

**INFORMATION CIRCULAR - PROXY STATEMENT**

**DATED MAY 23, 2018**

**PetroShale**  
C a l g a r y • D e n v e r

**[www.petroshaleinc.com](http://www.petroshaleinc.com)**

## CONTENTS

Letter to Shareholders	3
Notice of Annual and Special Meeting	4
Voting Matters	5
Matters to be Acted Upon at the Meeting	7
Executive Compensation	20
Director Compensation	26
Securities Authorized for Issuance Under Equity Compensation Plans	28
Corporate Governance Disclosure	28
Indebtedness of Directors and Executive Officers	31
Interest of Informed Persons in Material Transactions	31
Interest of Certain Persons and Companies in Matters to be Acted Upon	32
Additional Information	32

## PROXY SUMMARY

The following summary highlights some of the important information you will find in this information circular-proxy statement. We recommend you read the entire information circular before voting

Voting Matters	Board Vote Recommendation	For More Information See Page
Fixing the number of Directors at 5	FOR	7
Election of 5 Directors	FOR each nominee	7
Appointment of KPMG LLP as Auditors	FOR	10
Approval of FR XIII PetroShale Holdings L.P. as a "control person"	FOR	10
Re-Approval of Stock Option Plan	FOR	12
The consolidation of the outstanding common voting shares and Series 1 Class A preferred shares on the basis of one (1) new post-consolidation share for every four (4) currently outstanding shares	FOR	14

## LETTER TO SHAREHOLDERS

May 23, 2018

Dear Fellow Shareholder,

On behalf of the Board of Directors and management of PetroShale Inc., we hope you will join us at the Calgary Petroleum Club, 319 – 5th Avenue SW, Calgary, Alberta on June 27, 2018 at 10:00 a.m. (Calgary time) for our annual and special meeting of the holders of common voting shares and series 1 class A preferred shares.

This meeting provides an opportunity for you to vote on the items of business, hear about our performance over the past year and learn about our plans for the future. This meeting also provides you with the opportunity to meet our Board and staff.

The accompanying information circular – proxy statement describes the business that will be conducted at the meeting and provides information regarding our executive compensation and governance practices.

Your vote is important to us. If you are unable to attend the meeting, we encourage you to ensure your vote is recorded by returning the signed form of proxy or via our internet option. If your shares are not registered in your name and are held in the name of your broker or other nominee, you may wish to consult the information beginning on page 5 of the accompanying information circular – proxy statement for information on how to vote your shares.

We hope that you will join us at this year's meeting.

Sincerely,

(signed) "M. Bruce Chernoff"

**M. Bruce Chernoff**  
**Executive Chairman**

## NOTICE OF ANNUAL AND SPECIAL MEETING

NOTICE is hereby given that an annual & special meeting of holders of common voting shares ("**Common Share**") and series 1 class A preferred shares (the "**Special Voting Shares**") of PetroShale Inc. (the "**Corporation**") will be held at the Calgary Petroleum Club, 319 – 5th Avenue SW, Calgary, Alberta at 10:00 a.m. (Calgary time), on June 27, 2018, to:

1. consider and receive our audited financial statements for the year ended December 31, 2017, together with the report of the auditors thereon;
2. fix the number of directors to be elected at the meeting at five (5) members;
3. elect five (5) directors;
4. appoint the auditors and authorize our directors to fix their remuneration as such;
5. consider and, if deemed advisable, to pass with or without variation, an ordinary resolution approving FR XIII PetroShale Holdings L.P. as a "control person" (in accordance with the rules and policies of the TSX Venture Exchange), as more particularly described in the attached information circular – proxy statement;
6. consider and, if deemed advisable, to pass with or without variation, an ordinary resolution re-approving our stock option plan, as more particularly described in the attached information circular – proxy statement;
7. consider and, if deemed advisable, to pass with or without variation, a special resolution approving a consolidation to the outstanding Common Shares and Special Voting Shares on the basis of one (1) new post-consolidation share for every four (4) currently outstanding shares, as more particularly described in the attached information circular – proxy statement; and
8. to transact such other business as may be properly brought before the meeting or any adjournment thereof.

Only shareholders whose names have been entered in the register of Common Shares and Special Voting Shares at the close of business on May 22, 2018 will be entitled to receive notice of and to vote at the meeting unless that shareholder has transferred any shares subsequent to that date and the transferee shareholder, not later than 10 days before the meeting, establishes ownership of the shares and demands that the transferee's name be included on the list of shareholders entitled to vote at the meeting. Each Common Share and Special Voting Share will entitle the holder to one vote at the meeting and will vote together as a single class.

A shareholder may attend the meeting in person or may be represented by proxy. Registered holders of Common Shares and Special Voting Shares who are unable to attend the meeting or any adjournment thereof in person are requested to date, sign and return the accompanying form of proxy for use at the meeting or any adjournment thereof. To be effective, the proxy must be received by TSX Trust Company, 301 - 100 Adelaide Street West, Toronto, Ontario M5H 4H1, Attention: Proxy Department or deliver it by fax to 1-416-595-9593 not later than forty-eight (48) hours (excluding Saturdays, Sundays and statutory holidays) prior to the commencement of the meeting or any adjournment thereof. You may also vote via the internet at [www.voteproxyonline.com](http://www.voteproxyonline.com). Votes by internet must be received not later than forty-eight (48) hours (excluding Saturdays, Sundays and statutory holidays) prior to the commencement of the meeting or any adjournment thereof. Notwithstanding the foregoing, the Chairman of the meeting has the discretion to accept proxies received after such deadline.

DATED at Calgary, Alberta, this 23<sup>rd</sup> day of May, 2018.

**BY ORDER OF THE BOARD OF DIRECTORS**

*(signed) "M. Bruce Chernoff"*

M. Bruce Chernoff  
Executive Chairman

**INFORMATION CIRCULAR – PROXY STATEMENT  
For the Annual & Special Meeting of Shareholders  
to be held on Wednesday, June 27, 2018**

**VOTING MATTERS**

**Solicitation of Proxies**

This information circular - proxy statement is furnished in connection with the solicitation of proxies for use at the annual and special meeting of the holders of common voting shares ("**Common Shares**") and series 1 class A preferred shares ("**Special Voting Shares**") to be held at 10:00 a.m. (Calgary time) on Wednesday June 27, 2018, at the Calgary Petroleum Club, 319 – 5th Avenue SW, Calgary, Alberta and at any adjournment thereof. Forms of proxy must be mailed so as to reach or be deposited at the offices of TSX Trust Company, 301 - 100 Adelaide Street West, Toronto, Ontario M5H 4H1, or by fax to 1-416-959-9593 not later than 48 hours (excluding Saturdays, Sundays and statutory holidays) prior to the time set for the meeting or any adjournment thereof. Registered shareholders may also use the internet at [www.voteproxyonline.com](http://www.voteproxyonline.com) to vote their Common Shares and Special Voting Shares. Shareholders will be prompted to enter the control number which is located on the form of proxy. Votes by internet must be received not later than 48 hours (excluding Saturdays, Sundays and statutory holidays) prior to the time set for the meeting or any adjournment thereof.

Only shareholders of record at the close of business on May 22, 2018 will be entitled to vote at the meeting, unless that shareholder has transferred any shares subsequent to that date and the transferee shareholder, not later than 10 days before the meeting, establishes ownership of the shares and demands that the transferee's name be included on the list of shareholders entitled to vote at the meeting. The instrument appointing a proxy must be in writing and must be executed by you or your attorney authorized in writing or, if you are a corporation, under your corporate seal or by a duly authorized officer or attorney of the corporation.

The persons named in the enclosed instrument of proxy are our officers. **As a shareholder you have the right to appoint a person or company, who need not be a shareholder, to represent you at the meeting. To exercise this right you should insert the name of the desired representative in the blank space provided in the instrument of proxy and strike out the other name.**

**Advice to Beneficial Holders of Common Shares**

The information set forth in this section is of significant importance to you if you do not hold your Common Shares in your own name. Only proxies deposited by shareholders whose names appear on our records as the registered holders of Common Shares can be recognized and acted upon at the meeting. If your Common Shares are listed in your account statement provided by your broker, then, in almost all cases, those Common Shares will not be registered in your name on our records. Such Common Shares will likely be registered under the name of your broker or an agent of that broker. In Canada, the vast majority of such shares are registered under the name of CDS & Co., the registration name for The CDS Clearing and Depository Services Inc., which acts as nominee for many Canadian brokerage firms. The majority of shares held in the United States are registered in the name of Cede & Co., the nominee for the Depository Trust Company, which is the United States equivalent of The CDS Clearing and Depository Services Inc.

If you do not hold your shares in your own name, you may give permission to your broker or other intermediary to release your name and address to us so that we can send proxy related materials to you directly. Without this permission, we cannot send you materials directly and your broker or other intermediary shall be required to send such materials to you. We do not provide proxy related materials directly to beneficial shareholders and we assume the costs associated with the delivery of materials to beneficial shareholders by intermediaries.

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

Brokers often delegate the responsibility for obtaining voting instructions to Broadridge Investor Communications ("**Broadridge**") which mails a scannable voting instruction form in lieu of a form of proxy. If you received one of these, you are asked to complete and return it to Broadridge by mail or facsimile. Alternatively, you can call their toll-free number or access the internet to vote your shares. Broadridge tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares at the meeting. If you receive a voting instruction form from Broadridge, it cannot be used as a proxy to vote your shares directly at the meeting as the form must be returned to Broadridge well in advance of the meeting in order to have your shares voted. If you wish to attend the meeting and vote your own shares, you must do so as a proxyholder for the registered holder. To do this, you should enter your own name in the blank space on the applicable form provided to you and return the document to your broker or agent of such broker in accordance with the instructions provided by such broker well in advance of the meeting.

The Canadian Securities Administrators have adopted a "notice-and-access" regime for shareholder meetings which permits issuers to send a reduced package of meeting materials to shareholders, together with the document required to cast their vote. We have elected not to use the "notice-and-access" regime for the meeting and paper copies of such materials will be sent to all of our shareholders.

#### **Revocability of Proxy**

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

#### **Persons Making the Solicitation**

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

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

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

## Voting Shares and Principal Holders

We are authorized to issue an unlimited number of Common Shares, an unlimited number of common non-voting shares and an unlimited number of class "A" preferred shares, issuable in series, of which one series, being the Special Voting Shares have been authorized for issuance in an unlimited number. As at May 22, 2018 there were 159,167,767 Common Shares, no common non-voting shares and 39,308,176 Special Voting Shares issued and outstanding. The Common Shares are listed on the TSX Venture Exchange ("TSXV") under the symbol "PSH" and on the OTCQX under the symbol "PSHIF". The Common Shares and Special Voting Shares are our only authorized class of voting shares. Each Common Share and Special Voting Share are entitled to one vote and shall, except as required by applicable law, vote together as a single class.

