



929 Mainland Street  
Vancouver, British Columbia Canada V6B 1S3  
*Tel:* 604 628-1767 / *Fax:* 604 628-0129  
[www.umbralenergy.com](http://www.umbralenergy.com)

## INFORMATION CIRCULAR

as at May 26, 2017  
(except as otherwise indicated)

**This Information Circular is furnished in connection with the solicitation of proxies by the management of Umbral Energy Corp. (the “Company”) for use at the annual general meeting (the “Meeting”) of its shareholders to be held on Friday, July 7, 2017 at the time and place and for the purposes set forth in the accompanying notice of the Meeting.**

In this Information Circular, references to the “Company”, “Umbral”, “we” and “our” refer to **Umbral Energy Corp.** “Common Shares” means common shares without par value in the capital of the Company. “Beneficial Shareholders” means shareholders who do not hold Common Shares in their own name and “intermediaries” refers to brokers, investment firms, clearing houses and similar entities that own securities on behalf of Beneficial Shareholders.

### GENERAL PROXY INFORMATION

#### Solicitation of Proxies

The solicitation of proxies will be primarily by mail, but proxies may be solicited personally or by telephone by directors, officers and regular employees of the Company. The Company will bear all costs of this solicitation. We have arranged for intermediaries to forward the meeting materials to beneficial owners of the Common Shares held of record by those intermediaries and we may reimburse the intermediaries for their reasonable fees and disbursements in that regard.

#### Appointment of Proxyholders

The individuals named in the accompanying form of proxy (the “Proxy”) is a Director and/or an Officer of the Company. **If you are a shareholder entitled to vote at the Meeting, you have the right to appoint a person or company other than either of the persons designated in the Proxy, who need not be a shareholder, to attend and act for you and on your behalf at the Meeting. You may do so either by inserting the name of that other person in the blank space provided in the Proxy or by completing and delivering another suitable form of proxy.**

#### Voting by Proxyholder

The persons named in the Proxy will vote or withhold from voting the Common Shares represented thereby in accordance with your instructions on any ballot that may be called for. If you specify a choice with respect to any matter to be acted upon, your Common Shares will be voted accordingly. The Proxy confers discretionary authority on the persons named therein with respect to:

- (a) each matter or group of matters identified therein for which a choice is not specified, other than the appointment of an auditor and the election of directors;
- (b) any amendment to or variation of any matter identified therein; and
- (c) any other matter that properly comes before the Meeting.

**In respect of a matter for which a choice is not specified in the Proxy, the persons named in the Proxy will vote the Common Shares represented by the Proxy for the approval of such matter.**

#### Registered Shareholders

Registered Shareholders may wish to vote by proxy whether or not they are able to attend the Meeting in person. Registered shareholders may choose one of the following options to submit their proxy:

- (a) completing, dating and signing the enclosed form of proxy and returning it to the Company’s transfer agent, Computershare Investor Services Inc. (“Computershare”), by fax within North America at 1-866-249-7775, outside North America at (416) 263-9524, or by mail to the 8<sup>th</sup> Floor, 100 University Avenue,

Toronto, Ontario, M5J 2Y1 or by hand delivery at 3<sup>rd</sup> Floor, 510 Burrard Street, Vancouver, British Columbia, Canada V6C 3B9;

- (b) use a touch-tone phone to transmit voting choices to a toll free number. Registered shareholders must follow the instructions of the voice response system and refer to the enclosed proxy form for the toll free number, the holder's account number and the proxy access number; or
- (c) use the internet through the website of the Company's transfer agent at [www.investorvote.com](http://www.investorvote.com). Registered Shareholders must follow the instructions that appear on the screen and refer to the enclosed proxy form for the holder's account number and the proxy access number.

In all cases the Registered Shareholder must ensure the proxy is received at least 48 hours (excluding Saturdays, Sundays and statutory holidays) before the Meeting, or the adjournment thereof, at which the proxy is to be used.

### **Beneficial Shareholders**

**The following information is of significant importance to shareholders who do not hold Common Shares in their own name.** Beneficial Shareholders should note that the only proxies that can be recognized and acted upon at the Meeting are those deposited by registered shareholders (those whose names appear on the records of the Company as the registered holders of Common Shares) or as set out in the following disclosure.

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 Company. Such Common Shares will more likely be registered under the names of the shareholder's broker or an agent of that broker (an "intermediary"). In the United States, the vast majority of such Common Shares are registered under the name of Cede & Co. as nominee for The Depository Trust Company (which acts as depository for many U.S. brokerage firms and custodian banks), and in Canada, under the name of CDS & Co. (the registration name for The Canadian Depository for Securities Limited, which acts as nominee for many Canadian brokerage firms).

Intermediaries are required to seek voting instructions from Beneficial Shareholders in advance of meetings of shareholders. Every intermediary has its own mailing procedures and provides its own return instructions to clients.

There are two kinds of Beneficial owners – those who object to their name being made known to the issuers of securities which they own (called "OBOS" for Objecting Beneficial Owners) and those who do not object to the issuers of the securities they own knowing who they are (called "NOBOs" for Non-Objecting Beneficial Owners).

The Company is taking advantage of the provisions of National Instrument 54-101 "*Communication with Beneficial Owners of Securities of a Reporting Issuer*" that permit it to directly deliver proxy-related materials to its NOBOs. As a result NOBOs can expect to receive a scannable Voting Instruction Form ("VIF") from our transfer agent. These VIFs are to be completed and returned to Computershare in the envelope provided or by facsimile. In addition, Computershare provides both telephone voting and internet voting as described on the VIF itself which contain complete instructions at the Meeting with respect to the shares represented by the VIFs they receive.

These securityholder materials are being sent to both registered and non-registered owners of the securities of the Company. If you are a non-registered owner, and the Company or its agent sent these materials directly to you, your name and address and information about your holdings of securities have been obtained in accordance with applicable securities regulatory requirements from the intermediary holding securities on your behalf.

By choosing to send these materials to you directly, the Company (and not the intermediary holding securities on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in your request for voting instructions.

Beneficial Shareholders who are OBOs should follow the instructions of their intermediary carefully to ensure that their Common Shares are voted at the Meeting.

