:**

(1) "Annual Compensation" means the sum of: (i) current annual salary; plus (ii) the simple average of the aggregate amount received or entitled to be received in respect of each of such last two fiscal years pursuant to any profit sharing, officer or employee incentive, compensation or bonus program; plus (iii) if not employed for each of the last two fiscal years, the simple average of the aggregate amounts that the VP Engineering of the Corporation received or is entitled to receive in respect of each such last two fiscal years pursuant to any profit sharing, officer or employee incentive, compensation or bonus program; plus (iv) the annual cost of providing employment benefits.

The following table sets forth the estimated incremental payments that would be made to each of the Named Executive Officers pursuant to their respective Employment Agreements, under the noted triggering events. All payments are calculated assuming the date of the termination event was December 31, 2010:

| **Name** | **Payment Made in the Event of Termination for Just Cause[1]** | **Payment Made in the Event of Termination without Just Cause, Resignation or Change in Duties or Remuneration Following a Change of Control[2] ($)** |
|---|---|---|
| Myles R. Bosman<br>Vice President, Exploration | Nil | 972,474 |
| Bruno P. Geremia<br>Vice President and Chief Financial Officer | Nil | 972,474 |
| Dave M. Humphreys<br>Vice President, Operations | Nil | 972,474 |
| Karen A. Pagano<br>Vice President, Engineering | Nil | 972,474 |
| James W. Surbey<br>Vice President, Corporate Development | Nil | 972,474 |

**Notes:**

(1) See disclosure in the table under the heading "*Executive Compensation – Termination and Change of Control Benefits - Employment Agreements*".

(2) Based on the sum of the amounts payable in respect of salary, bonuses and estimated cost of benefits.

### *The Stock Option Plan*

The Stock Option Plan contains various provisions that apply in the context of a transaction resulting in a "change of control" (as such term is defined in the Stock Option Plan). In most change of control situations, all unvested options will be vested. In the context of a change of control where not less than 66 $^{2}/_{3}$% of vested Options have been exercised, all remaining unexercised Options shall expire and automatically terminate and the Corporation shall make a cash payment to the former holders of such Options in an amount equal to the "in-the-money" value of such expired options at such time. The following table sets forth the estimated value of the accelerated option vesting to each of the Named Executive Officers following a change of control under the Stock Option Plan assuming such event had occurred on December 31, 2010.

| **Name** | **Value of Accelerated Option Vesting[(1)] ($)** |
|---|---|
| A. Jeffery Tonken<br>President and Chief Executive Officer | 500,856 |
| Myles R. Bosman<br>Vice President, Exploration and Chief Operating Officer | 500,856 |
| Bruno P. Geremia<br>Vice President and Chief Financial Officer | 500,856 |
| Dave M. Humphreys<br>Vice President, Operations | 166,834 |
| Karen A. Pagano<br>Vice President, Engineering | 500,856 |
| James W. Surbey<br>Vice President, Corporate Development and Corporate Secretary | 500,856 |

**Note:**

(1) Calculated based on the difference between the market price of the Common Shares underlying the accelerated Options (based on the closing price of the Common Shares on the TSX on December 31, 2010 of $9.54) and the exercise price of the Options.

## Director Compensation

### *Summary Compensation for Directors*

Mr. Tonken is not paid as a director of the Corporation. The compensation paid to the other directors during the financial year ended December 31, 2010 consisted of an annual fee of $40,000 and a fee of $1,000 per meeting attended for each meeting of the Board or any committee thereof. The directors also are granted options under the Stock Option Plan. All matters related to the compensation of directors are determined by the Compensation Committee.

The following table sets forth information in respect of all amounts of compensation provided to the directors of the Corporation during the financial year ended December 31, 2010, excluding Mr. Tonken, whose compensation information is provided under the heading *"Executive Compensation – Summary Compensation for Named Executive Officers"*.