Based on information supplied to them and based on public filings, to the knowledge of our directors and officers, as the date hereof, no person or company beneficially owns, or controls or directs, directly or indirectly, more than 10% of our voting shares (being the Common Shares and Special Voting Shares) other than as set forth below:

Name	Class of Share	Number of Shares	Percentage of Class	Percentage of Voting Shares
M. Bruce Chernoff <sup>(1)</sup>	Common Shares	58,253,083	36.6%	29.4%
Vertex One Asset Management Inc.	Common Shares	26,674,900	16.8%	13.4%
FR XIII PetroShale Holdings L.P. ("First Reserve") <sup>(2)</sup>	Special Voting Shares	39,308,176	100%	19.8%

### Notes:

- (1) 44,444,500 Common Shares are held by Hawthorne Energy Ltd., a company of which Mr. Chernoff is a majority shareholder, 10,000,000 Common Shares are held by Kai Commercial Trust, a trust of which Mr. Chernoff is a majority unitholder and 3,808,583 Common Shares are held by Alpine Capital Corp., a company directed by Mr. Chernoff.
- (2) On January 25, 2018, we completed a financing transaction whereby First Reserve acquired 75,000 Series A Preferred Shares (the "Subsidiary Preferred Shares") of our subsidiary, PetroShale (US) Inc. ("PetroShale US") and 39,308,176 Special Voting Shares for US\$75 million. For further information in respect of the Special Voting Shares and the Subsidiary Preferred Shares see "Approval of FR XIII PetroShale Holdings L.P. as a Control Person" below. Pursuant to the Investment Agreement (as defined below) First Reserve has been provided the right that so long as First Reserve owns not less than 60% of the number of Subsidiary Preferred Shares it acquired pursuant to the Financing (including on exchange thereof) it shall be entitled to designate one nominee for election to our board. See also "Interest of Informed Persons in Material Transactions".

## MATTERS TO BE ACTED UPON AT THE MEETING

### Election of Directors

As of the date hereof, our Board consists of five (5) members. Management is soliciting proxies, in the accompanying applicable form of proxy, for an ordinary resolution in favour of fixing our Board at five (5) members, and in favour of the election as directors of the following: M. Bruce Chernoff, Brett Herman, Ken McCagherty, Jacob Roorda and Brooks Shughart. Each director elected will hold office until the next annual meeting of our shareholders or until his successor is duly elected or appointed, unless his office is earlier vacated.

It is the intention of our management designees, if named as proxy, to vote **FOR** the election of the proposed nominees to our Board unless otherwise directed. Management does not contemplate that any of the nominees will be unable to serve as a director. In the event that a vacancy among such nominees occurs because of death or for any reason prior to the meeting, the form of proxy will not be voted with respect to such vacancy.

**Biographies of our Directors**

The following is a brief description of the proposed nominees, including their principal occupation for the past five years, all positions and offices with us held by them and the number of shares that they have advised are beneficially owned or controlled or directed, by them directly or indirectly as at May 11, 2018.

Name, Residence and Office(s) held	Principal Occupation or Employment for the Last Five Years	Became a Director	Number of Shares
M. Bruce Chernoff <sup>(2)(3)(4)</sup> Alberta, Canada	Our Executive Chairman; President of Caribou Capital Corp., a private investment company.	August 31, 2012	58,253,083 Common Shares
Brett Herman <sup>(1)(3)</sup> Alberta, Canada	President and Chief Executive Officer of TORC Oil & Gas Ltd., a public oil and gas company.	March 8, 2012	276,924 Common Shares
Ken McCagherty <sup>(1)(2)</sup> Alberta, Canada	President and Chief Executive Officer of Westbrick Energy Ltd., a private oil and gas company.	November 25, 2013	230,000 Common Shares
Jacob Roorda <sup>(1)(2)(3)</sup> Alberta, Canada	Managing director of Windward Capital Limited, a private investment company. Since November 2016, Executive Vice President of Todd Energy International, a private oil and gas company. Prior thereto, the Chief Executive Officer of Todd Energy Canada Limited.	March 8, 2012	491,670 Common Shares
Brooks Shughart <sup>(3)</sup> Houston, Texas USA	Managing Director of First Reserve since December 2017 and prior thereto was a Director of First Reserve since 2012.	January 25, 2018	Nil <sup>(5)</sup>

Notes:

- (1) Member of our Audit Committee.
- (2) Member of our Reserves Committee.
- (3) Member of our Corporate Governance and Compensation Committee.
- (4) 44,444,500 Common Shares are held by Hawthorne Energy Ltd., a company of which Mr. Chernoff is a majority shareholder, 10,000,000 Common Shares are held by Kai Commercial Trust, a trust of which Mr. Chernoff is a majority unitholder and 3,808,583 Common Shares are held by Alpine Capital Corp., a company directed by Mr. Chernoff.
- (5) Mr. Shughart is a managing director of First Reserve. First Reserve owns 75,000 Subsidiary Preferred Shares and 39,308,176 Special Voting Shares.

**Additional Disclosure Relating to Proposed Directors**

None of our directors (nor any personal holding company of any of such persons) is, as of the date hereof, or was within ten years before the date hereof, a director, chief executive officer or chief financial officer of any company (including us), that was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "Order") that was issued while the director was acting in the capacity as director, chief executive officer or chief financial officer; or was subject to an Order that was issued after the director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer other than Mr. Roorda who was formerly a director of Argosy Energy Inc. ("Argosy") when it was cease traded for failure to file financials in April 2012.

Except as otherwise disclosed herein, none of our directors (nor any personal holding company of any of such persons) is, as of the date hereof, or has been within the ten years before the date hereof, a director or executive officer of any company (including us) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. In addition, none of our directors (nor any personal holding company) or any such person has, within the ten years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director. Mr. Chernoff and Mr. Rain were each formerly directors of Calmena Energy Services Inc. ("**Calmena**") (a public oilfield service company) which was placed in receivership on January 20, 2015. Mr. Chernoff and Mr. Rain resigned as directors of Calmena effective January 15, 2015. Mr. Roorda was a director of TXCO Resources Ltd. ("**TXCO**"), a NASDAQ listed public company until February 11, 2010. On April 18, 2009, TXCO filed for creditor relief under the U.S. Bankruptcy Code. The board of directors of TXCO obtained approval of a plan of reorganization which paid all creditors in full and which provided a recovery for common shareholders. Mr. Roorda was also a director of Argosy, a TSX listed company which entered receivership pursuant to a Court order resulting from a creditor petition as disclosed at [www.sedar.com](http://www.sedar.com). Concurrently with the receivership, Mr. Roorda resigned as a director of Argosy. Mr. Shughart served on the board of directors of Sabine Oil & Gas Corporation from December 2014 until his resignation on the Effective Date (as defined below). On July 15, 2015, Sabine Oil & Gas Corporation and certain subsidiaries (collectively, "**Sabine**") filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code to facilitate its restructuring. On July 27, 2016, the U.S. Bankruptcy Court for the Southern District of New York entered an order confirming the Chapter 11 plan of reorganization (the "**Plan**"). The Plan became effective on August 11, 2016 (the "**Effective Date**") at which time Sabine emerged from bankruptcy as a private company.

None of our directors (nor any personal holding company of any of such persons) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

#### ***Advance Notice By-law***

We have adopted By-Law No. 2 regarding advance notice of nominations of directors of the Corporation, which was ratified by the shareholders of the Corporation at the 2017 annual meeting (the "**Advance Notice By-law**"). A copy of the Advance Notice By-law can be found under our SEDAR profile at [www.sedar.com](http://www.sedar.com).

The purpose of the Advance Notice By-law is to provide shareholders, the Board and our management with a clear framework for director nominations to help ensure orderly business at meetings of shareholders. Among other things, the Advance Notice By-law fixes a deadline by which shareholders must submit director nominations to us prior to any annual or special meeting of shareholders. It also specifies the information that a nominating shareholder must include in the notice in order for any director nominee to be eligible for election at any annual or special meeting of shareholders.

The Advance Notice By-law fixes a deadline by which shareholders must submit director nominations to the Corporate Secretary of the Corporation prior to any annual or special meeting of shareholders and outlines the specific information that a nominating shareholder must include in the written notice to the Corporate Secretary of the Corporation for an effective nomination to occur. No person nominated by a shareholder will be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of the Advance Notice By-law.

In the case of an annual meeting of shareholders, notice to the Corporate Secretary of the Corporation must be made not less than thirty (30) days and not more than sixty-five (65) days prior to the date of the annual meeting; provided, however, that in the event that the annual meeting is to be held on a date that is less than fifty (50) days

after the date on which the first public announcement of the date of the annual meeting was made, notice may be made not later than the close of business on the tenth (10th) day following such public announcement. In the case of a special meeting of shareholders (which is not also an annual meeting), notice to the Corporation must be made not later than the close of business on the fifteenth (15th) day following the day on which the first public announcement of the date of the special meeting was made. The Board may, in its sole discretion, waive any requirement of the Advance Notice By-law.

As of the date of this Information Circular – Proxy Statement, we have not received any nominations by way of the advance notice mechanism.

### **Appointment of Auditors**

Management is soliciting proxies, in the accompanying form of proxy, in favour of the appointment of the firm of KPMG LLP as our auditors, to hold office until the next annual meeting of our shareholders and to authorize the directors to fix their remuneration as such. KPMG LLP has been our auditors since August 2012.

### **Approval of FR XIII PetroShale Holdings L.P. as a "Control Person"**

On January 25, 2018, we completed a financing transaction (the "**Financing**") whereby First Reserve acquired 75,000 Subsidiary Preferred Shares of our subsidiary, PetroShale US, and 39,308,176 Special Voting Shares for US\$75 million. The Subsidiary Preferred Shares carry a 9.0% per annum cumulative dividend right, are non-voting, redeemable by PetroShale US in certain instances and are, subject to the restrictions and conditions described below, exchangeable for Common Shares at an exchange price of C\$2.40 per share (the "**Exchange Price**").

The Special Voting Shares acquired by First Reserve in connection with the Financing provide First Reserve voting rights equal to the "as exchanged" number of Common Shares that First Reserve may be entitled to (upon exchange of their Subsidiary Preferred Shares) on closing of the Financing (i.e. such number of Common Shares as is equal to the Canadian dollar equivalent (based on an exchange rate of C\$1.00 = US\$0.795) of US\$75 million divided by the Exchange Price), resulting in 39,308,176 Special Voting Shares. Upon the exchange of every one Subsidiary Preferred Share (each with a deemed "Liquidation Preference" of US\$1,000), 524 Special Voting Shares will be redeemed and cancelled for nominal consideration and 524 Common Shares will be issued from our treasury.