The form of proxy supplied to you by your broker will be similar to the proxy provided to registered shareholders by the Company. However, its purpose is limited to instructing the intermediary on how to vote your Common Shares on your behalf. Most brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("Broadridge") in the United States and in Canada. Broadridge mails a VIF in lieu of a proxy provided by the Company. The VIF will name the same persons as the Company's Proxy to represent your Common Shares at the Meeting. You have the right to appoint a person (who need not be a Beneficial Shareholder of the Company), other than any of the persons designated in the VIF, to represent your Common Shares at the Meeting, and that person may be you. To exercise this right, you should insert the name of the desired representative (which may be yourself) in the blank space provided in the VIF. The completed VIF must then be returned to Broadridge by mail or facsimile or given to Broadridge by phone or over the internet, in accordance with Broadridge's instructions. 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, and the appointment of any shareholder's representative. **If you receive a VIF from Broadridge, the VIF must be completed and returned to Broadridge, in accordance with its instructions, well in advance of the Meeting in order to have your Common Shares voted at the Meeting and to vote your Common Shares at the Meeting.**

#### **Notice to Shareholders in the United States**

The solicitation of proxies involve securities of an issuer located in Canada and is being effected in accordance with the corporate laws of the Province of British Columbia, Canada and securities laws of the provinces of Canada. The proxy solicitation rules under the *United States Securities Exchange Act of 1934*, as amended, are not applicable to the Company or this solicitation, and this solicitation has been prepared in accordance with the disclosure requirements of the securities laws of the provinces of Canada. Shareholders should be aware that disclosure requirements under the securities laws of the provinces of Canada differ from the disclosure requirements under United States securities laws.

#### **Revocation of Proxies**

In addition to revocation in any other manner permitted by law, a registered shareholder who has given a proxy may revoke it by:

- (a) executing a proxy bearing a later date or by executing a valid notice of revocation, either of the foregoing to be executed by the registered shareholder or the registered shareholder's authorized attorney in writing, or, if the shareholder is a corporation, under its corporate seal by an officer or attorney duly authorized, and by delivering the proxy bearing a later date to Computershare or to the address of the registered office of the Company at 1500 Royal Centre, 1055 West Georgia Street, P. O. Box 11117, Vancouver, British Columbia, V6E 4N7, at any time up to and including the last business day that precedes the day of the Meeting or, if the Meeting is adjourned, the last business day that precedes any reconvening thereof, or to the chairman of the Meeting on the day of the Meeting or any reconvening thereof, or in any other manner provided by law; or
- (b) personally attending the Meeting and voting the registered shareholder's Common Shares.

A revocation of a proxy will not affect a matter on which a vote is taken before the revocation.

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

No director or executive officer of the Company, or any person who has held such a position since the beginning of financial year end October 31, 2016 of the Company, nor any nominee for election as a director of the Company, nor any associate or affiliate of the foregoing persons, has any substantial or material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the Meeting other than the election of directors and as may be set out herein.

#### **VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES**

The board of directors (the "Board") of the Company has fixed May 26, 2017 as the record date (the "Record Date") for determination of persons entitled to receive notice of the Meeting. Only shareholders of record at the close of business on the Record Date who either attend the Meeting personally or complete, sign and deliver a form of proxy in the manner and subject to the provisions described above will be entitled to vote or to have their Common Shares voted at the Meeting.

The Company's common shares are listed on the Canadian Securities Exchange (the "CSE").

As of May 26, 2017, there were 77,248,146 Common Shares issued and outstanding, each carrying the right to one vote. No group of shareholders has the right to elect a specified number of directors, nor are there cumulative or similar voting rights attached to the Common Shares.

The authorized share structure capital of the Company is an unlimited number of Common Shares.

The Company is currently listed as a junior resource issuer having mineral exploration properties in Utah, Nevada and Quebec.

The Company has an interest in the commercial cultivation of marijuana under the newly established Health Canada regulations pertaining to the cultivation of marijuana for medical purposes. through the Company's partner, PhyeinMed Inc., an operating company who has applied for a license from Health Canada for a Marijuana for Medical Purposes Regulations Licence and should its application be granted by Health Canada, the Company will proceed with closing the acquisition of a 10,500 sq.ft. facility on 13 acres in the State of Washington, USA, of which the Company has an agreement to purchase. This approval will for the License Applicant to extract cannabis concentrates (oils & edibles). In addition the

building will allow for a year round growing, providing for the required control of medicinal plants. In addition the property has sufficient space to add 3 greenhouses. There are no assurances that PhyeinMed's application will be successful. The Company will continue to comply with the requirements as they pertain to the Marijuana for Medical Purposes Regulations as the Company continues to work through the application process.

To the knowledge of the directors and executive officers of the Company, as at May 26, 2017, there were no persons or corporations that beneficially owned, directly or indirectly, or exercised control or direction over, Shares carrying more than 10% of the voting rights attached to all outstanding Shares of the Company.

The audited financial statements of the Company for the fiscal year ended October 31, 2016, the report of the auditor and the management discussion and analysis were filed on SEDAR at [www.sedar.com](http://www.sedar.com) on February 27, 2017. These audited financial statements will be tabled at the Meeting.

### ELECTION OF DIRECTORS

The Board presently consists of three directors and it is intended to elect three directors for the ensuing year. The term of office of each of the current directors will end immediately before the election or appointment of directors at the Meeting. Unless the director's office is earlier vacated in accordance with the provisions of the *Business Corporations Act* (British Columbia), each director elected will hold office until immediately before the election or appointment of directors at the Meeting, or if no directors are then elected, until a successor is elected.

The following disclosure sets out the names of management's three nominees for election as directors, all major offices and positions with the Company and any of its significant affiliates each now holds, each nominee's principal occupation, business or employment of each director nominee, the period of time during which each nominee has been a director of the Company and the number of Common Shares of the Company beneficially owned by each, directly or indirectly, or over which each exercised control or direction, as at May 26, 2017.

<b>Name of Nominee; Current Position with the Company and Province or State and Country of Residence</b>	<b>Principal Occupation</b>	<b>Period as a Director of the Company</b>	<b>Common Shares Beneficially Owned or Controlled<sup>(1)</sup></b>
Clinton Sharples <sup>(2)(5)</sup> Chairman/Non Executive Director British Columbia	Partner, First Growth Management Inc. (private venture capital company)	Since May 29, 2013	1,581,000
Jagdip Bal <sup>(3)(5)</sup> President, Chief Executive Officer and Director British Columbia	Self-Employed Businessman, since November 2003; Peace Officer, Province of British Columbia – February 2000 to November 2003.	Since December 14, 2012	3,555,693
Bradley T. Culver PGeoph <sup>(4)(5)</sup> Director Alberta	Director of New Play Development, Teine Energy Ltd.; Senior Exploration Geophysicist, Birchcliff Energy Ltd. from 2010 to 2013; Geophysicist, Encana Corporation from 2000 to 2010.	Since March 11, 2013	40,000

Notes:

- (1) The information as to principal occupation, business or employment and Common Shares beneficially owned or controlled is not within the knowledge of the management of the Company and has been furnished by the respective nominees.
- (2) 1,240,000 common shares are owned directly by Clinton Sharples and 341,000 common shares are owned indirectly by First Growth Management, a private equity company formed in 2005, owned and controlled by Mr. Sharples. Mr. Sharples holds a total of 600,000 incentive stock options: at an exercise price of \$0.055 expiring on September 15, 2020; Mr. Sharples also holds a total of 202 warrants at an exercise price of \$0.10 expiring on March 19, 2018.
- (3) Mr. Bal holds a total of 494,000 common share purchase warrants: i) 293,809 share purchase warrants at an exercise price of \$0.10 expiring on March 19, 2018; and ii) 200,191 share purchase warrants at an exercise price of \$0.06 expiring on March 19, 2018.
- (4) Bradley T. Culver holds a total of 400,000 incentive stock options at an exercise price of \$0.08 expiring on May 30, 2021.
- (5) Member of Audit Committee.

