



**Notice of Meeting  
and  
Management Information Circular**

with respect to the

**Annual General Meeting  
of Shareholders of  
BNK Petroleum Inc.**

to be held on Tuesday, June 12, 2012





Dear Shareholder:

You are invited to attend the Annual General Meeting of Shareholders of BNK Petroleum Inc. to be held in the Tweedsmuir Room at The Fairmont Hotel Vancouver, 900 West Georgia Street, Vancouver, British Columbia, on Tuesday, June 12, 2012 at the hour of 11:00 A.M. (local time in the city of Vancouver, British Columbia).

The business of the meeting is described in the accompanying Notice of Meeting and Management Information Circular.

Your participation in the meeting is important regardless of the number of shares you hold. If you cannot attend the meeting, please vote by completing the form of proxy and returning it by 11:00 A.M. (local time in the city of Vancouver, British Columbia) on Friday, June 8, 2012 in the manner described in the Management Information Circular for information about how to vote your shares.

We look forward to seeing you at the meeting.

*"Ford Nicholson"*

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**FORD NICHOLSON**  
Chairman of the Board

*"Wolf Regener"*

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**WOLF REGENER**  
President & Chief Executive Officer

**BNK PETROLEUM INC.**  
**760 Paseo Camarillo, Suite 350**  
**Camarillo, CA 93010**

**NOTICE OF ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the shareholders of **BNK Petroleum Inc.** (the "**Company**") will be held in the Tweedsmuir Room at The Fairmont Hotel Vancouver, 900 West Georgia Street, Vancouver, British Columbia on Tuesday, June 12, 2012 at the hour of 11:00 A.M. (local time in the City of Vancouver, British Columbia), for the following purposes:

1. to receive and consider the report of the directors and the consolidated financial statements of the Company together with the auditors' report thereon for the financial year ended December 31, 2011;
2. to fix the number of directors at six (6);
3. to elect directors for the ensuing year;
4. to appoint the auditors for the ensuing year and authorize the directors to fix the remuneration to be paid to the auditors; and
5. to transact such further or other business as may properly come before the meeting and any adjournments thereof.

The accompanying information circular provides additional information relating to the matters to be dealt with at the meeting and is deemed to form part of this notice.

If you are unable to attend the meeting in person, please complete, sign and date the enclosed form of proxy and return the same in the enclosed return envelope provided for that purpose within the time and to the location set out in the form of proxy accompanying this notice.

DATED this 8<sup>th</sup> day of May, 2012.

**By Order of the Board of Directors of  
BNK Petroleum Inc.**

*"Wolf Regener"*

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**WOLF REGENER**

President and Chief Executive Officer

**BNK Petroleum Inc.  
760 Paseo Camarillo, Suite 350  
Camarillo, CA 93010**

**MANAGEMENT INFORMATION CIRCULAR**

Dated May 8, 2012

The Company is providing this information circular (the "**Information Circular**") and a form of proxy in connection with management's solicitation of proxies for use at the annual general meeting (the "**Meeting**") of the Company to be held on Tuesday, June 12, 2012 and at any adjournments. Unless the context otherwise requires, when we refer in this Information Circular to the Company, its subsidiaries are also included. The Company will conduct its solicitation by mail and officers and employees of the Company may, without receiving special compensation, also telephone or make other personal contact. The Company will pay the cost of solicitation.

**Unless otherwise indicated, dollar figures in this Information Circular are in U.S. currency. Canadian dollars are referred to as "C\$" herein.**

**APPOINTMENT OF PROXYHOLDER**

The purpose of a proxy is to designate persons who will vote the proxy on a shareholder's behalf in accordance with the instructions given by the shareholder in the proxy. The persons whose names are printed in the enclosed form of proxy are officers or directors of the Company (the "**Management Proxyholders**").

**A shareholder has the right to appoint a person other than a Management Proxyholder, to represent the shareholder at the Meeting by striking out the names of the Management Proxyholders and by inserting the desired person's name in the blank space provided or by executing a proxy in a form similar to the enclosed form. A proxyholder need not be a shareholder.**

**VOTING BY PROXY**

**Only registered shareholders or duly appointed proxyholders are permitted to vote at the Meeting.** Common shares of the Company ("**Shares**") represented by a properly executed proxy will be voted or be withheld from voting on each matter referred to in the Notice of Meeting in accordance with the instructions of the shareholder on any ballot that may be called for and if the shareholder specifies a choice with respect to any matter to be acted upon, the shares will be voted accordingly.

**If a shareholder does not specify a choice and the shareholder has appointed one of the Management Proxyholders as proxyholder, the Management Proxyholder will vote in favour of the matters specified in the Notice of Meeting and in favour of all other matters proposed by management at the Meeting.**

**The enclosed form of proxy also gives discretionary authority to the person named therein as proxyholder with respect to amendments or variations to matters identified in the Notice of the Meeting and with respect to other matters which may properly come before the Meeting.** At the date of this Information Circular, management of the Company knows of no such amendments, variations or other matters to come before the Meeting.

## COMPLETION AND RETURN OF PROXY

Completed forms of proxy must be deposited at the office of the Company's registrar and transfer agent, Computershare Investor Services Inc., set forth on the proxy or #600, 530 – 8<sup>th</sup> Avenue SW, Calgary, Alberta, not later than forty-eight (48) hours, excluding Saturdays, Sundays and holidays, prior to the time of the Meeting, unless the chairman of the Meeting elects to exercise his discretion to accept proxies received subsequently.