**Summary Compensation Table for Directors [1]**
**For Financial Year Ended December 31, 2010**

| Name | Fees earned ($) | Option-based awards[2] ($) | All other compensation ($) | Total ($) |
|---|---|---|---|---|
| Gordon W. Cameron | 68,000 | 207,987 | Nil | 275,987 |
| Kenneth N. Cullen[3] | Nil | Nil | Nil | Nil |
| Larry A. Shaw | 68,000 | 207,987 | Nil | 275,987 |
| Werner A. Siemens | 68,000 | 207,987 | Nil | 275,987 |

**Notes:**

(1) Mr. Tonken is not paid as a director of the Corporation. Compensation information for Mr. Tonken is provided under the heading *"Executive Compensation - Summary Compensation for Named Executive Officers".*

(2) The Corporation has calculated the grant date fair value of the options granted to the directors using the Black-Scholes-Merton model. The Corporation chose this methodology because it is recognized as the most common methodology used for valuing options and doing value comparisons. These options were granted on January 22, 2010. The Black-Scholes-Merton assumptions used by the Corporation for January 22, 2010 were: (i) an initial expected life of 5 years; (ii) a forfeiture rate of 0%; (iii) a historical volatility of 61.0%; and (iv) a risk free interest rate of 2.45%. The aggregate number of Options held by each of the directors (who are not also Named Executive Officers) as at December 31, 2010, is disclosed in the table *"Director Compensation - Outstanding Option-Based Awards at the End of the Financial Year Ended December 31, 2010".*

(3) Mr. Cullen became a director on February 16, 2011.

## Incentive Plan Awards

### *Outstanding Option-Based Awards*

The following table sets forth information in respect of all Option-based awards outstanding at the end of the financial year ended December 31, 2010, for the directors of the Corporation.

**Outstanding Option-Based Awards**
**For Financial Year Ended December 31, 2010[1]**

| Name | Number of securities underlying unexercised options (#) | Option exercise price ($) | Option expiration date | Value of unexercised in-the-money options[2] ($) |
|---|---|---|---|---|
| Gordon W. Cameron | 50,100 | 7.38 | January 22, 2013 | $108,216 |
| | 50,000 | 5.03 | January 22, 2014 | $225,500 |
| | 40,000 | 9.72 | January 22, 2015 | Nil |
| Kenneth N. Cullen[3] | Nil | Nil | Nil | Nil |
| Larry A. Shaw | 50,100 | 7.38 | January 22, 2013 | $108,216 |
| | 50,000 | 5.03 | January 22, 2014 | $225,500 |
| | 40,000 | 9.72 | January 22, 2015 | Nil |
| Werner A. Siemens | 50,100 | 7.38 | January 22, 2013 | $108,216 |
| | 33,334 | 5.03 | January 22, 2014 | $150,336 |
| | 40,000 | 9.72 | January 22, 2015 | Nil |

**Notes:**

(1) Mr. Tonken is not paid as a director of the Corporation. Compensation information for Mr. Tonken is provided under the heading *"Executive Compensation - Summary Compensation for Named Executive Officers".*

(2) Value is calculated based on the difference between the exercise price of the Options and the closing price of the Common Shares on the TSX on December 31, 2010 of $9.54.

(3) Mr. Cullen became a director on February 16, 2011.

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

The following table sets forth information in respect of the value vested or earned during the Corporation's financial year ended December 31, 2010, in respect of option-based awards for the directors of the Corporation.

**Value Vested or Earned for Incentive Plan Awards**
**For Financial Year Ended December 31, 2010**

| Name[1] | Option-based awards – Value Vested during the year[2] ($) | Non-Equity Incentive Plan Awards – Value Earned during the year[3] ($) |
|---|---|---|
| Gordon W. Cameron | 116,574 | Nil |
| Kenneth N. Cullen[4] | Nil | Nil |
| Larry A. Shaw | 116,574 | Nil |
| Werner A. Siemens | 116,574 | Nil |