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

Other than set out below, no current or proposed director is, or has been within the past 10 years, a director or executive officer of any other company that, while such person was acting in that capacity: (a) was the subject of a cease trade or

similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; (b) was subject to an event that resulted, after the current or proposed director ceased to be a director or executive officer of such company, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (c) within a year of the current or proposed director ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Bradley Culver was a director of Probe Resources Ltd. (“**Probe**”) (now known as Rooster Energy Ltd.), a TSX Venture Exchange listed company, at the time Probe Resources Ltd. was issued a cease trade order on January 7, 2011, for failure to file its annual financial statements and management’s discussion and analysis for its financial year ended August 31, 2010 in the required time. Probe Resources Ltd. announced by press release dated November 16, 2010 that the company’s U.S. subsidiaries filed voluntary Chapter 11 petitions in U.S. Bankruptcy Court for the Southern District of Texas in Houston, Texas. Mr. Culver resigned prior to the filing of the Chapter 11 proceeding in November 2012. Probe Resources Ltd. emerged from its Chapter 11 bankruptcy filing on April 15, 2011 and then brought its filings up to date. On February 6, 2012, the cease trade order was lifted.

#### *Personal Bankruptcies*

No current or proposed director has, within the past 10 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 his assets.

#### *Penalties or Sanctions*

No current or proposed directors 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 Shareholder in deciding whether to vote for a proposed director.

#### **Advance Notice Provision**

At the Company’s annual general and special meeting held on May 8, 2015, the Company’s shareholders approved the adoption of new Articles of the Company, which new Articles include advance notice provisions (the “**Advance Notice Provision**”). The Advance Notice Provision provides for advance notice to the Company in circumstances where nominations of persons for election to the Board of directors of the Company are made by shareholders of the Company other than pursuant to (i) a requisition of a meeting made pursuant to the provisions of the *Business Corporations Act* (British Columbia) or (ii) a shareholder proposal made pursuant to the provisions of the BCA.

The purpose of the Advance Notice Provision is to foster a variety of interests of the shareholders and the Company by ensuring that all shareholders - including those participating in a meeting by proxy rather than in person - receive adequate notice of the nominations to be considered at a meeting and can thereby exercise their voting rights in an informed manner. Among other things, the Advance Notice Provision fixes a deadline by which holders of Common Shares must submit director nominations to the Company prior to any annual or special meeting of shareholders and sets forth the minimum information that a shareholder must include in the notice to the Company for the notice to be in proper written form.

The Advance Notice Provision also requires all proposed director nominees to deliver a written representation and agreement that such candidate for nomination, if elected as a director of the Company, will comply with all applicable corporate governance, conflict of interest, confidentiality, share ownership, majority voting and insider trading policies and other policies and guidelines of the Company applicable to directors and in effect during such person’s term in office as a director.

The foregoing is merely a summary of the Advance Notice Provision, is not comprehensive and is qualified by the full text of such provision contained in the Company’s Articles which is available under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company did not receive notice of a nomination in compliance with the Advance Notice Provision, and as such, any nominations other than nominations by or at the direction of the Board or an authorized officer of the Company will be disregarded at the Meeting.

**Unless otherwise directed, the persons named in the enclosed form of proxy intend to vote FOR the election of the Nominees.**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT EACH SHAREHOLDER VOTE “FOR” THE ELECTION OF THE ABOVE NOMINEES AS DIRECTORS.**

#### **APPOINTMENT OF AUDITOR**

Morgan & Company LLP, Chartered Professional Accountants, Suite 1630 – 609 Granville Street, Vancouver, British Columbia Canada, V7Y 1A1 will be nominated at the Meeting for reappointment as auditor of the Company.

#### **AUDIT COMMITTEE AND RELATIONSHIP WITH AUDITOR**

National Instrument 52-110 *Audit Committees* of the Canadian Securities Administrators (“NI 52-110”) requires the Company, as a venture issuer, to disclose annually in its Information Circular certain information concerning the constitution of its audit committee and its relationship with its independent auditor, as set forth in the following:

##### **The Audit Committee’s Charter**

The audit committee has a charter. The Company’s audit committee charter is attached as Schedule A to this Information Circular.

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

The members of the Company’s Audit Committee are composed of Jag Bal (Chair), Bradley T. Culver and Clinton Sharples. Bradley T. Culver and Clinton Sharples are independent members of the Audit Committee. Jagdip Bal is a non-independent member of this Committee due to his being an Officer of the Company (President and Chief Executive Officer).

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

All members of the Audit Committee are considered to be financially literate.

**Jagdip Bal** Mr. Bal is President of Infinity Alliance Corp, a private company that invests in growth companies and provides consulting services for investor relations, corporate finance, business development, mergers and acquisitions for companies listed in Canada. From November 2006 to November 2008, Mr. Bal was President and CEO of Infinity Alliance Ventures Corp. (TSXV) a capital pool company which later acquired CBM Asia Development Corp. (TSXV) a coal-bed methane company with assets in Indonesia. From December 2006 to April 2007, Mr. Bal was president and director of Alma Resources (TSXV), a resource company with assets in Mexico.

**Bradley T. Culver, B.Sc.(Hons), P.Geoph.** Mr. Culver has over 25 years of experience in the oil and gas industry. Mr. Culver is employed by Teine Energy Ltd. as Director of New Play Development. Previously, Mr. Culver worked as a Senior Exploration Geophysicist with Birchcliff Energy Ltd. for 3 years and with Encana Corporation for 10 years. Mr. Culver obtained a BSc.(Hons) in Geological Sciences from Queens University in 1988.

**Clinton Sharples** Mr. Sharples is a partner in First Growth Management, a small private equity company formed in 2005. Mr. Sharples’ primary roles for First Growth Management include Chief Executive Officer of Modu-Loc Fence Rentals LP, and Paramount Pallet, as well as Chairman of Strategic Aviation Services and US Pressure Test.

##### **Audit Committee Oversight**

The audit committee has not made any recommendations to the Board to nominate or compensate any auditor other than Morgan & Company LLP.

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

The Company’s auditor, Morgan & Company LLP, has not provided any material non-audit services for fiscal year ended October 31, 2016.