The Special Voting Shares entitle the holder thereof to attend all meetings of shareholders which the holders of Common Shares are entitled to attend and to vote on all matters submitted to a vote of the holders of Common Shares. Each Special Voting Share shall entitle the holder to one vote per share held. The Special Voting Shares and the Common Shares shall vote together as a single class. The Subsidiary Preferred Shares do not entitle the holder to attend at or to vote at any meetings of the shareholders of PetroShale US other than for the purposes of effecting or validating: (a) any issuance, authorization or creation of, or any increase by PetroShale US in the issued or authorized amount of, any specific class or series of shares of PetroShale US that rank in parity or senior to the Subsidiary Preferred Shares; (b) any increase in the number of issued or authorized amount of Subsidiary Preferred Shares or any reissuance thereof; (c) any exchange, reclassification or cancellation of the Subsidiary Preferred Shares; and (d) any amendment, modification or alteration of the constating documents of the Subsidiary that would materially and adversely affect the rights, preferences, privileges or voting powers of the Subsidiary Preferred Shares.

The Subsidiary Preferred Shares are exchangeable into Common Shares at the Exchange Price by the holder at any time after the first year of issuance and by PetroShale US at any time after the third year of issuance, subject to certain conditions. The Exchange Price represented a 22% premium to the 30-day volume weighted average trading price of the Common Shares on December 29, 2017, the last trading day prior to the entering into the agreement ("**Investment Agreement**") among us, PetroShale US and First Reserve in respect of the Financing. In accordance with the terms of the Subsidiary Preferred Shares and the Investment Agreement, First Reserve will not be permitted to exchange any Subsidiary Preferred Shares and we will not be entitled to force the exchange of Subsidiary Preferred Shares, if First Reserve's voting rights (including by way of ownership of Common Shares and

Special Voting Shares) would, as a result of such exchange, be in excess of 19.9% of all of our then outstanding voting shares (the "**Exchange Cap**") until receipt by us of disinterested shareholder approval (in accordance with the rules of the TSXV) for the creation of First Reserve as our new "control person". Additionally, pursuant to the terms of the Investment Agreement and the Subsidiary Preferred Shares, First Reserve has agreed with us and the TSXV not to exercise voting rights in respect of any Special Voting Shares and/or Common Shares that, in aggregate, represent voting rights in excess of 19.9% of all of our then outstanding voting shares (the "**Voting Cap**") until receipt of disinterested shareholder approval (in accordance with the rules of the TSXV) for the creation of First Reserve as our new "control person". The Special Voting Shares issued on closing of the Financing represented approximately 20.0% of our voting shares at that time (on a non-diluted basis) and as at the date hereof represent approximately 19.8% of our voting shares (on a non-diluted basis).

As a result of recent amendments to the terms of the Subsidiary Preferred Shares, PetroShale US may, in certain circumstances and subject to certain limits, elect to pay certain quarterly dividend amounts "in kind" at a rate of 12% per annum in lieu of paying a cash dividend for such quarter. PetroShale US would be permitted to exercise such election, on or after the first anniversary of the date of issuance of the Subsidiary Preferred Shares (being January 25, 2018), with respect to a maximum of two fiscal quarters during any consecutive twelve month period and six fiscal quarters in total. In such event, the "Liquidation Preference" in respect of the Subsidiary Preferred Shares will increase by the dollar amount represented by the "in kind" dividend, and, as a result, additional Special Voting Shares would be issued by us at such time and the number of Common Shares to which the Subsidiary Preferred Shares may be exchangeable into will also be proportionately increased. In the event the Liquidation Preference is increased as a result of any "in kind" dividend payment, no additional Subsidiary Preferred Shares would be issued and the "in kind" amount will be reflected by the increased "Liquidation Preference". In the event that PetroShale US elects to pay any dividends "in kind" as described above, First Reserve's ownership (by way of Special Voting Shares or Common Shares issued on exchange of the Subsidiary Preferred Shares) will increase, and such increased ownership may result in First Reserve owning in excess of 20% of our then outstanding voting shares. Based on certain assumptions with respect to the timing of the exercise of the "payment in kind" right, PetroShale estimates that up to an additional 8,349,057 Special Voting Shares may be issuable to First Reserve in the event that the maximum number of "payment in kind" elections were made by PetroShale US during the term of the Subsidiary Preferred Shares. Assuming the foregoing, and based on the number of issued and outstanding voting shares as at the date hereof, in the event that the maximum number of payment in kind elections were made, First Reserve would hold approximately 23.0% of our pro-forma voting shares (on a non-diluted basis).

Furthermore, in accordance with the terms of the Investment Agreement, First Reserve has, subject to certain conditions, been provided the right to participate in any future equity financing conducted by the Corporation for up to such amount that will permit it to maintain its then applicable "as exchanged" ownership percentage. As such, notwithstanding that First Reserve currently owns and controls less than 20% of the issued and outstanding voting shares of the Corporation, First Reserve's ownership of voting shares may increase to 20% or more as a result of (among other things) the rights described above.

Pursuant to Section 1.12(a) of Policy 4.1 of the TSXV Corporate Finance Manual, if the issuance of securities will result in the creation of a new "control person" of a listed issuer, then the TSXV will require the company to obtain disinterested shareholder approval for such issuance. The TSXV defines "control person" as any person that holds or is one of a combination of persons that holds a sufficient number of any of the securities of a company so as to affect materially the control of the company, or that holds more than 20% of the outstanding shares except where there is evidence showing that the holder of those securities does not materially affect the control of the company. As a result of the Voting Cap and the Exchange Cap as set forth above, First Reserve was not considered a "control person" of PetroShale at closing of the Financing; however if the resolution set forth below is approved at the Meeting, the Exchange Cap and the Voting Cap will cease to apply and First Reserve may vote all shares it holds and all Subsidiary Preferred Shares it holds may be exchanged for Common Shares in accordance with their terms, without the restrictions imposed by the Voting Cap or the Exchange Cap, as applicable. Additionally, First Reserve may also acquire additional voting shares of the Corporation (including as a result of any payment-in kind elections or otherwise) without any of the restrictions imposed by the Voting Cap or the Exchange Cap.

The approval of First Reserve as a "control person" must be approved by ordinary resolution and requires approval by a majority of the votes cast by disinterested shareholders. Consequently, any votes attached to the shares held by First Reserve (and its respective associates, affiliates and joint actors) are excluded from the calculation of any such approval. First Reserve currently has control and direction over all of the 39,308,176 Special Voting Shares and does not own or have control or direction over any other class of our voting shares (being the Common Shares). Accordingly, all of the issued and outstanding Special Voting Shares will be excluded from voting on the resolution set forth below.

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

The following is the text of the ordinary resolution to approve First Reserve as our new "control person" that will be put forward for approval by disinterested shareholders at the meeting:

**"BE IT RESOLVED** as an ordinary resolution of the disinterested shareholders of PetroShale Inc. (the "**Corporation**") that:

1. FR XIII PetroShale Holdings L.P. ("**First Reserve**") becoming a new "control person" (as such term is defined in the TSX Venture Exchange Corporate Finance Manual) of the Corporation is hereby authorized and approved and as a result thereof, the limits on the voting or the exchange of any share of the Corporation owned by First Reserve as set forth and described in the management information circular of the Corporation dated May 23, 2018 shall cease to apply to PetroShale or First Reserve, as applicable;
2. any officer or director of the Corporation be and is hereby authorized, for and on behalf of the Corporation, to execute and deliver all documents and instruments and to take such other actions as they may determine to be necessary or desirable to implement these resolutions and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of any such documents or instruments and the taking of any such actions; and
3. the directors may revoke this resolution before it is acted upon without further approval of the shareholders.

Unless the shareholder has specifically instructed the enclosed proxy that the Common Shares represented by such proxy are to be voted against the resolution to approve First Reserve as a "control person" of the Corporation, the persons named in the accompanying proxy will vote **IN FAVOUR** of the resolution to approve First Reserve as a "control person" of the Corporation.

### **Re-Approval of Stock Option Plan**

At the meeting, shareholders will be asked to consider and re-approve the Corporation's stock option plan (the "**Option Plan**"). The Option Plan was approved by our Board on May 24, 2017 and last approved by shareholders on July 6, 2017 and provides for, among other things, a rolling option plan whereby the number of Common Shares that may be reserved for issuance under the Option Plan cannot exceed 10% of the aggregate number of outstanding Common Shares, and, if applicable, non-voting common shares (from time to time). In accordance with the rules of the TSXV, rolling option plans must receive shareholder approval yearly at our annual shareholder meeting. The summary provided below is qualified in its entirety to the full text of the Option Plan. Capitalized terms used in this section of the information circular – proxy statement and not otherwise defined herein are defined in the Option Plan.

The purpose of the Option Plan is to promote a proprietary interest in the corporation and greater alignment of interest between our directors, officers, employees, consultants and Service Providers and our shareholders. The Option Plan is administered by our Board, which may delegate its authority to a committee of our Board.

The Option Plan provides that our Board may from time to time, in its discretion, grant to our directors, officers, employees, consultants, Service Providers and those of our subsidiaries, options ("**Options**") to purchase our Common Shares. Options are not transferable or assignable except in accordance with the Option Plan and the holding of Options does not entitle the holder thereof to any rights as a shareholder.

Our Board will set the terms of the Options granted under the Option Plan provided that such term does not exceed a maximum term of ten (10) years. Our Board will set the time during which Options shall vest and the method of vesting, provided that Options issued to persons retained to provide Investor Relations Activities must vest in stages over a period of not less than 12 months with no more than a quarter of the Options vesting in any three month period. The exercise price of the Options shall not be less than the closing price of our Common Shares on the TSXV on the trading day immediately preceding the date of grant of Options.

In addition to the typical exercise method of issuing our Common Shares to the Option holder in exchange for the payment of the exercise price of the Option, the Option Plan allows (provided our Common Shares are not then listed on the TSXV) for a cashless exercise whereby Options may be exchanged for the issuance of Common Shares equal to the number determined by dividing the Market Price on the date of exercise into the difference between the Market Price and the exercise price of such Options. Additionally, provided our Common Shares are not then listed on the TSXV, any Option holder may make an offer to us, at any time, for the disposition and surrender by the same to us (and the termination thereof) of any of the Options granted under the Option Plan for an amount not to exceed Market Price (as of the date of the exercise) less the exercise price of the Options and we have the sole discretion as to whether to accept such offer.