**Notes:**
(1) Mr. Tonken is not paid as a director of the Corporation. Compensation information for Mr. Tonken is provided under the heading *"Executive Compensation - Summary Compensation for Named Executive Officers".*
(2) Value is calculated for each of the Options based on the difference between the exercise price of the Options and the closing price of the Common Shares on the TSX on the vesting date for such Options.
(3) Non-equity incentive plan compensation represents the cash bonuses paid under the Bonus Plan for the financial year ended December 31, 2010.
(4) Mr. Cullen became a director on February 16, 2011.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth the details relating to the outstanding equity compensation plans of the Corporation at December 31, 2010.

| Plan Category | Number of Common Shares to be issued upon exercise of outstanding options, warrants and rights (A) | Weighted-average exercise price of outstanding options, warrants and rights (B) | Number of Common Shares remaining available for issuance under equity compensation plans (excluding those included in column (A)) (C) |
|---|---|---|---|
| Equity Compensation Plans approved by shareholders | Options: 9,247,520<br>Performance Warrants: 2,939,732<br>Total: 12,187,252 | Options: $7.26<br>Performance Warrants: $3.00<br>Total: $6.23 | Options: 3,265,403<br>Performance Warrants: Nil<br>Total: 3,265,403 |
| Equity Compensation Plans not approved by shareholders | Nil | N/A | Nil |

## CORPORATE GOVERNANCE DISCLOSURE

Pursuant to National Instrument 58-101 - *Disclosure of Corporate Governance Practices*, the Corporation is required to include in this Information Circular the disclosure required under Form 58-101F1 with respect to the matters set out under National Policy 58-201 - *Corporate Governance Guidelines*.

### Board of Directors

The Board currently consists of five directors, of which four are independent directors and accordingly, a majority of the directors are independent. A director is "independent" if he would be independent within the meaning of section 1.4 of National Instrument 52-110 - *Audit Committees* ("**NI 52-110**"). The independent directors are Mr. Shaw, Mr. Cameron, Mr. Cullen and Mr. Siemens. Mr. Tonken is not an independent director by virtue of his position as the President and Chief Executive Officer of the Corporation. The Chairman of the Board is Mr. Shaw who is an independent director.

None of the directors of the Corporation are directors of any other reporting issuer except for Mr. Tonken, who is a director of Daylight Energy Ltd. and Mr. Cullen, who is a director of Southern Pacific Resources Corp.

The independent directors have not in the past held regularly scheduled meetings at which members of the Corporation's management are not present and the independent directors did not hold any regularly scheduled meetings during the financial year ended 2010. However, the Board facilitates open and candid discussion among its independent directors by making it clear that the independent directors can meet by themselves whenever they wish to do so and by providing an opportunity for the independent directors to meet without any members of management present at meetings of the Audit Committee, the Reserves Evaluation Committee and the Compensation Committee. While the Board relies heavily on information provided to it by management, it functions independently of management. Mr. Shaw, the Chairman of the Board, is not a member of management and chairs all meetings of the Board at which he is present. The independent directors are in regular communication with the Corporation's Chief Executive Officer outside of formal Board meetings and processes.

The independent directors, as members of the Audit Committee and the Reserves Evaluation Committee, also meet with the Corporation's auditors and the Corporation's independent engineering consultants. These meetings are independent of management for the purposes of planning their activities and thereafter to supervise such activities. The other purpose of these meetings is to ensure that such auditors and consultants: receive full access to all requested information and receive full cooperation of management; that they are not subject to any pressure from management; that there are no outstanding disagreements with management; that they are not aware of any evidence of illegal or fraudulent acts; and that they are not aware of any other significant matters that should be brought to the attention of the directors.

In 2010, the full Board met on 12 occasions, the Reserves Evaluation Committee met on five occasions, the Audit Committee met on five occasions and the Compensation Committee met on four occasions. In 2010, each director attended all board meetings and each committee member attended all committee meetings.

**Mandate of the Board**

The Board does not have a written mandate. The Board delineates its role and responsibilities based on the statutory and common law applicable to the Corporation. The Board believes its mandate is to manage the business and affairs of the Corporation. While day-to-day management of the Corporation has been delegated by the Board to executive management, the Board fulfills its responsibility for the broader stewardship of the Corporation's business and affairs through its regular meetings at which members of the Corporation's management provide reports to the Board with respect to the Corporation's business and operations, and make proposals to the Board and receive the Board's decisions for implementation.