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

The audit committee is required to approve the engagement of the Company’s external auditors in respect of non-audit services.

## External Auditor Service Fees

The audit committee has reviewed the nature and amount of the non-audited services provided by Morgan & Company LLP to the Company to ensure auditor independence. Fees incurred with Morgan & Company LLP for audit and non-audit services in the last two fiscal years for audit fees are outlined in the following table.

Nature of Services	Fees Paid to Auditor in Year Ended October 31, 2015	Fees Paid to Auditor in Year Ended October 31, 2016
Audit Fees <sup>(1)</sup>	\$16,320	\$17,350
Audit-Related Fees <sup>(2)</sup>	Nil	\$1,500
Tax Fees <sup>(3)</sup>	\$1,000	\$850
All Other Fees <sup>(4)</sup>	Nil	\$450
Total	\$17,320	\$20,150

Notes:

- (1) "Audit Fees" include fees necessary to perform the annual audit and quarterly reviews of the Company's consolidated financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.
- (2) "Audit-Related Fees" include services that are traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.
- (3) "Tax Fees" include fees for all tax services other than those included in "Audit Fees" and "Audit-Related Fees". This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.
- (4) "All Other Fees" include all other non-audit services.

## Exemption

The Company is exempt from the requirements of Part 3 *Composition of the Audit Committee* and Part 5 *Reporting Obligations* of NI 52-110.

## CORPORATE GOVERNANCE

Corporate governance refers to the policies and structure of the board of directors of a company, whose members are elected by and are accountable to the shareholders of the company. Corporate governance encourages establishing a reasonable degree of independence of the board of directors from executive management and the adoption of policies to ensure the board of directors recognizes the principles of good management. The Board is committed to sound corporate governance practices; as such practices are both in the interests of shareholders and help to contribute to effective and efficient decision-making.

### Board of Directors

The Board is currently composed of Jagdip Bal, Bradley T. Culver and Clinton Sharples. All of the proposed nominees for election as directors are currently directors of the Company. National Instrument 58-101 *Disclosure of Corporate Governance Practices* ("NI 58-101") suggests that the board of directors of a public company should be constituted with a majority of individuals who qualify as "independent" directors. An "independent" director is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to; materially interfere with the director's ability to act with a view to the best interests of the company, other than interests and relationships arising from shareholding. In addition, where a company has a significant shareholder, NI 58-101 suggests that a board of directors should include a number of directors who do not have interests in either the company or the significant shareholder. Bradley T. Culver and Clinton Sharples are considered by the Board to be "independent" within the meaning of NI 58-101. Jagdip Bal is an executive officer of the Company, and accordingly, is considered to be "non-independent".

Given the relative small nature of the Company's operations, the Board feels that the composition of its Board is adequate at the present time. It is a mandate of the Board to increase its size with the addition of independent directors as operations expand.

The Board facilitates its exercise of supervision over the Company's management through frequent meetings of the Board.

## **Directorships**

The directors of the Company currently do not hold directorships in other reporting issuers.

## **Orientation and Continuing Education**

The Company has not yet developed an official orientation or training program for new directors. The Company is currently engaged in the business of resource exploration and business development and new directors will be provided, through discussions and meetings with other directors, officers, and employees, with a thorough description of the Company's business, properties, assets, operations and strategic plans and objectives. Orientation activities will be tailored to the particular needs and experience of each director and the overall needs of the Board.

Board meetings may also include presentations by the Company's management and employees to give the directors additional insight into the Company's business.

## **Ethical Business Conduct**

The Board conducts itself with high business and moral standards and follows all applicable legal and financial requirements. In that regard, the Board has adopted a written Code of Ethics (the "Code") for its directors, officers, employees and consultants. The Code establishes practices regarding compliance with the law and internal policies and guidelines, a Whistleblower Policy which details complaint procedures for financial concerns, disclosure obligations, and internal financial control. Each employee, officer, director, and material consultant is provided with a copy of the Code and certifies, among others, that he or she has understood the Code and that he or she will continue to comply with the terms of the Code.

Further, the Board has found that the fiduciary duties placed on individual directors by the Company's governing corporate legislation and the common law, as well as the restrictions placed by applicable corporate legislation on the individual director's participation in decisions of the Board in which the director has an interest, are sufficient to ensure that the Board operates independently of management and in the best interests of the Company and its shareholders.

## **Nomination of Directors**

The Company considers the size of the Board each year when it considers the number of directors to recommend to the Board for director nominees. The criteria for selecting new directors reflect the requirements of the listing standards of the Exchange (or such other exchange or self-regulatory organization on which the Company's shares are listed for trading) with respect to independence and the following factors:

- (a) the appropriate size of the Company's Board;
- (b) the needs of the Company with respect to the particular talents and experience of its directors;
- (c) personal and professional integrity of the candidate;
- (d) level of education and/or business experience;
- (e) broad-based business acumen;
- (f) the level of understanding of the Company's business and the mining and oil and gas industry in which it operates and other industries relevant to the Company's business;
- (g) the ability and willingness to commit adequate time to Board and committee matters;
- (h) the fit of the individual's skills and personality with those of other directors and potential directors in building a Board that is effective, collegial and responsive to the needs of the Company;
- (i) the ability to think strategically and a willingness to share ideas; and
- (j) diversity of experiences, expertise and background

Once a decision has been made to add or replace a director, the task of identifying new candidates will fall on the Company's Board. If a candidate looks promising, the Board will conduct due diligence on the candidate and interview the candidate and if the results are satisfactory, the candidate is invited to join the Board.

## **Compensation**

Notwithstanding the foregoing, given that the Company has not, as of yet, generated any significant income or cash flows

from operations and operates with limited financial resources to ensure that funds are available to complete scheduled programs, the Company has to consider not only the financial situation of the Company at the time of the determination of executive compensation, but also the estimated financial situation of the Company in the mid and long-term. An important element of executive compensation is the grant of incentive stock options by the Company to its employees, director and officers which do not require cash disbursement by the Company.

### **Other Board Committees**

The Board has no other Committees other than the Audit Committee and an Advisory Board. Mr. Dave Edwards was appointed an Advisor to the Company on August 11, 2014. Mr. Edwards is at arm's length to the Company.

### **Advisory Board**

The Company established an Advisory Board comprising industry specialists to assist the Company. The Advisory Board provides assistance to the Company with regards to the following general areas:

- (a) reviewing and commenting upon business and competitive issues, proposals, plans, industry trends, corporate initiatives, strategy, new business development, potential acquisitions as may be requested by the Company's Chief Executive Officer and/or other members of the Corporation's senior management team from time to time;
- (b) attend meetings as requested from time-to-time by the Company's Chief Executive Officer and the director appointed to act as Chairman of meetings of the Advisory Board (the "**Advisory Board Chair**") and/or other members of the Company's senior management team from time to time and to render advice on issues discussed at such meetings; and
- (c) devote appropriate time and attention to the business and affairs of the Company as a member of the Advisory Board.