Under the Option Plan, Options may be granted in respect of Common Shares provided that the aggregate number of Common Shares reserved for issuance at any time under the Option Plan does not exceed 10% of the aggregate number of Outstanding Securities (being the aggregate number of Common Shares and common non-voting shares outstanding). Additionally, the Option Plan limits Insider participation such that in aggregate, no more than 10% of the Outstanding Securities may be reserved at any time for Insiders under the Option Plan, together with all of our other Security Based Compensation Arrangements (which includes the Option Plan and the Share Award Plan as described elsewhere in this information circular – proxy statement). Further, the number of securities we issue to Insiders within any twelve month period under all of our Security Based Compensation Arrangements (including the Option Plan) cannot exceed 10% of the Outstanding Securities.

Subject to the policies of the TSXV (or such other stock exchange on which our Common Shares may then be listed), the Option Plan prescribes various limits to the number of Common Shares that can be reserved for issuance for specific grants made under the Option Plan. These limits include: (a) the aggregate number of Common Shares reserved for issuance under Options granted to any one eligible person shall not exceed 5% of our issued and outstanding Common Shares in any twelve month period; and (b) the aggregate number of Common Shares reserved for issuance under Options granted to any one consultant or an individual engaged in Investor Relations Activities (as such term is defined by the policies of the TSXV) shall not exceed 2% of our issued and outstanding Common Shares in any twelve month period with no more than one quarter of such Options vesting in any three month period.

Our Board has discretion to make amendments to the Option Plan which it may deem necessary, without having to obtain shareholder approval provided that in all cases it does not make any of the following amendments without first obtaining approval of the shareholders: (i) increase the percentage of the issued and outstanding Common Shares that are available to be issued pursuant to granted and outstanding Options at any time pursuant to the limit described above; (ii) reduce the exercise price of any outstanding Options granted to Insiders; (iii) extend the expiry date of any outstanding Option granted to an Insider; (iv) increase the number of Common Shares that may be issued to any one person or to an Insider above the restrictions contained in the Option Plan; (v) permit the transfer or assignment of Options except in the case of death of an Option holder; or (vi) amend the amendment provisions of the Option Plan.

Under the Option Plan, in case of an Optionee's death, the Optionee's personal or legal representative may within twelve months from the date of death and prior to the expiry time of the Options, exercise Options which were vested prior to death after which time any remaining Options shall terminate. In addition, if an Optionee ceases to be a director, officer, employee or be providing ongoing management or consulting services (other than as a result of death), and the date on which the Optionee ceases to be a director, officer, employee or be providing ongoing management or consulting services is prior to the expiry date of the Option, all Options held by the Optionee which have vested as of the Termination Date shall be forfeited by the Optionee effective on the earlier of: (a) the expiry date; and (b) the date that is 90 days from the Termination Date, and all Options which have not vested as of the Termination Date shall be terminated.

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

At the meeting, shareholders will be asked to consider the following ordinary resolution re-approving the Option Plan:

**"BE IT RESOLVED**, as an ordinary resolution of the shareholders of PetroShale Inc. (the "**Corporation**") that:

1. the stock option plan, as described under the heading "*Matters to be Acted Upon at the Meeting – Re-Approval of Stock Option Plan*" in the information circular – proxy statement of the Corporation dated May 23, 2018, is hereby re-approved and confirmed;
2. any director or officer of the Corporation be and is hereby authorized and directed to do such things and to execute and deliver all such instruments, deeds and documents, and any amendments thereto, as may be necessary or advisable in order to give effect to the foregoing resolutions, and to complete all transactions in connection therewith; and
3. notwithstanding that this resolution has been passed by the shareholders of the Corporation, the directors of the Corporation are hereby authorized and empowered to revoke this resolution, without any further approval of the shareholders of the Corporation, at any time if such revocation is considered necessary or desirable by the directors."

In order to be passed, the foregoing ordinary resolution must be approved by a simple majority of the votes cast by shareholders who vote in person or by proxy at the meeting. The persons named in the accompanying proxy will vote **IN FAVOUR** of the resolution to re-approve the Option Plan unless a shareholder specifies otherwise in the proxy.

### **Approval of the Consolidation**

Recently, we have considered the merits and potential benefits of proceeding with a consolidation of our outstanding shares in order to, among other things, increase the trading price of such shares. As such, we are seeking shareholder approval at the meeting to consolidate (the "**Consolidation**") the currently issued and outstanding Common Shares on the basis of one (1) new post-consolidation Common Share for every four (4) currently outstanding Common Shares. We believe that achieving a higher market price for the Common Shares through the Consolidation may increase investment interest for the Common Shares in international equity capital markets by potentially broadening the pool of investors that may consider investing in us and may also attract investors whose internal investment policies prohibit or discourage them from purchasing stocks trading below a certain minimum price.

### ***Risks Associated with the Consolidation***

Reducing the number of issued and outstanding Common Shares through the Consolidation is intended, absent other factors, to increase the per share market price of the Common Shares. However, the market price of the Common Shares will also be affected by our financial and operational results, our financial position, including our liquidity and capital resources, the development of our reserves and resources, industry conditions, the market's perception of our business and other factors, which are unrelated to the number of Common Shares outstanding.

Having regard to these other factors, there can be no assurance that the market price of the Common Shares will increase following the implementation of the Consolidation or that the market price of the Common Shares will not decrease in the future.

The market price of the Common Shares immediately following the implementation of the Consolidation is expected to be approximately equal to the market price of the Common Shares prior to the implementation of the Consolidation, multiplied by four (4), but there is no assurance that the anticipated market price immediately following the implementation of the Consolidation will be realized or, if realized, will be sustained or will increase. There is a risk that the total market capitalization of the Common Shares (the market price of the Common Shares multiplied by the number of Common Shares outstanding) after the implementation of the Consolidation may be lower than the total market capitalization of the Common Shares prior to the implementation of the Consolidation.

Although we believe that establishing a higher market price for the Common Shares could increase investment interest for the Common Shares in international equity capital markets by potentially broadening the pool of investors that may consider investing in us, including investors whose internal investment policies prohibit or discourage them from purchasing stocks trading below a certain minimum price, there is no assurance that implementing the Consolidation will achieve this result.

If the Consolidation is implemented and the market price of the Common Shares (adjusted to reflect the consolidation ratio) declines, the percentage decline as an absolute number and as a percentage of our overall market capitalization may be greater than would have occurred if the Consolidation had not been implemented. Both the total market capitalization of a company and the adjusted market price of such company's shares following a consolidation or reverse split may be lower than they were before the consolidation or reverse split took effect. The reduced number of Common Shares that would be outstanding after the Consolidation is implemented could adversely affect the liquidity of the Common Shares.

The Consolidation may also result in some shareholders owning "odd lots" of fewer than 100 Common Shares on a post-consolidation basis. Odd lots may be more difficult to sell, or attract greater transaction costs per share to sell, and brokerage commissions and other costs of transactions in odd lots are generally somewhat higher than the costs of transactions in "round lots" of even multiples of 100 shares.

### ***Effects of the Share Consolidation***

#### ***General***

If the Consolidation is implemented, its principal effect will be to proportionately decrease the number of issued and outstanding Common Shares by a factor of four. At the close of business on May 22, 2018, the closing price of the Common Shares on the TSXV was \$2.25 and there were 159,167,767 Common Shares issued and outstanding. Based on the number of Common Shares currently issued and outstanding, immediately following the completion of the Consolidation, the number of Common Shares then issued and outstanding (disregarding any resulting fractional Common Shares) will be 39,791,942.

We do not expect the Consolidation itself to have any economic effect on holders of Common Shares or securities convertible into or exercisable to acquire or exchangeable into Common Shares, except to the extent the Consolidation will result in fractional shares. See "*No Fractional Shares*" below.

Following the Consolidation, the Common Shares will continue to be listed on the TSXV under the symbol "PSH", however the post-consolidation Common Shares will be assigned new CUSIP and ISIN numbers.

***Effect on Non-registered Shareholders***

Non-registered shareholders holding Common Shares through an intermediary (a securities broker, dealer, bank or financial institution) should be aware that the intermediary may have different procedures for processing the Consolidation than those that will be put in place by us for registered Shareholders. If Shareholders hold their Common Shares through an intermediary and they have questions in this regard, they are encouraged to contact their intermediaries.

***Effect on Stock Options***

As of the date of this Information Circular, there were Options held by officers, employees, consultants and other service providers exercisable under the Option Plan to acquire, in the aggregate, 1,518,264 Common Shares. The Option Plan provides for appropriate adjustments to both the number of Common Shares underlying all outstanding Options and the applicable exercise price(s) in the event of any change in the Common Shares through consolidations or subdivisions of the Common Shares.

Upon the implementation of the Consolidation, each then outstanding Option will be adjusted as follows:

- the number of unissued Common Shares that may be purchased through the exercise of an Option will be reduced on the same proportionate basis as the reduction in the issued and outstanding Common Shares based on the consolidation ratio of four (4) currently outstanding Common Shares for one (1) new post-consolidation Common Share; and
- the price for which one (1) Common Share may be purchased pursuant to the exercise of an Option will be increased in inverse proportion to the reduction in the number of Common Shares based on the consolidation ratio of four (4) currently outstanding Common Shares for one (1) new post-consolidation Common Share.

***Effect on Bonus Awards***

As of the date of this Information Circular, there were 2,810,000 awards held by officers, employees, consultants and other service providers issued under the Corporation's incentive awards plan ("**Share Award Plan**"). The Share Award Plan authorizes the Board to make appropriate adjustments to any outstanding awards in the event of any change in the Common Shares through subdivision, consolidation, reclassification, amalgamation, merger or otherwise to prevent dilution or enlargement of the rights granted to the holders of Bonus Awards.

Upon the implementation of the Consolidation, each then outstanding award will be adjusted such that, if applicable, the number of Common Shares that a holder of an award may receive upon settlement of such award will be reduced on the same proportionate basis as the reduction in the issued and outstanding Common Shares based on the consolidation ratio.

***Effect on Non-Voting Shares***

As of the date of this Information Circular, there were no non-voting common shares issued and outstanding. The non-voting common shares are convertible, at the election of the holders thereof, into Common Shares on a one to one basis.

### ***Effect on the Special Voting Shares***

The terms of the Special Voting Shares provides for appropriate adjustments to the number of Special Voting Shares outstanding in the event of any change in the Common Shares through consolidations, subdivisions or reclassification of the Common Shares or otherwise. As a result of the Consolidation, the consolidation ratio of four (4) currently outstanding Common Shares for one (1) new post-consolidation Common Share will apply equally to the Special Voting Shares such that the 39,308,176 pre-consolidation Special Voting Shares that are currently issued and outstanding will result in 9,827,044 post-consolidation Special Voting Shares issued and outstanding.