To monitor corporate performance, the Board reviews and approves budgets prepared by management on at least an annual basis, the members of the Board receive weekly production updates and the Board receives internal monthly financial reports. The Board also receives operational and financial status reports at its meetings. The Board receives informal updates from the Chief Executive Officer on a regular basis. At the end of each year the Board reviews production growth, finding and development costs, outstanding debt and cash flow as compared to the Corporation's budget and as compared to industry peers.

## Position Descriptions

The Board has not developed written position descriptions for the Chairman of the Board. The Board does not expressly delineate the roles and responsibilities of the Chairman of the Board and relies upon the provisions of the by-laws of the Corporation and the statutory and common law to define such roles and responsibilities.

The Board and the Chief Executive Officer have not developed a written position description for the Chief Executive Officer. The Board has not delineated the specific roles and responsibilities of the Chief Executive Officer and believes that the Chief Executive Officer has the responsibility for the all of the functions and operations of the Corporation on a day-to-day basis.

The Board has established the following Board committees comprised of the members and chaired by the individuals set out in the following table:

| Committee | Members | Independent |
|---|---|---|
| Audit Committee | Gordon W. Cameron | Yes |
| | Kenneth N. Cullen | Yes |
| | Larry A. Shaw (Chairman) | Yes |
| | Werner A. Siemens | Yes |
| Compensation Committee | Gordon W. Cameron | Yes |
| | Kenneth N. Cullen | Yes |
| | Larry A. Shaw (Chairman) | Yes |
| | Werner A. Siemens | Yes |
| Reserves Evaluation Committee | Gordon W. Cameron | Yes |
| | Kenneth N. Cullen | Yes |
| | Larry A. Shaw (Chairman) | Yes |
| | Werner A. Siemens | Yes |

The Board has not developed written positions for the chairman of each of the Audit Committee, the Reserves Evaluation Committee or the Compensation Committee. However, the Board expects the chairman of each committee to organize the meetings of the committee and to delegate the work to be performed by committee members.

The principal function of the Audit Committee is to review the overall audit plan and the Corporation's system of internal controls, to review the results of the external audit, and to resolve any potential disputes with the Corporation's auditors. In performing this function, the Audit Committee monitors audit functions and the preparation of financial statements, communicates directly with the external auditors, has overview responsibility for management reporting on internal controls, and meets with outside auditors independently of management. The Audit Committee also approves press releases of financial results, reviews all prospectuses and the Corporation's annual information form. The Audit Committee has developed and adopted a formal Charter and the text of that Charter together with other disclosure required by NI 52-110 is contained in the Annual Information Form of the Corporation dated March 29, 2011, under the heading *"Audit Committee"*, which is available on SEDAR at www.sedar.com.

For a description of the functions of the Compensation and Reserves and Evaluation Committees, please see the disclosure under the headings *"Corporate Governance Disclosure - Compensation"* and *"Corporate Governance Disclosure - Other Committees"*, respectively.

## Orientation and Continuing Education

The Corporation does not currently have any formal orientation and education programs for new directors as the changes in Board membership have been limited. The Board briefs new directors on the corporate policies of the Corporation and other relevant corporate and business information. The Board has not implemented a continuing education program for directors, however the Board supports any relevant educational initiative by any individual director. Management regularly provides the Board with continuing education materials and the Board obtains legal and/or accounting advice whenever it considers it necessary to keep abreast of current developments relating to the obligations of directors.

### Ethical Business Conduct

The Board has adopted a written code of ethical business conduct (the **"Ethics Policy**") for the directors, officers and employees of the Corporation. A copy of the Ethics Policy is available on the Corporation's intranet and each new employee receives a copy of the Ethics Policy. The Board does not formally monitor compliance with the Ethics Policy. The Board expects that each director will exercise independent judgment in considering transactions and agreements in respect of which such director has a material interest and in those circumstances will comply with applicable law and disclose his interest and refrain from participating in discussions or voting on the matter, in accordance with the requirements of the *Business Corporations Act* (Alberta).