### **Assessments**

The Board monitors the adequacy of information given to directors, communication between the Board and management and the strategic direction and processes of the Board.

## **STATEMENT OF EXECUTIVE COMPENSATION**

Disclosure of compensation paid, payable, awarded, granted, given, or otherwise provided, directly or indirectly, by the Company, or a subsidiary of the Company, to each Named Executive Officer and director is made in accordance with the requirements of National Instrument 51-102. Disclosure is required to be made in relation to each Named Executive Officer, being individuals who served as the Company's Chief Executive Officer, Chief Financial Officer, and each of the three most highly compensated executive officers of the Company, including any of its subsidiaries, who at the end of the most recently completed financial year whose salary and bonus exceeded \$150,000.

Jagdip Bal, President and Chief Executive Officer and Kristina Khersonski, Chief Financial Officer and Corporate Secretary, are each a Named Executive Officer ("NEO") of the Company for the purposes of the following disclosure.

## **COMPENSATION DISCUSSION AND ANALYSIS**

The board of directors of the Company is responsible for approving compensation, including long-term incentives in the form of stock options, to be granted to the Chief Executive Officer, the Chief Financial Officer and the directors.

The Company's executive compensation program is comprised of the following components: base salary, discretionary annual incentive and long-term incentives. Together, these components support the Company's long-term growth strategy and the following objectives:

- to align executive compensation with shareholders' interests;
- to attract and retain highly qualified management; and
- to focus performance by linking incentive compensation to the achievement of business objectives and financial results.

The compensation program is designed to reward for performance. Employees, including senior executives, are rewarded for the achievement of annual operating and financial goals, progress in executing the Company's long-term growth strategy and delivering strong total shareholder return performance.

The Company reviews industry compensation information and compares its level of overall compensation with those of comparable sized resource companies involved in the business of resource exploration and business development.

Generally, the Company targets base salaries at levels approximating those holding similar positions in comparably sized companies in the mining and oil and gas industry and hopes to achieve comparable total compensation levels through the fixed and variable components.

The Company's total compensation mix places a significant portion of the executive's compensation at risk. The design takes into account individual and corporate performance. Compensation practices, including the mix of base salary, short-term incentives and long-term incentives, are regularly assessed to ensure they are competitive, take account of the external market trends, and support the Company's long-term growth strategies.

Base salary is compensation for discharging job responsibilities and reflects the level of skills and capabilities demonstrated by the executive. Annual salary adjustments take into account the market value of the role and the executive's demonstration of capability during the year.

Annual incentives, in the form of cash bonus payments, are designed to add a variable component of compensation based on overall corporate performance and the executive's individual performance.

### **Compensation Review Process**

The Company does not have a Compensation Committee.

The Board is responsible for the compensation policies and guidelines for the Company and for implementing and overseeing compensation policies.

The Board reviews on an annual basis the cash compensation, performance and overall compensation package of each executive officer, including the Named Executive Officers. The Board makes decisions with respect to basic salary and participation in share compensation arrangements for each executive officer. In considering executive officers other than the Chief Executive Officer, this Board takes into account the recommendation of the Chief Executive Officer.

The Company does not have a formal compensation program with set benchmarks, however, the Company does have a compensation program which seeks to reward an executive officer's current and future expected performance. Individual performance in connection with the achievement of corporate milestones and objectives is also reviewed for all executive officers.

This Board has not proceeded to a formal evaluation of the implications of risks associated with the Company's compensation policies and practices. The Board intends to review the risks at least once annually, if any, associated with the Company's compensation policies and practices at such time.

Executive compensation is comprised of short-term compensation in the form of a base salary and long-term ownership through the Company's stock option plan. This structure ensures that a significant portion of executive compensation (stock options) is both long-term and "at risk" and, accordingly, is directly linked to the achievement of business results and the creation of long-term shareholder value. As the benefits of such compensation, if any, are not realized by officers until a significant period of time has passed, the ability of officers to take inappropriate or excessive risks that are beneficial to their compensation at the expense of the Company and the shareholders is extremely limited. Furthermore, the short-term component of the executive compensation (base salary) represents a relatively small part of the total compensation. As a result, it is unlikely that an officer would take inappropriate or excessive risks at the expense of the Company or the shareholders that would be beneficial to their short-term compensation when their long-term compensation might be put at risk from their actions.

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

Executive compensation is based upon the need to provide a compensation package that will allow the Company to attract and retain qualified and experienced executives, balanced with a pay-for-performance philosophy. Executive compensation is designed to reward activities and achievements that are aligned with the long-term interests of the Company's shareholders.

The Board also assumes responsibility for reviewing and monitoring the long-range compensation strategy for the Company's senior management. The Board reviews the compensation of senior management on an annual basis taking into account compensation paid by other issuers of similar size and activity.

At this time NEOs and directors are not allowed to hedge risk of the Company's securities.

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

The Company's compensation program consists of the following elements:

- (a) Base salary or consulting fees;
- (b) Bonus payments; and
- (c) Equity participation through the Company's stock option plan.

#### **Base Salary or Consulting Fees**

Base salary ranges for executive officers were initially determined upon a review of companies within the mining and oil and gas industry, which were of the same size as the Company, at the same stage of development as the Company and considered comparable to the Company.

In determining the base salary of an executive officer, the board of directors considers the following factors:

- (a) the particular responsibilities related to the position;
- (b) salaries paid by other companies in the mining and oil and gas industry which were similar in size as the Company;
- (c) the experience level of the executive officer;
- (d) the amount of time and commitment which the executive officer devotes to the Company; and
- (e) the executive officer's overall performance and performance in relation to the achievement of corporate milestones and objectives.

#### **Bonus Payments**

Each of the executive officers, as well as all employees, is eligible for an annual bonus, payable in cash or through stock-based compensation. The amount paid is based on the Board's assessment of the Company's performance for the year. Factors considered in determining bonus amounts include individual performance, financial criteria (such as cash flow and share price performance) and operational criteria (such as significant mineral property acquisitions, resource growth and the attainment of corporate milestones).

The Company did not award any bonuses for the three financial years financial year ended October 31, 2016, October 31, 2015 and October 31, 2014.

#### **Equity Participation**

Equity participation is accomplished through the Company's stock option plan. The Company believes that encouraging its executives and employees to become shareholders is the best way of aligning their interests with those of its shareholders. Equity participation is accomplished through the Company's stock option plan. Stock options are granted to executives and employees taking into account a number of factors, including the amount and term of options previously granted, base salary and bonuses and competitive factors. The amounts and terms of options granted are determined by the compensation committee based on recommendations put forward by the CEO. Due to the Company's limited financial resources, the Company emphasizes the provisions of option grants to maintain executive motivation.