### ***Effect on the Subsidiary Preferred Shares***

The terms of the Subsidiary Preferred Shares provides for appropriate adjustments to the Exchange Price in the event of any change in the Common Shares through consolidations, subdivisions or reclassification of the Common Shares or otherwise. Upon the implementation of the Consolidation, the Exchange Price for which one (1) Common Share may be issued pursuant to the exchange right of each Subsidiary Preferred Shares (currently C\$2.40 per share) will be increased in inverse proportion to the reduction in the number of Common Shares based on the consolidation ratio of four (4) currently outstanding Common Shares for one (1) new post-consolidation Common Share (resulting in a new exchange price of C\$9.60 per share). The Consolidation will only affect the number of Common Shares issuable on exchange of the Subsidiary Preferred Shares as a result of the adjusted Exchange Price and will have no effect on the actual number of Subsidiary Preferred Shares outstanding. Based upon the current "Liquidation Preference" of US\$75 million, assuming a Consolidation ratio of 4:1, the Subsidiary Preferred Shares would be exchangeable into 9,827,044 Common Shares.

### ***Effect on Share Certificates***

If the Consolidation is approved by Shareholders and subsequently implemented, those registered Shareholders who will hold at least one new post-consolidation Common Share will be required to exchange their share certificates representing old pre-consolidation Common Shares for new share certificates representing new post-consolidation Common Shares or, alternatively, a Direct Registration System ("**DRS**") Advice/Statement representing the number of new post-consolidation Common Shares they hold following the Consolidation. The DRS is an electronic registration system which allows Shareholders to hold Common Shares in their name in book-based form, as evidenced by a DRS Advice/Statement rather than a physical share certificate.

If the Consolidation is implemented, we (or our transfer agent) will mail to each registered Shareholder a letter of transmittal. Each registered Shareholder must complete and sign a letter of transmittal after the Consolidation takes effect. The letter of transmittal will contain instructions on how to surrender to the transfer agent the certificate(s) representing the registered Shareholder's old pre-consolidation Common Shares. The transfer agent will send to each registered Shareholder who follows the instructions provided in the letter of transmittal a new share certificate representing the number of new post-consolidation Common Shares to which the registered Shareholder is entitled rounded up or down to the nearest whole number or, alternatively, a DRS Advice/Statement representing the number of new post-consolidation Common Shares the registered Shareholder holds following the Consolidation. Non-registered Shareholders who hold their Common Shares through intermediaries (securities brokers, dealers, banks, financial institutions, etc.) should contact their intermediaries with respect to the Consolidation.

Until surrendered to the transfer agent, each share certificate representing old pre-consolidation Common Shares will be deemed for all purposes to represent the number of new post-consolidation Common Shares to which the registered shareholder is entitled as a result of the Consolidation. Until registered Shareholders have returned their properly completed and duly executed letter of transmittal and surrendered their old share certificate(s) for exchange, registered Shareholders will not be entitled to receive any other distributions, if any, that may be declared and payable to holders of record following the Consolidation.

Any registered Shareholder whose old certificate(s) have been lost, destroyed or stolen will be entitled to a replacement share certificate only after complying with the requirements that we and our transfer agent customarily apply in connection with lost, stolen or destroyed certificates.

The method chosen for delivery of share certificates and letters of transmittal to the Corporation's transfer agent is the responsibility of the registered Shareholder and neither the transfer agent nor the Corporation will have any liability in respect of share certificates and/or letters of transmittal which are not actually received by the transfer agent.

**REGISTERED SHAREHOLDERS SHOULD NEITHER DESTROY NOR SUBMIT ANY SHARE CERTIFICATE UNTIL HAVING RECEIVED A LETTER OF TRANSMITTAL.**

***No Fractional Shares***

No fractional Common Shares or Special Voting Shares will be issued pursuant to the Consolidation. In lieu of any such fractional Common Shares or Special Voting Shares, each registered Shareholder otherwise entitled to a fractional Common Share or Special Voting Share following the implementation of the Consolidation will receive the nearest whole number of post-consolidation Common Shares or Special Voting Shares. For example, any fractional interest representing less than 0.5 of a post-consolidation Common Share or Special Voting Share will not entitle the holder thereof to receive a post-Consolidation Common Share or Special Voting Share and any fractional interest representing 0.5 or more of a post-consolidation Common Share or Special Voting Share will entitle the holder thereof to receive one whole post-consolidation Common Share or Special Voting Share. In calculating such fractional interests, all Common Shares registered in the name of each registered Shareholder will be aggregated.

***No Dissent Rights***

Shareholders are not entitled to exercise any statutory dissent rights with respect to the proposed Consolidation.

***Accounting Consequences***

If the Consolidation is implemented, net income or loss per share, and other per share amounts, will be increased because there will be fewer shares issued and outstanding. In future financial statements, net income or loss per Common Share and other per share amounts for periods ending before the Consolidation took effect would be recast to give retroactive effect to the Consolidation.

**Consolidation Resolution**

At the Meeting, shareholders will be asked to consider, and if deemed advisable, approve the resolution set forth below (the "**Consolidation Resolution**") authorizing the Board to file Articles of Amendment giving effect to the Consolidation on the basis of one (1) new post-consolidation Common Share for every four (4) currently outstanding Common Shares. In addition, as a result of the Consolidation, the Special Voting Shares will be automatically consolidated on the basis of one (1) new post-consolidation Special Voting Share for every four (4) currently outstanding Special Voting Shares in accordance with their terms. The Consolidation Resolution is a special resolution and, as such, requires approval by not less than two-thirds (66 2/3%) of the votes cast by the voting shareholders present in person, or represented by proxy, at the meeting. Notwithstanding shareholder approval of the Consolidation Resolution at the meeting, the Board may, in its sole discretion, determine not to proceed with the Consolidation or may choose when to effect the Consolidation. The full text of the Consolidation Resolution is set out below:

"BE IT RESOLVED, as a special resolution of the holders of Common Shares and Special Voting Shares of PetroShale Inc. (the "**Corporation**") that:

1. The Articles of the Corporation be amended to change the number of issued and outstanding voting common shares ("**Common Shares**") and series 1 Class A preferred shares ("**Special Voting Shares**") of the Corporation by consolidating the issued and outstanding Common Shares and Special Voting Shares on the basis of one (1) new Common Share and Special Voting Share, as applicable, for each four (4) existing Common Shares and Special Voting Shares, as applicable, (the "**Consolidation**"), such amendment to become effective at a date in the future to be determined by the board of directors (the "**Board**") of the Corporation when the Board considers it to be in the best interests of the Corporation to implement such Consolidation, subject to all necessary stock exchange approvals;
2. The amendment to the Articles of the Corporation giving effect to the Consolidation will provide that no fractional Common Shares or Special Voting Shares will be issued in connection with the Consolidation and the number of post-consolidation Common Shares or Special Voting Shares to be received by a holder will be rounded up, in the case of a fractional interest that is 0.5 or greater, or rounded down, in the case of a fractional interest that is less than 0.5, to the nearest whole number of shares that such holder would otherwise be entitled to receive upon the implementation of the Consolidation;
3. Notwithstanding that this special resolution has been duly passed by the holders of the Common Shares and Special Voting Shares, the Board may, in its sole discretion, revoke this special resolution in whole or in part at any time prior to its being given effect without further notice to, or approval of, the holders of the Common Shares and Special Voting Shares; and
4. Any one director or officer of the Corporation be, and each of them is hereby, authorized and directed for and in the name of and on behalf of the Corporation, to execute or cause to be executed, whether under corporate seal of the Corporation or otherwise, and to deliver or cause to be delivered all such documents, and to do or cause to be done all such acts and things, as in the opinion of such director or officer may be necessary or desirable in order to carry out the terms of this resolution, such determination to be conclusively evidenced by the execution and delivery of such documents or the doing of any such act or thing."

In order to be passed, the foregoing special resolution must be approved by not less than two-thirds (66 2/3%) of the votes cast by shareholders who vote in person or by proxy at the meeting. The persons named in the accompanying proxy will vote **IN FAVOUR** of the resolution to approve the Consolidation unless a shareholder specifies otherwise in the proxy.

#### **Other Matters Coming Before the Meeting**

Management knows of no other matters to come before the meeting other than those referred to in the accompanying notice of annual and special meeting. Should any other matters properly come before the meeting, the Common Shares represented by proxy solicited by this information circular – proxy statement will be voted on such matters in accordance with the best judgment of the person voting such proxy.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

Our named executive officers or NEOs for the year ended December 31, 2017 were Mike Wood, our President and Chief Executive Officer, M. Bruce Chernoff, our Executive Chairman and David Rain our Chief Financial Officer. In addition to the foregoing, John Fair served as the President of our subsidiary, PetroShale US, until his retirement on August 2, 2017.

Compensation of our named executive officers is reviewed annually by our Corporate Governance and Compensation Committee and is subsequently approved by our Board based on the recommendation of the Corporate Governance and Compensation Committee in accordance with our Corporate Governance and Compensation Committee Charter. Our Corporate Governance and Compensation Committee is currently comprised of Jacob Roorda (Chairman), Brett Herman, M. Bruce Chernoff and Brooks Shughart. A majority of our Corporate Governance and Compensation Committee is "independent" (as such term is defined in National Instrument 58-101 – *Disclosure of Corporate Governance Practices* ("**NI 58-101**")). The primary responsibility of this committee is to assist our Board in fulfilling its responsibility by reviewing matters relating to our human resource policies and compensation of our directors, officers and employees. The members of the Corporate Governance and Compensation Committee are each experienced in compensation issues based on their present or prior involvement at the executive or board level with a variety of organizations. See "*Matters to be Acted Upon at the Meeting – Election of Directors*".

Our compensation program for our NEOs consists principally of a base salary and variable compensation, if any. Named executive officers may also participate in our Option Plan and our Share Award Plan.

Our Board's and the Corporate Governance and Compensation Committee's objective in setting compensation levels is that the aggregate compensation received by named executive officers be generally competitive with the compensation received by persons with similar qualifications and responsibilities who are engaged by other companies of corresponding size and stage of development. The Corporate Governance and Compensation Committee's primary duties are to review and make recommendations to the Board regarding: (i) human resource policies, practices and structures; (ii) compensation policy and guidelines; (iii) management incentive and perquisite plans and any non-standard remuneration plans; (iv) senior management appointments and their compensation; and (v) any other initiatives as the Board may request. In setting such levels, the Board and the Corporate Governance and Compensation Committee rely primarily on their own experience and knowledge. The Corporate Governance and Compensation Committee has not retained the assistance of a compensation consultant.

Our executive compensation program consists of two principal components: (i) base salaries and variable compensation; and (ii) Options and awards granted pursuant to our compensation plans.

**Base Salaries and Variable Compensation** – Our view of base salaries is that they should be competitive with industry peers, to the extent that can be determined, and with other public companies at similar stages of development and having similar assets, number of employees and market capitalization. Variable compensation should be based on achievement of individual as well as corporate goals and objectives.