The Audit Committee and the Board have adopted a Whistleblower Policy that provides for the confidential and anonymous submission by employees of concerns regarding questionable accounting or audit matters. Under the Whistleblower Policy, the Board encourages the submission of all good faith concerns and complaints regarding the Corporation's accounting, auditing and financial reporting.

### Nomination of Directors

The Board has not initiated any formal process to identify new candidates for Board nomination. The Board encourages the independent directors to put forward their suggestions regarding candidates for new directors and thereby encourages an objective nomination process.

The Board has not established and has no current intention of establishing either a nominating committee or corporate governance committee. The Board will normally establish a committee when it considers that independence and exclusion of management participation is required to effectively and properly manage the relevant subject matter or when it feels that the frequency of meetings or time commitments required to effectively manage the relevant subject matter make it impractical for such matters to be managed by the full board. The Board does not consider that either of these concerns have arisen in relation to matters that would normally be managed by a nominating or corporate governance committee.

### Compensation

The Board has a Compensation Committee which is comprised entirely of independent directors. The Compensation Committee has the responsibility to review compensation matters and to recommend to the Board the appropriate levels of compensation for all of the directors and officers of the Corporation. In addition, it has responsibility to provide oversight and guidance for the compensation and benefit of all of the Corporation's employees. The Compensation Committee has the authority to engage outside advisors to the extent it considers it necessary or desirable. Further information regarding compensation matters is disclosed under the heading "*Executive Compensation*".

### Other Board Committees

Other than the Audit Committee and the Compensation Committee, the only other committee the Board has appointed is a Reserves Evaluation Committee, which is composed entirely of independent directors. This committee assists the Board in fulfilling its oversight responsibilities in relation to the determination and reporting of the Corporation's reserve estimates, the qualifications of the Corporation's independent engineering consultants and their corporate procedures. This committee has the responsibility to monitor the Corporation's compliance with National Instrument 51-101 and to select, engage and supervise an independent reserves evaluator to prepare reports required under National Instrument 51-101.

**Assessments**

The Board has not adopted a formal process whereby the Board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. The Board satisfies itself with respect to the effectiveness of the Board, its committees and individual directors by monitoring on an informal basis whether the objectives of each of the Board and the Corporation are being achieved and whether the responsibilities of each of the Board, its committees and individual directors and of the Corporation are being fulfilled.

## INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No person who is or has been a director or executive officer of the Corporation at any time since the beginning of the financial year ended December 31, 2010 nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of any one of them, is or was indebted to: (i) the Corporation or any of its subsidiaries; or (ii) another entity where such indebtedness is or was the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries, in either case at any time since the beginning of the financial year ended December 31, 2010.

## INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

No informed person of the Corporation, nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of any one of them, has or has had at any time since the beginning of the financial year ended December 31, 2010 any material interest, direct or indirect, in any transaction or proposed transaction that has materially affected or would materially affect the Corporation or any of its subsidiaries.

There are potential conflicts of interest to which the directors and officers of the Corporation may be subject in connection with the operations of the Corporation. Some of the directors and officers of the Corporation are engaged and will continue to be engaged in other business opportunities on their own behalf and on behalf of other corporations and situations may arise where such directors and officers will be in competition with the Corporation. Any such actual or potential conflicts of interest shall be governed by applicable law and internal policies of the Corporation.

## ADDITIONAL INFORMATION

Additional information relating to the Corporation is available on SEDAR at www.sedar.com. Financial information relating to the Corporation is provided in the Corporation's comparative financial statements and Management's Discussion and Analysis for the financial year ended December 31, 2010, which is available on SEDAR at www.sedar.com.

Any securityholder may obtain a copy of the Corporation's comparative financial statements and Management's Discussion and Analysis for the financial year ended December 31, 2010 by contacting James W. Surbey, Vice President, Corporate Development, by e-mail, regular mail, fax or telephone as set forth below.

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