#### **Option-based Awards**

The Board is responsible for administering compensation policies related to the Company's executive management, including with respect to option-based awards.

The Company has in place, a 10% rolling stock option plan pursuant to which the Board can grant stock options to directors, officers, employees, management and others who provide services to the Company. The stock option plan provides compensation to participants and an additional incentive to work toward long-term Company performance.

The stock option plan was implemented to grant stock options in consideration of the level of responsibility as well as optionee impact and/or contribution to the longer-term operating performance of the Company. In determining the number of share options to be granted, the Company's Board takes into account the number of stock options, if any, previously granted, and the exercise price of any outstanding stock options to ensure that such grants are in accordance with the policies of the Canadian Securities Exchange, and closely align the interests of the executive officers with the interests of the Company's shareholders.

The Board has not proceeded with a formal evaluation of the implications of the risks associated with the Company's compensation policies and practices. Risk management is a consideration of the Board when implementing its compensation program, and the Board does not believe that the Company's compensation program results in unnecessary

or inappropriate risk taking including risks that are likely to have a material adverse effect on the Company.

The Company has not established a policy on whether or not an NEO or director is permitted to purchase financial instruments, including for greater certainty, prepaid variable forward contracts, equity swaps, collars or units of exchange funds that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the NEO or director. During the financial year ended October 31, 2016, the Company did not use any financial hedges.

### Executive Compensation-Related Fees

#### Financial Year ended October 31, 2016

During the financial year ended October 31, 2016:

- The Company incurred \$91,333 for management fees to Infinity Alliance Corp. of which Jag Bal is a director in common.
- The Company incurred \$4,150 for technical consulting fees to director, Clinton Sharples.
- The Company owed Infinity Alliance Corp. of which Jag Bal is a director in common as to \$2,257, and through its wholly owned subsidiary 1005477 BC Ltd., owed Clinton Sharples \$100,021.

Management compensation transactions for the periods ended October 31, 2016 and 2015 are summarized as follows:

	<b>2016</b>	<b>2015</b>
Short-term employee benefits	\$95,483	\$60,000
Share-based payments	\$336,900	\$220,888

#### Financial Year ended October 31, 2015

During the financial year ended October 31, 2015:

- The Company incurred \$60,000 (2014 - \$67,500) for management fees to Infinity Alliance Corp. of which Jag Bal is a director in common.
- The Company incurred \$nil (2014 - \$64,486) for technical consulting fees to director, Clinton Sharples.
- The Company owed Infinity Alliance Corp. of which Jag Bal is a director in common as to \$10,007, and through its wholly owned subsidiary 1005477 BC Ltd., owed Clinton Sharples \$100,083.

Management compensation transactions for the periods ended October 31, 2015 and 2014 are summarized as follows:

	<b>2015</b>	<b>2014</b>
Short-term employee benefits	\$60,000	\$67,500
Share-based payments	\$220,888	\$88,158

### Summary Compensation Table

The compensation paid to the NEOs during the Company's three completed financial years of **October 31, 2016, October 31, 2015 and October 31, 2014** is as set out below and expressed in Canadian dollars unless otherwise noted:

Name and principal position	Year	Salary (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation (\$)	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
Jagdeep Bal <sup>(1)</sup> President and Chief Executive Officer	2016	91,333	Nil	139,287	Nil	Nil	Nil	Nil	230,620
	2015	60,000	Nil	99,747	Nil	Nil	Nil	Nil	159,747
	2014	67,500	Nil	31,762	Nil	Nil	Nil	Nil	99,262

Name and principal position	Year	Salary (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation (\$)	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
Kristina Khersonski <sup>(2)</sup> Chief Financial Officer and Corporate Secretary	2016	Nil	Nil	39,232	Nil	Nil	Nil	Nil	39,232
	2015	Nil	Nil	21,393	Nil	Nil	Nil	Nil	21,393
	2014	Nil	Nil	13,097	Nil	Nil	Nil	Nil	13,097

Notes:

(1) Mr. Bal was appointed President and Chief Executive Officer of the Company on December 14, 2012.

(2) Ms. Khersonski was appointed Chief Financial Officer and Corporate Secretary of the Company on May 24, 2013.

## INCENTIVE PLAN AWARDS

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

The following table sets out all NEO option-based awards and share-based awards outstanding to an NEO during financial year ended October 31, 2016. The Company did not grant any share-based awards during financial year ended October 31, 2016.

Name	Option-based Awards				Share-based Awards		Market or payout value of vested share-based awards not paid out or distributed (\$)
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	
Jagdip Bal President and CEO	900,000	0.08	May 30, 2021	Nil	Nil	Nil	Nil
Kristina Khersonski CFO and Corporate Secretary	500,000	0.08	May 30, 2021	Nil	Nil	Nil	Nil

Note: The closing price of the Common Shares at October 31, 2016 was \$0.035.

### Incentive Plan Awards – Value Vested or earned during the year

NEO information during financial year ended October 31, 2016:

Named Executive Officer	Option-based awards – Value vested during the year (\$)
Jagdip Bal, President and CEO	139,287
Kristina Khersonski, CFO and Corporate Secretary	39,232

### Description of Option-based and Share-based Plans

Effective on October 20, 2014, the Company commenced trading on the Canadian Securities Exchange (the “CSE”). With the move from the TSX Venture Exchange to the CSE, management adopted a new 10% rolling stock plan (the “Stock Option Plan”). The Stock Option Plan is substantially similar to the Company’s former TSX Venture Exchange form of stock option plan, except that it does not contain references to the TSX Venture Exchange or its policies.

The purpose of the Stock Option Plan is to provide the Company with a share related mechanism to enable the Company to attract, retain and motivate qualified directors, officers, employees and other service providers, to reward directors, officers, employees and other service providers for their contribution toward the long term goals of the Company and to enable and encourage such individuals to acquire shares of the Company as long term investments.

The following information is intended to be a brief description of the Stock Option Plan and is qualified in its entirety by the full text of the Stock Option Plan:

- the Stock Option Plan provides that up to 10% of the issued and outstanding common shares from time to time may be reserved for issue, less any common shares reserved for issuance under any other share compensation arrangement. The options are non-assignable and may be granted for a term not exceeding ten years.
- the exercise price shall not be lower than the greater of the closing market price of the common shares on (a) the trading day prior to the date of grant of the stock options; and (b) the date of grant of the stock options.
- the terms of an option may not be amended once issued. If an option is cancelled prior to its expiry date, the Company shall not grant new options to the same person until 30 days have elapsed from the date of cancellation.
- the maximum number of options which may be granted to any one option holder under the Stock Option Plan within any 12 month period shall be 5% of the outstanding issue on the date of grant (unless the Company has obtained disinterested shareholder approval, if required by Regulatory Rules);
- if required by Regulatory Rules, disinterested shareholder approval is required to the grant to Insiders, within a 12 month period, of a number of options which, when added to the number of outstanding incentive stock options granted to Insiders within the previous 12 months, exceed 10% of the issued shares;
- the maximum number of options which may be granted to any one consultant within any 12 month period must not exceed 2% of the outstanding Issue; and
- the maximum number of options which may be granted within any 12 month period to employees or consultants engaged in investor relations activities must not exceed 2% of the outstanding Issue and such options must vest in stages over 12 months with no more than 25% of the options vesting in any three month period.