**Options** – Pursuant to the Option Plan, our Board, at its discretion, determines all grants of Options to NEOs. Such grants are considered incentives intended to align the NEOs and shareholders' interests in the long term. We believe Options as a component of executive compensation allows the Named Executive Officers to share in corporate results in a manner that is relatively cost-effective despite the effects of treating Options as a compensation expense for accounting purposes. The Corporate Governance and Compensation Committee provides recommendations to our Board with respect to Option grants to NEOs.

**Share Awards** – Pursuant to the Share Award Plan, our Board, at its discretion, determines all grants of awards to NEOs. The Corporate Governance and Compensation Committee provides recommendations to our Board with respect to specific award grants to our NEOs.

**Performance Based Compensation** – Additional performance bonuses and targets are established on an annual basis by our Board and this may include vesting triggers of option and share based awards based on various performance targets.

All compensation paid to NEOs was negotiated with such named executive officers prior to their appointment as such and while such named executive officers were arm's length parties of us. Until December 31, 2017, we had not paid any salaries or bonuses to our Chief Financial Officer, but effective January 1, 2018 we have started paying a salary to Mr. Rain.

The Corporate Governance and Compensation Committee does not use formulas in determining the amount and mix or weighting of executive compensation. The Corporate Governance and Compensation Committee believes that the exclusive use of annual quantitative performance measures does not create the appropriate balance of incentives to build long-term shareholder value and may lead to unintended consequences for compensation purposes. Thus, the Corporate Governance and Compensation Committee considers a broad range of both quantitative and qualitative performance factors including, but not limited to: our stage of development, or financial and operational results and capital structure management; the efficient execution of our annual capital expenditures program; crude oil and natural gas reserves growth; staff development; corporate governance; environmental, health and safety; and our vision and growth strategy. For annual long-term incentive awards, the Corporate Governance and Compensation Committee primarily considers an executive officer's potential for future high-quality performance and leadership as part of the executive management team, taking into account past performance as a key indicator.

In order to assist the Corporate Governance and Compensation Committee in determining the appropriate level of executive compensation and to assess the competitiveness of its executive compensation programs, the Corporate Governance and Compensation Committee may consider compensation of other organizations within the oil and gas industry and competitive market data as contained in an analysis compiled by our management. The peer comparison group we are benchmarked against operate in similar business environments to us, are publicly traded and are generally entities of similar size, scope and complexity to us. They also have executive officer positions similar to those within our organization that reflect the scope of responsibilities required at the executive level. This peer comparison group also reflect the market in which we compete for executive talent. The Corporate Governance and Compensation Committee may add or remove companies from this group, from time-to-time, to better reflect the competitive environment.

The following companies were most recently used in the aforementioned compensation benchmarking exercise when the 2017 compensation program was updated: Bonterra Energy Corp., Cardinal Energy Ltd., Cona Resources Ltd., Enerplus Corporation, Granite Oil Corp., Spartan Energy Corp., Surge Energy Inc. and Rimrock Oil Corp.

When establishing compensation levels for executive officers, we may participate in annual industry surveys. These industry surveys include executive compensation information for select executive officers' positions. The surveys are conducted by independent consultants and they provide information on salaries and other incentive programs in effect at comparative oil and gas companies.

## Summary Compensation Table

The following table sets forth information concerning the total compensation paid during the years ended December 31, 2015, 2016 and 2017 to our named executive officers.

Name and principal position	Year	Salary (\$)	Non-equity incentive plan compensation (\$)		Option-based awards <sup>(3)</sup> (\$)	Share-based awards <sup>(4)</sup> (\$)	All other compensation (\$)	Total compensation (\$)
			Annual incentive plans	Long-term incentive plans				
M. Bruce Chernoff Executive Chairman	2017	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	-
	2015	-	-	-	-	-	-	-
Mike Wood <sup>(1)</sup> President and Chief Executive Officer	2017	195,300	-	-	-	2,700,000	11,000 <sup>(6)</sup>	2,906,300
John Fair <sup>(2)</sup> Former President of PetroShale (US)	2017	212,500	-	-	-	-	-	212,500
	2016	241,200	160,800	-	274,550	-	3,500 <sup>(6)</sup>	680,050
	2015	250,200	166,800	-	-	-	3,500 <sup>(6)</sup>	420,500
David Rain Chief Financial Officer	2017	-	-	-	-	360,000	-	360,000
	2016	-	-	-	27,455	-	-	27,455
	2015	-	-	-	-	-	-	-

### Notes:

- (1) Mr. Wood was appointed our President and Chief Executive Officer effective June 15, 2017. The compensation of Mr. Wood for the year ended December 31, 2017, as set forth above, reflects the actual amounts earned by Mr. Wood during such year.
- (2) Pursuant to Mr. John Fair's consulting agreement dated August 31, 2012, he was entitled to consulting fees of US\$180,000 per year and an annual bonus of US\$120,000. Mr. Fair retired as the President of PetroShale US on August 2, 2017 at which point his consulting agreement was terminated. The compensation of Mr. Fair for the year ended December 31 2017, as set forth above, reflects the actual amounts earned by Mr. Fair during such year.
- (3) Based on the grant date fair value of the Options on the grant date. **These amounts are not necessarily reflective of actual amounts that may be realized on exercise.** These Options have been valued using the Black-Scholes option-pricing model. The fair value of these Options was determined using a weighted average risk free interest rate of 0.64% per annum, a weighted average expected life of 5 years, expected weighted average volatility of 110%, an expected weighted average dividend yield of nil and a weighted average forfeiture rate of 10%.
- (4) Represents the value of 1,500,000 and 200,000 bonus awards granted to Mr. Wood and Mr. Rain, respectively,. The fair value of the bonus awards has been calculated based on the market price of our Common Shares at the grant date. **These amounts are not necessarily reflective of actual amounts that may be realized.**
- (5) All amounts in the above table are in \$CDN. Any amounts paid in \$US were converted to \$CDN using the Bank of Canada exchange rate in effect as at the last day of the particular period, which for December 31, 2015 was \$US 1.00 = \$CDN 1.39, December 31, 2016 was \$US 1.00 = \$CDN 1.34 and December 31, 2017 was \$US 1.00 = \$CDN 1.26.
- (6) These amounts reflect the value of medical and dental benefits provided to Mr. Wood and Mr. Fair.

## Incentive Plan Awards

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

#### Stock Option Plan

Our Option Plan was last approved by the shareholders on July 6, 2017. Our Option Plan is a "rolling" plan that provides that our Board may from time to time, in its discretion, grant to our directors, officers, employees and consultants, and those of our subsidiaries, partnerships, trusts and other controlled entities, an option to purchase Common Shares. As a "rolling" plan, the aggregate number of Common Shares that may be reserved for issuance under Option grants under our existing Option Plan may not exceed 10% of our issued and outstanding Common Shares and non-voting common shares, less the number of Common Shares reserved under our Share Award Plan. During the year ended December 31, 2017, no Options were awarded under the Option Plan.

Pursuant to the Option Plan, our Board determines the exercise price per Common Share and the number of Common Shares that may be allotted to each director, officer, employee and consultant and all other terms and

conditions of the Options, subject to the rules of the TSXV. The exercise price per Common Share is subject to minimum pricing restrictions set by the TSXV. Prior to granting Options to an employee or consultant, our Board is required to make a good faith determination that the proposed recipient of the Options is, at the date of the grant, a bona fide employee or consultant, as the case may be, of us or one of our subsidiaries.

The Option Plan provides that Options may be exercisable for up to a maximum of ten (10) years from the date of grant, but our Board has the discretion to grant Options that are exercisable for a shorter period. Other than Options granted to certain persons, Options granted under the Option Plan do not require vesting provisions, although our Board may attach a vesting period or periods or other vesting terms to individual grants as it deems appropriate and has attached vesting terms to all Options granted to date. Options under the Option Plan are non-assignable. If prior to the exercise of an Option, the holder ceases to be a director, officer, employee, management company employee or consultant, the Option will expire within 90 days following the date of such cessation, as set forth in the applicable Option agreement.

Subject to the policies of the TSXV, the Option Plan prescribes various limits to the number of Common Shares that can be reserved for issuance for specific grants made under the Option Plan. These limits include: (a) the aggregate number of Common Shares reserved for issuance under Options granted to any one eligible person shall not exceed 5% of our issued and outstanding Common Shares in any twelve month period; (b) the aggregate number of Common Shares reserved for issuance under Options granted to any one consultant or an individual engaged in Investor Relations Activities (as such term is defined by the policies of the TSXV) shall not exceed 2% of our issued and outstanding Common Shares in any twelve month period with no more than one quarter of such Options vesting in any three month period; and (c) subject to receipt of disinterested shareholder approval, the number of Common Shares reserved for issuance under Options granted to our executive officers and directors shall not exceed 10% of our issued and outstanding Common Shares.

Our Option Plan is designed to align all employees to focus on our long-term growth and success. All of our directors, officers, consultants, employees and other service providers and those of our subsidiaries, partnerships, trusts and other controlled entities are eligible to receive Options under our Option Plan.

At the meeting, shareholders will be asked to consider, and if deemed advisable, re-approve the Option Plan as described under "*Matters to be Acted Upon at the Meeting – Re-Approval of Stock Option Plan*".

#### *Restricted Bonus Award Incentive Plan*

Our Share Award Plan was approved by the shareholders on June 16, 2016, with certain amendments thereto approved on July 6, 2017 and as was further amended on November 27, 2017. 1,700,000 share-based awards were granted to our named executive officers during the year ended December 31, 2017

The purpose of the Share Award Plan is to issue bonus awards in order to: (i) retain and attract qualified directors, officers, consultants, employees and other services providers, as applicable, for us or our subsidiaries, partnerships, trusts and other controlled entities; and (ii) promote alignment by such persons with our business objectives and to encourage such persons to remain in our employ or service and put forth maximum efforts for the success of our affairs or the affairs of our subsidiaries, partnerships, trusts and other controlled entities.

The Share Award Plan provides that our Board may from time to time, in its discretion, grant to our directors, officers, employees and consultants, and those of our subsidiaries, partnerships, trusts and other controlled entities, a bonus award of a notional number of Common Shares.

The number of Common Shares reserved that are available to be issued from time to time pursuant to bonus awards granted under the Share Award Plan is limited to 15,600,000 Common Shares, less the aggregate number of Common Shares reserved for issuance from time to time under our Option Plan.

The number of Common Shares issuable pursuant to the Share Award Plan to any one person in any twelve month period will not exceed 1% of our outstanding shares (which includes: (i) the aggregate number of our issued and outstanding Common Shares; (ii) Common Shares issuable upon the exchange of our outstanding common non-

voting shares; and (iii) other fully paid securities of us and any of our subsidiaries, partnerships and trusts which are exchangeable into Common Shares (which includes the Subsidiary Preferred Shares), collectively referred to as the "**Total Common Shares**"). In addition, the number of Common Shares reserved for issuance within a twelve month period, pursuant to the Share Award Plan to our insiders as a group will not exceed 2% of our outstanding Total Common Shares.

The Board, in its discretion, shall determine the timing of the payment date(s) and expiry date(s) for each bonus award granted pursuant to the Share Award Plan. The Share Award Plan provides that if a service provider is on a leave of absence during a payment date, such payment date will be extended by the portion of the leave of absence that is in excess of three months. Notwithstanding any leave of absence or expiry date set by the Board, all bonus awards issued pursuant to the Share Award Plan will expire on the 15<sup>th</sup> of December of the third year following the year of the grant. All bonus awards granted pursuant to the Share Award Plan are not transferrable outside of estate settlement purposes.

On the payment date of the bonus award to a service provider, we, in our sole and absolute discretion, shall have the option of settling the bonus award payable to the service provider by any of the following methods: (i) payment in cash; (ii) payment in Common Shares acquired by us on the TSXV; or payment in Common Shares issued from our treasury. A recipient of a bonus award does not have any right to demand to be paid in or receive Common Shares in respect of the bonus award, at any time.

If a service provider ceases to be a director, officer, consultant, employee or other service provider, as applicable of us or our subsidiaries, or ceases to be providing active services to us on an ongoing basis for any reason whatsoever, including without limitation resignation, dismissal or otherwise, but excluding the service provider's death or disability, all outstanding bonus award agreements and bonus awards issued to the service provider will be terminated and all rights to receive payment of the bonus award shall be forfeited and such service provider may only receive payment of bonus awards where the payment date of the bonus award occurs within thirty days from the date of ceasing to be a director, officer or an employee or ceasing to provide services to us on an ongoing basis. If a service provider dies or becomes disabled prior to the payment date of an award, the service provider's legal representative may receive payment for any bonus awards where the payment date occurs within six months from the service provider's death and prior to the expiry date.

Our Board can amend or discontinue the Share Award Plan or bonus awards granted thereunder at any time without shareholder approval, provided any amendment to the Share Award Plan that requires approval of the TSXV may not be made without approval of the TSXV. However, without the prior approval of the shareholders, as may be required by such exchange, we may not make any amendment to the Awards Plan or bonus awards granted thereunder to: (a) increase the number of Common Shares issuable on exercise of outstanding bonus awards at any time; (b) extend the term of any outstanding bonus awards beyond the original expiry date of such bonus awards; (c) permit a service provider to transfer or assign bonus awards to a new beneficial holder, other than for estate settlement purposes; (d) increase the maximum limit on the number of securities that may be issued to insiders or individual service providers; or (e) amend the amendment clause. In addition, no amendment to the Share Award Plan or bonus awards granted pursuant to the Share Award Plan may be made without the consent of the service provider if it adversely alters or impairs any bonus award previously granted to such service provider under the Share Award Plan.

The following table sets forth information concerning option-based and share-based awards held by our named executive officers as at December 31, 2017.

Name and Principal Position	Option-Based Awards				Share-Based Awards <sup>(2)</sup>		
	Number of securities underlying unexercised options (#)	Option Exercise Price (\$)	Option Expiration Date	Value of unexercised in-the-money options (\$) <sup>(1)</sup>	Number of shares or units of shares that have not vested (#)	Market or payout value of Share-based awards that have not vested (\$) <sup>(3)</sup>	Market or payout value of vested Share-based awards not paid out or distributed (\$)
M. Bruce Chernoff, Executive Chairman and CEO	-	-	-	-	-	-	-
Mike Wood, President and Chief Executive Officer	-	-	-	-	1,500,000	3,225,000	-
David Rain, Chief Financial Officer	265,000 50,000	0.70 0.70	November 22, 2018 July 20, 2021	384,250 72,500	200,000	430,000	-
John Fair, Former President of PetroShale (US) <sup>(4)</sup>	-	-	-	-	-	-	-

Notes:

- (1) Value is calculated upon the difference between the exercise price of the Options and the closing price of the Common Shares on the TSXV on December 29, 2017 of \$2.15.
- (2) Represents bonus awards which are settled equally over three years and expire on December 15th on the third year following the year of grant. The value of the bonus award may be settled in cash, Common Shares or a combination thereof at our discretion.
- (3) Calculated by multiplying the number of awards that had not been settled by December 31, 2017 by the market price of our Common Shares on the TSXV on December 29, 2017 of \$2.15. Awards are settled on the vesting date.
- (4) Mr. Fair ceased to be President of PetroShale US on August 2, 2017. As a result, all of Mr. Fair's unexercised Options expired 30 days after ceasing to be an officer of PetroShale US.

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

The following table summarizes the value of options and share-based awards held by named executive officers that vested during the year ended December 31, 2017.

Name	Option-Based Awards – Value Vested During the Period (\$) <sup>(1)</sup>	Share-Based Awards – Value Vested During the Period (\$)	Non-equity Incentive Plan Compensation – Value Vested During the Period (\$)
M. Bruce Chernoff	-	-	-
Mike Wood	-	-	-
David Rain	13,333	-	-
John Fair <sup>(2)</sup>	192,463	-	-

Notes:

- (1) Calculated based on the difference between the market price of the Common Shares on the vesting date and the exercise price of the options.
- (2) Mr. Fair ceased to be President of PetroShale US on August 2, 2017. As a result, all of Mr. Fair's unexercised Options expired 30 days after ceasing to be an officer of PetroShale US.

**Pension Plan Benefits**

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

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

There are no compensatory plans, contracts or arrangements with any named executive officer (including payments to be received from us or any subsidiary), which result or will result from the resignation, retirement or any other termination of employment of such named executive officer or from a change of control of us or any subsidiary thereof or any change in such named executive officer's responsibilities following a change in control, where the named executive officer is entitled to payment or other benefits except as follows. Mr. Wood's employment agreement provides, that on a change of control as defined in the agreement, he will receive 150% of his then annual base salary plus 150% of any bonus he received in the preceding 12 months, and any bonus awards held by him shall immediately vest, on the condition that Mr. Wood continues to provide his services for up to 6 months following such change of control at the discretion of the Board.

Assuming that a change of control event occurred on December 31, 2017, the estimated payment Mr. Wood would be entitled to receive is US\$300,000 plus the then applicable value of the 1,500,000 bonus awards previously granted which have not yet vested.

### **Compensation Risk Assessment and Mitigation**

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

Our compensation program includes several mechanisms to ensure risk-taking behavior falls within reasonable risk tolerance levels, including: (i) a balanced compensation mix between fixed and variable and between short and long-term incentives that defer award value; (ii) having a cap on short-term incentive awards; (iii) establishment of a compensation package within the range of competitive practices (peer group); and (iv) utilizing longer-term incentive plans for diversification and alignment with risk realization periods (option and share based awards).

Our officers and directors are not permitted to take any derivative or speculative positions in our securities. This is to prevent the purchase of financial instruments that are designed to hedge or offset any decrease in the market value of our securities.

### **Management Contracts**

None of our management functions are, to any substantial degree, performed by a person or company other than our directors or executive officers (or private companies controlled by them, either directly or indirectly).

## **DIRECTOR COMPENSATION**

We do not have a standard arrangement pursuant to which our directors are compensated for their services in their capacity as directors except for the granting from time to time of Options and share-based awards in accordance with the terms of the plans governing such grants and the policies of the TSXV. No cash compensation or any other form of compensation was paid to any of our current directors for their services as a director during the year ended December 31, 2017. We have purchased, at our expense, a directors' and officers' liability insurance policy. This covers our directors and officers against liability incurred by them in their capacities as our directors and officers. The tables below do not include any disclosures in respect of Mr. Brook Shughart, who became a director on January 25, 2018.

### Directors' Summary Compensation Table

The following table summarizes all compensation provided to our directors, other than directors who were also named executive officers, during the year ended December 31, 2017.

Name	Fees Earned (\$)	Option-Based Awards (\$) <sup>(1)</sup>	Share-Based Awards (\$) <sup>(1)</sup>	Non-equity Incentive Plan Compensation (\$)	Pension Value (\$)	All Other Compensation (\$)	Total (\$)
Brett Herman	-	-	108,000	-	-	-	108,000
Jacob Roorda	-	-	108,000	-	-	-	108,000
Ken McCagherty	-	-	72,000	-	-	-	72,000

Note:

- (1) Represents the value of bonus awards granted. The fair value of the bonus awards has been calculated based on the market price of our Common Shares at the grant date. **These amounts are not necessarily reflective of actual amounts that may be realized.**

The following table sets forth for each of our directors, other than directors who are also named executive officers, all option and share-based awards outstanding for the year ended December 31, 2017.

Name	Option-Based Awards			Share-Based Awards <sup>(2)</sup>			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 (\$) <sup>(1)</sup>	Number of shares or units of shares that have not vested (#)	Market or payout value of Share-based awards that have not vested (\$) <sup>(3)</sup>	
Brett Herman	49,132	0.70	November 22, 2018	71,241	60,000	129,000	-
	50,000	0.70	July 20, 2021	72,500			
Jacob Roorda	49,132	0.70	November 22, 2018	71,241	60,000	129,000	-
	50,000	0.70	July 20, 2021	72,500			
Ken McCagherty	160,000	0.70	November 22, 2018	232,000	40,000	86,000	-
	20,000	0.70	July 20, 2021	29,000			

Notes:

- (1) Value is calculated upon the difference between the exercise price of the Options and the closing price of the Common Shares on the TSXV on December 29, 2017 of \$2.15.
- (2) Represents bonus awards which are settled equally over three years and expire on December 15th on the third year following the year of grant. The value of the bonus award may be settled in cash, Common Shares or a combination thereof at our discretion.
- (3) Calculated by multiplying the number of awards that had not been settled by December 31, 2017 by the market price of our Common Shares on the TSXV on December 29, 2017 of \$2.15. Awards are settled on the vesting date.

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

The following table summarizes the value of options and share-based awards held by directors, other than directors who are also named executive officers, which vested during the year ended December 31, 2017.