#### **Pension Plan Benefits**

The Company does not have a pension plan that provides for payments or benefits to the NEOs at, following, or in connection with retirement.

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

Other than as set out in this Information Circular, there are no compensatory plans or arrangements, with respect to any of the NEOs resulting from the resignation, retirement or any other termination of employment of the officer's employment or from a change of the NEOs responsibilities following a change of control.

#### **Benefits and Perquisites**

The Company does not, as of the date of this Information Circular, offer any benefits or perquisites to its NEOS other than entitlement to incentive stock options as otherwise disclosed and discussed herein.

#### **DIRECTOR COMPENSATION**

Other than set out in this Information Circular, no director receives monthly compensation and no director receives compensation for attending Board meetings or Committee meetings.

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

The following table sets forth all awards outstanding to a director who was not an NEO during financial year ended October 31, 2016. The Company did not grant any share-based awards during financial year ended October 31, 2016.

Name	Option –based Awards				Share-based Awards		Market or payout value of vested share-based awards not paid out or distributed (\$)
	Number of securities underlying unexercised options (#)	Option exercise price (1) (\$)	Option expiration date	Value of unexercised in- the-money options (\$)	Number of share or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	
Clinton Sharples, Chairman of the Board	65,000	0.08	May 30, 2021	Nil	Nil	Nil	Nil
Bradley T. Culver	400,000	0.08	May 30, 2021	Nil	Nil	Nil	Nil

Note: The closing price of the Common Shares at October 31, 2016 was \$0.035.

There are no arrangements under which directors were compensated by the Company and its subsidiaries during financial year ended October 31, 2016 for their services in their capacity as directors or consultants, other than the granting of options to purchase Common Shares.

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

There were no option based awards vested or earned during financial year ended October 31, 2016 to any director, excluding a director who is already set out in disclosure above for an NEO for the Company. The Company did not grant any share-based awards during financial year ended October 31, 2016.

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The only equity compensation plan which the Company has in place is the stock option plan.

The following table sets out equity compensation plan information at fiscal year ending October 31, 2016:

### Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Plan Category	(a)	(b)	(c)
Equity compensation plans approved by securityholders - the Stock Option Plan			
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
Total			

### INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

Other than as set out in this Information Circular, no directors, proposed nominees for election as directors, executive officers or their respective associates or affiliates, or other management of the Company were indebted to the Company as of the end of the financial year end October 31, 2016 or as at the date hereof.

### INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

To the knowledge of management of the Company, other than set out in this Information Circular, no informed person (a director, officer or holder of 10% or more of the Common Shares) or nominee for election as a director of the Company or

any associate or affiliate of any informed person or proposed director had any interest in any transaction which has materially affected or would materially affect the Company or any of its subsidiaries during financial year ended October 31, 2016.

#### **MANAGEMENT CONTRACTS**

Other than as set out in this Information Circular, there are no management functions of the Company, which are to any substantial degree performed by a person or company other than the directors or NEOs of the Company.

#### **OTHER MATTERS**

The Board is not aware of any other matters which it anticipates will come before the Meeting as of the date of mailing of this Information Circular.

#### **ADDITIONAL INFORMATION**

Financial information is provided in the audited financial statements of the Company for financial year ended October 31, 2016, the report of the auditor and the related management's discussion and analysis which were filed on SEDAR at [www.sedar.com](http://www.sedar.com), of which will be placed before the Meeting.

Additional information relating to the Company is filed on SEDAR at [www.sedar.com](http://www.sedar.com) and upon request from the Company at 929 Mainland Street, Vancouver, British Columbia Canada V6B 1S3 Tel: (604) 628-1767 Fax: (604) 628-0129. Copies of documents will be provided free of charge to security holders of the Company. The Company may require the payment of a reasonable charge from any person or company who is not a securityholder of the Company, who requests a copy of any such document.

The contents of this Information Circular and its distribution to shareholders has been approved by the Board.

**DATED** at Vancouver, British Columbia, June 5 , 2017.

#### **BY ORDER OF THE BOARD**

*"Jagdip Bal"*

Jagdip Bal

President and Chief Executive Officer

## SCHEDULE A

### AUDIT COMMITTEE CHARTER OF UMBRAL ENERGY CORP. ADOPTED ON MAY 30, 2013

#### AUDIT COMMITTEE CHARTER

##### 1. **Mandate**

The audit committee will assist the board of directors (the "Board") in fulfilling its financial oversight responsibilities. The audit committee will review and consider in consultation with the auditors the financial reporting process, the system of internal control and the audit process. In performing its duties, the audit committee will maintain effective working relationships with the Board, management, and the external auditors. To effectively perform his or her role, each audit committee member must obtain an understanding of the principal responsibilities of audit committee membership as well and the Company's business, operations and risks.

##### 2. **Composition**

The Board will appoint from among their membership an audit committee after each annual general meeting of the shareholders of the Company. The audit committee will consist of a minimum of three directors.

###### 2.1 *Independence*

A majority of the members of the audit committee must not be officers, employees or control persons of the Company.

###### 2.2 *Expertise of Committee Members*

Each member of the audit committee must be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the committee. At least one member of the audit committee must have accounting or related financial management expertise. The Board shall interpret the qualifications of financial literacy and financial management expertise in its business judgment and shall conclude whether a director meets these qualifications.

##### 3. **Meetings**

The audit committee shall meet in accordance with a schedule established each year by the Board, and at other times that the audit committee may determine. The audit committee shall meet at least annually with the Company's Chief Financial Officer and external auditors in separate executive sessions.

##### 4. **Roles and Responsibilities**

The audit committee shall fulfill the following roles and discharge the following responsibilities:

###### 4.1 *External Audit*

The audit committee shall be directly responsible for overseeing the work of the external auditors in preparing or issuing the auditor's report, including the resolution of disagreements between management and the external auditors regarding financial reporting and audit scope or procedures. In carrying out this duty, the audit committee shall:

- (a) recommend to the Board the external auditor to be nominated by the shareholders for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company;
- (b) review (by discussion and enquiry) the external auditors' proposed audit scope and approach;
- (c) review the performance of the external auditors and recommend to the Board the appointment or discharge of the external auditors;
- (d) review and recommend to the Board the compensation to be paid to the external auditors; and

- (e) review and confirm the independence of the external auditors by reviewing the non-audit services provided and the external auditors' assertion of their independence in accordance with professional standards.