Name	Option-Based Awards – Value Vested During the Period (\$) <sup>(1)</sup>	Share-Based Awards – Value Vested During the Period (\$)	Non-equity Incentive Plan Compensation – Value Vested During the Period (\$)
Brett Herman	13,333	-	-
Jacob Roorda	13,333	-	-
Ken McCagherty	5,333	-	-

Note:

- (1) Calculated based on the difference between the market price of the Common Shares on the vesting date and the exercise price of the Options.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets out information with respect to compensation plans under which our Common Shares are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>(3)</sup>	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) <sup>(3)</sup>
	(a)	(b)	(c)
Equity compensation plans approved by securityholders:			
Option Plan <sup>(1)</sup>	1,548,264	\$0.70	14,165,513
Share Award Plan <sup>(2)</sup>	2,625,000	N/A	12,975,000
Equity compensation plans not approved by securityholders	-	-	-
<b>Total</b>	<b>4,173,264</b>	<b>-</b>	<b>27,140,513</b>

Notes:

- (1) Our Option Plan allows for Options to be granted, provided that the aggregate number of Common Shares reserved for issuance under the Option Plan does not exceed 10% of the aggregate number of issued and outstanding Common Shares and common non-voting shares, less the number of Common Shares reserved under our Share Award Plan.
- (2) The Share Award Plan provides that we are authorized to reserve for issuance in settlement of awards up to 15,600,000 Common Shares less the number of Common Shares reserved for issuance under our Option Plan.
- (3) Each of these amounts reflects the maximum amount issuable under each plan, before reduction by the amount of Common Shares reserved under the other plan. See "Incentive Plan Awards – Outstanding Share-Based and Option-Based Awards – Stock Option Plan and Restricted Bonus Award Plan". As at December 31, 2017, the maximum number of additional securities remaining available under the Option Plan is 14,165,513 less 2,625,000 Common Shares reserved under the Share Award Plan. Similarly, the maximum number of additional securities remaining available under the Share Award Plan is 12,975,000 less 1,548,264 Common Shares reserved under the Option Plan.

## CORPORATE GOVERNANCE DISCLOSURE

National Policy 58-201 – *Corporate Governance Guidelines* ("NP 58-201") has been adopted in each of the provinces and territories of Canada. NI 58-101 requires issuers to disclose the corporate governance practices that they have adopted. NP 58-201 provides guidance on corporate governance practices.

Our Board believes that good corporate governance improves corporate performance and benefits all shareholders. The following sets out our approach to corporate governance and addresses our compliance with NI 58-101.

## Board of Directors

Directors are considered to be independent if they have no direct or indirect material relationship with us. A "material relationship" is a relationship which could, in the view of our Board, be reasonably expected to interfere with the exercise of a director's independent judgment.

Our management has been delegated the responsibility for meeting defined corporate objectives, implementing approved strategic and operating plans, carrying on our business in the ordinary course, managing cash flow, evaluating new business opportunities, recruiting staff and complying with applicable regulatory requirements. Our Board facilitates its independent supervision over management by reviewing and approving long-term strategic, business and capital plans, material contracts and business transactions, and all debt and equity financing transactions. Through the Audit Committee, our Board examines the effectiveness of our internal control processes and information systems.

The independent members of our Board are Brett Herman, Ken McCagherty, Jacob Roorda and Brooks Shughart. M. Bruce Chernoff is a non-independent director since he is also our Executive Chairman and a significant shareholder. A majority of our Board is independent.

Although our independent directors do not hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance, at the end of or during each meeting of our Board or any committee of the Board, the members of our management who are present at such meeting leave the meeting in order that the independent directors can discuss any necessary matters without management being present.

## Position Descriptions

Our Board has approved written position descriptions or terms of reference for our chairman and the chairman of each of our Audit Committee, our Corporate Governance and Compensation Committee and our Reserves Committee.

The following directors are presently directors of other reporting issuers (or the equivalent):

<b>Director</b>	<b>Names of Other Issuers</b>
M. Bruce Chernoff	Canoe Financial Corp. (General Partner of Canoe Financial LP, the Manager of Canoe EIT Income Fund), Maxim Power Corp., and TORC Oil & Gas Ltd.
Brooks Shughart	None
Brett Herman	TORC Oil & Gas Ltd.
Ken McCagherty	None
Jacob Roorda	Northcliff Resources Ltd., Wolf Minerals Limited and Epsilon Energy Ltd.

## Orientation and Continuing Education

While we do not currently have a formal orientation and educational program for new recruits to our Board, we provide such orientation and education on an informal basis. We provide new Board members with our corporate policies, historical information about us, as well as information on our performance and our strategic plan with an outline of the general duties and responsibilities entailed in carrying out their duties. Our Board believes that these procedures are a practical and effective approach in light of our particular circumstances, including our size and limited turnover of the directors and the experience and expertise of the members of our Board.

No formal continuing education program currently exists for our directors; however, we encourage directors to attend, enrol in or participate in courses and/or seminars dealing with financial literacy, corporate governance and related matters. Each director has the responsibility for ensuring that he maintains the skill and knowledge necessary to meet his obligations as a director.

## **Ethical Business Conduct**

Our Board has adopted a Code of Business Conduct and Ethics (the "**Code**"), a copy of which is available to review on our SEDAR profile at [www.sedar.com](http://www.sedar.com). It is expected that each of our employees, officers and directors will confirm his or her understanding, acceptance and compliance of the Code on an annual basis. Any reports of variance from the Code will be reported to our Board.

Our Board has also adopted a procedures for reporting a reportable activity as part of our Code, which provides employees with the ability to have procedures in place to address the confidential, anonymous submission by employees of concerns regarding accounting, internal accounting controls or auditing matters, or to address the receipt, retention and treatment of concerns regarding accounting, internal accounting controls or auditing matters. Our Board believes that providing a forum for employees to raise concerns about ethical conduct and treating all complaints with the appropriate level of seriousness fosters a culture of ethical conduct.

In accordance with the ABCA, directors who are party to, or are a director or officer of a person which is a party to, a material contract or material transaction or a proposed material contract or a proposed material transaction with us are required to disclose the nature and extent of their interest and not to vote on any resolution to approve the contract or transaction. In addition, in certain cases, an independent committee of our Board may be formed to deliberate on such matters in the absence of the interested party.

## **Nomination of Directors**

Our Board considers its size each year when it considers the number of directors to recommend to the shareholders for election at the annual meeting of shareholders, taking into account the number required to carry out our Board's duties effectively and to maintain a diversity of views and experience while also taking into account the requirements and rights provided to First Reserve in respect of board representation as set forth in the Investment Agreement. See "*Voting Shares and Principal Holders*" and "*Interest of Informed Persons in Material Transactions*".

Our corporate governance and compensation committee acts as the nominating committee of our Board and reviews the size and composition of our Board and nominating functions are then performed by the Board as a whole. However, this policy is reviewed annually. Our corporate governance and compensation committee, which is responsible for nominating directors, is comprised of a majority of independent directors.

## **Board Committees**

Our Board has three committees: an Audit Committee, a Corporate Governance and Compensation Committee and a Reserves Committee.

### *Audit Committee*

Our Audit Committee is currently comprised of Brett Herman (Chairman), Ken McCagherty and Jacob Roorda. All of the members of our audit committee are independent (as such term is defined in National Instrument 51 - 110 – *Audit Committees*) and financially literate. For more information concerning our Audit Committee please see our Annual Information Form dated April 23, 2018 which is available on our website and our SEDAR profile at [www.sedar.com](http://www.sedar.com).

### **Reserves Committee**

The members of our Reserves Committee are Ken McCagherty (Chairman), Jacob Roorda and M. Bruce Chernoff. A majority of the members of our Reserves Committee are "independent" (as such term is defined in NI 58-101) and satisfying the requirements of Section 3.5(1) of National Instrument 51 101 – *Standards of Disclosure for Oil and Gas Activities ("NI 51-101")*.

Our Board has delegated to the Reserves Committee responsibility for matters set forth in respect of the responsibilities of the Board in relation to NI 51-101. These responsibilities include, but are not limited to:

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

#### **Assessments**

Our Corporate Governance and Compensation Committee is responsible for assessing the effectiveness of our Board as a whole, the committees of our Board, the appointments to those committees and the mandates thereof. While no formal evaluation has been conducted to date, the committee has relied on informal evaluation of the effectiveness through both formal and informal communications with Board members and through participation with other Board members on committees and matters relating to the Board. This methodology has been both responsive and practical given the size of our Board.

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

None of our executive officers, directors, employees and former executive officers, directors and employees or any proposed nominee for election as a director or any associate of any director, officer or proposed nominee is or has been indebted to us at any time during the last completed financial year.

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

Except as disclosed elsewhere herein and set forth below, none of our directors, officers, principal shareholders, or informed persons (as defined in National Instrument 51-102), and no associate or affiliate of any of them, has or has had any material interest in any transaction since the commencement of our most recently completed financial year or in any proposed transactions which has materially affected or would materially affect us.

In connection with our equity offering completed on April 11, 2017, Mr. Chernoff acquired, indirectly through an entity directed by him, an aggregate of 44,444,500 Common Shares. The participation by Mr. Chernoff in the offering was considered to be a "related party transaction" (as defined under Multilateral Instrument 61-101 -

*Protection of Minority Security Holders in Special Transactions ("MI 61-101")*), however was exempt from the formal valuation and minority shareholder approval requirements under MI 61-101 as a result of available exemptions thereunder. Certain of the net proceeds of the offering were used to partially repay outstanding amounts owing under our previously outstanding subordinated revolving credit facility (which subordinated credit facility was provided, in part, by an entity beneficially owned and controlled by Mr. Chernoff).

On January 25, 2018, we completed the Financing with First Reserve and in connection with the same we and our subsidiary, PetroShale US, entered into the Investment Agreement with First Reserve whereby First Reserve was provided, among other things: (i) certain consent and governance rights, including the right that so long as First Reserve owns not less than 60% of the number of shares it acquired pursuant to the Financing (including on exchange thereof) it shall be entitled to designate one nominee for election to our board; (ii) the right to maintain its pro-rata ownership of the company's shares in connection with future financing transactions, subject to certain customary exclusions; and (iii) registration rights in respect of public offering of shares owned by First Reserve. A copy of the Investment Agreement is available for review under our SEDAR profile at [www.sedar.com](http://www.sedar.com). Brooks Shughart, a managing director of First Reserve has been appointed to our board of directors, and is standing for election to the board at the meeting, pursuant to the board nomination rights provided to First Reserve pursuant to the Investment Agreement. Certain of the proceeds from the Financing were used to fully repay all amounts owing under the subordinated credit facility described above.

## INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

Other than First Reserve and Mr. Shughart who, as managing director of First Reserve, may be considered to have an interest in the approval for First Reserve as a "control person" as described herein, no Person has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in matters to be acted upon at the meeting. For the purposes of this paragraph "Person" includes each person who: (i) has been one of our directors or executive officers at any time since the start of our last financial year; (ii) is a proposed nominee for election as one of our directors; or (iii) is an associate or affiliate of a person included in subparagraphs (i) or (ii).

## ADDITIONAL INFORMATION

Additional information about us is available through the internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at [www.sedar.com](http://www.sedar.com). Our financial information is provided in our comparative financial statements and management discussion and analysis which can also be accessed at [www.sedar.com](http://www.sedar.com).

The delivery of this information circular – proxy statement has been approved by our directors.