#### 4.2 *Internal Control*

The audit committee shall consider whether adequate controls are in place over annual and interim financial reporting as well as controls over assets, transactions and the creation of obligations, commitments and liabilities of the Company. In carrying out this duty, the audit committee shall:

- (a) evaluate the adequacy and effectiveness of management's system of internal controls over the accounting and financial reporting system within the Company; and
- (b) ensure that the external auditors discuss with the audit committee any event or matter which suggests the possibility of fraud, illegal acts or deficiencies in internal controls.

#### 4.3 *Financial Reporting*

The audit committee shall review the financial statements and financial information prior to its release to the public. In carrying out this duty, the audit committee shall:

##### *General*

- (a) review significant accounting and financial reporting issues, especially complex, unusual and related party transactions; and
- (b) review and ensure that the accounting principles selected by management in preparing financial statements are appropriate.

##### *Annual Financial Statements*

- (a) review the draft annual financial statements and provide a recommendation to the Board with respect to the approval of the financial statements;
- (b) meet with management and the external auditors to review the financial statements and the results of the audit, including any difficulties encountered; and
- (c) review management's discussion & analysis respecting the annual reporting period prior to its release to the public.

##### *Interim Financial Statements*

- (a) review and approve the interim financial statements prior to their release to the public; and
- (b) review management's discussion & analysis respecting the interim reporting period prior to its release to the public.

##### *Release of Financial Information*

- (a) where reasonably possible, review and approve all public disclosure, including news releases, containing financial information, prior to its release to the public.

#### 4.4 *Non-Audit Services*

All non-audit services (being services other than services rendered for the audit and review of the financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements) which are proposed to be provided by the external auditors to the Company or any subsidiary of the Company shall be subject to the prior approval of the audit committee.

*Delegation of Authority*

(a) The audit committee may delegate to one or more independent members of the audit committee the authority to approve non-audit services, provided any non-audit services approved in this manner must be presented to the audit committee at its next scheduled meeting.

*De-Minimis Non-Audit Services*

- (a) The audit committee may satisfy the requirement for the pre-approval of non-audit services if:
- (i) the aggregate amount of all non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the Company and its subsidiaries to the external auditor during the fiscal year in which the services are provided; or
  - (ii) the services are brought to the attention of the audit committee and approved, prior to the completion of the audit, by the audit committee or by one or more of its members to whom authority to grant such approvals has been delegated.

*Pre-Approval Policies and Procedures*

- (a) The audit committee may also satisfy the requirement for the pre-approval of non-audit services by adopting specific policies and procedures for the engagement of non-audit services, if:
- (i) the pre-approval policies and procedures are detailed as to the particular service;
  - (ii) the audit committee is informed of each non-audit service; and
  - (iii) the procedures do not include delegation of the audit committee's responsibilities to management.

4.5 *Other Responsibilities*

The audit committee shall:

- (a) establish procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters;
- (b) establish procedures for the confidential, anonymous submission by employees of the company of concerns regarding questionable accounting or auditing matters;
- (c) ensure that significant findings and recommendations made by management and external auditor are received and discussed on a timely basis;
- (d) review the policies and procedures in effect for considering officers' expenses and perquisites;
- (e) perform other oversight functions as requested by the Board; and
- (f) review and update this Charter and receive approval of changes to this Charter from the Board.

4.6 *Reporting Responsibilities*

The audit committee shall regularly update the Board about audit committee activities and make appropriate recommendations.

## **5. Resources and Authority of the Audit Committee**

The audit committee shall have the resources and the authority appropriate to discharge its responsibilities, including the authority to

- (a) engage independent counsel and other advisors as it determines necessary to carry out its duties;
- (b) set and pay the compensation for any advisors employed by the audit committee; and
- (c) communicate directly with the internal and external auditors.

## **6. Guidance – Roles & Responsibilities**

The following guidance is intended to provide the audit committee members with additional guidance on fulfilment of their roles and responsibilities on the committee:

### *6.1 Internal Control*

- (a) evaluate whether management is setting the goal of high standards by communicating the importance of internal control and ensuring that all individuals possess an understanding of their roles and responsibilities;
- (b) focus on the extent to which external auditors review computer systems and applications, the security of such systems and applications, and the contingency plan for processing financial information in the event of an IT systems breakdown; and
- (c) gain an understanding of whether internal control recommendations made by external auditors have been implemented by management.

### *6.2 Financial Reporting*

#### *General*

- (a) review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements; and
- (b) ask management and the external auditors about significant risks and exposures and the plans to minimize such risks; and
- (c) understand industry best practices and the Company's adoption of them.

#### *Annual Financial Statements*

- (a) review the annual financial statements and determine whether they are complete and consistent with the information known to committee members, and assess whether the financial statements reflect appropriate accounting principles in light of the jurisdictions in which the Company reports or trades its shares;
- (b) pay attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures;
- (c) focus on judgmental areas such as those involving valuation of assets and liabilities, including, for example, the accounting for and disclosure of loan losses; warranty, professional liability; litigation reserves; and other commitments and contingencies;
- (d) consider management's handling of proposed audit adjustments identified by the external auditors; and
- (e) ensure that the external auditors communicate all required matters to the committee.

*Interim Financial Statements*

- (a) be briefed on how management develops and summarizes interim financial information, the extent to which the external auditors review interim financial information;
- (b) meet with management and the auditors, either telephonically or in person, to review the interim financial statements; and
- (c) to gain insight into the fairness of the interim statements and disclosures, obtain explanations from management on whether:
  - (i) actual financial results for the quarter or interim period varied significantly from budgeted or projected results;
  - (ii) changes in financial ratios and relationships of various balance sheet and operating statement figures in the interim financial statements are consistent with changes in the company's operations and financing practices;
  - (iii) generally accepted accounting principles have been consistently applied;
  - (iv) there are any actual or proposed changes in accounting or financial reporting practices;
  - (v) there are any significant or unusual events or transactions;
  - (vi) the Company's financial and operating controls are functioning effectively;
  - (vii) the Company has complied with the terms of loan agreements, security indentures or other financial position or results dependent agreement; and
  - (viii) the interim financial statements contain adequate and appropriate disclosures.

6.3 *Compliance with Laws and Regulations*

- (a) periodically obtain updates from management regarding compliance with this policy and industry "best practices";
- (b) be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements; and
- (c) review the findings of any examinations by securities regulatory authorities and stock exchanges.

6.4 *Other Responsibilities*

- (a) review, with the Company's counsel, any legal matters that could have a significant impact on the Company's financial statements.