### NON-REGISTERED HOLDERS

**Only shareholders whose names appear on the records of the Company as the registered holders of Shares or duly appointed proxyholders are permitted to vote at the Meeting.** Most shareholders of the Company are "non-registered" shareholders because the Shares they own are not registered in their names but instead are registered in the name of a nominee such as a brokerage firm through which they purchased the Shares; bank, trust company, trustee or administrator of self-administered RRSP's, RRIF's, RESP's and similar plans; or clearing agency such as The Canadian Depository for Securities Limited (a "Nominee"). If you purchased your Shares through a broker, you are likely to be a non-registered holder.

In accordance with securities regulatory policy, the Company has distributed copies of the Meeting materials, being the Notice of Meeting, this Information Circular and the Proxy, to the Nominees for distribution to non-registered holders.

Nominees are required to forward the Meeting materials to non-registered holders to seek their voting instructions in advance of the Meeting. Shares held by Nominees can only be voted in accordance with the instructions of the non-registered holder. The Nominees often have their own form of proxy, mailing procedures and provide their own return instructions. If you wish to vote by proxy, you should carefully follow the instructions from the Nominee in order that your Shares are voted at the Meeting.

If you, as a non-registered holder, wish to vote at the Meeting in person, you should appoint yourself as proxyholder by writing your name in the space provided on the request for voting instructions or proxy provided by the Nominee and return the form to the Nominee in the envelope provided. Do not complete the voting section of the form as your vote will be taken at the Meeting.

In addition, Canadian securities legislation now permits the Company to forward meeting materials directly to "non objecting beneficial owners". If the Company or its agent has sent these materials directly to you (instead of through a Nominee), your name and address and information about your holdings of securities have been obtained in accordance with applicable securities regulatory requirements from the Nominee holding on your behalf. By choosing to send these materials to you directly, the Company (and not the Nominee holding on your behalf) has assumed responsibility for (i) delivering these materials to you and (ii) executing your proper voting instructions.

### REVOCABILITY OF PROXY

Any registered shareholder who has returned a proxy may revoke it at any time before it has been exercised. In addition to revocation in any other manner permitted by law, a registered shareholder, his attorney authorized in writing or, if the registered shareholder is a corporation, a corporation under its corporate seal or by an officer or attorney thereof duly authorized, may revoke a proxy by instrument in writing, including a proxy bearing a later date. The instrument revoking the proxy must be deposited at the registered office of the Company, at any time up to and including the last business day preceding the date of the Meeting, or any adjournments thereof, or with the chairman of the Meeting on the day of the Meeting. **Only registered shareholders have the right to revoke a proxy. Non-registered holders**

**who wish to change their vote must, at least 7 days before the Meeting, arrange for their Nominees to revoke the proxy on their behalf.**

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

The Company is authorized to issue an unlimited number of Shares without par value, of which 144,291,184 Shares are issued and outstanding as at May 8, 2012. Persons who are registered shareholders at the close of business on the record date, May 8, 2012, will be entitled to receive notice of and vote at the Meeting and will be entitled to one vote for each Share held. The Company has only one class of shares.

To the knowledge of the directors and executive officers of the Company, except as disclosed below, no person beneficially owns, controls or directs, directly or indirectly, Shares carrying 10% or more of the voting rights attached to all Shares of the Company. On March 4, 2011, BlackRock, Inc. (on behalf of its investment advisory subsidiaries) ("**BlackRock**") filed an alternative monthly report in respect of the Company pursuant to which it was reported that BlackRock was deemed to beneficially own, as at February 28, 2011, 14,730,805 Shares of the Company. The directors and executive officers of the Company are not aware of any change in the foregoing information. Based on the Company's current issued and outstanding Shares, these 14,730,805 Shares represent approximately 10.21% of the issued and outstanding share capital of the Company.

On October 11, 2011, Soros Fund Management LLC ("**Soros**") and Quantum Partners LP ("**Quantum**") filed an alternative monthly report in respect of the Company pursuant to which it was reported that Quantum was deemed to beneficially own, as at September 30, 2011, 25,300,000 Shares of the Company over which Soros was reported to have investment and voting control. The directors and executive officers of the Company are not aware of any change in the foregoing information. Based on the Company's current issued and outstanding Shares, these 25,300,000 Shares represent approximately 17.53% of the issued and outstanding share capital of the Company.

#### **BUSINESS OF THE ANNUAL GENERAL MEETING**

##### **Receipt of the Financial Statements and Auditors' Report**

The consolidated financial statements of the Company for the year ended December 31, 2011 and the auditors' report thereon will be placed before the shareholders at the Meeting.

Under National Instrument 51-102 – *Continuous Disclosure Obligations*, a person or corporation who in the future wishes to receive interim and/or annual financial statements from the Company must deliver a written request for such material to the Company, together with a signed statement that the person or corporation is the owner of securities (other than debt instruments) of the Company. If you wish to receive interim and/or annual financial statements you are encouraged to send the enclosed return card, together with the completed form of proxy to Computershare Investor Services Inc. at the address set forth on the return card.

##### **Election of Directors**

The directors of the Company are elected at each annual meeting and hold office until the next annual meeting or until their successors are appointed. **In the absence of instructions to the contrary, the enclosed proxy will be voted for the nominees herein listed.**

Shareholder approval will be sought to fix the number of directors of the Company at six (6).

The Company has an Audit Committee, a Compensation Committee, a Corporate Governance Committee and a Health, Safety and Environmental ("HS&E") Committee. Members of these committees are as set out below.

Management of the Company proposes to nominate each of the following persons for election as a director. Information concerning such persons, as furnished by the individuals, is as follows:

<b>Name, Jurisdiction of Residence and Position</b>	<b>Principal Occupation, Business or Employment</b>	<b>Previous Service as a Director</b>	<b>Number of Shares beneficially owned, or controlled or directed, directly or indirectly<sup>(5)</sup></b>
<b>Ford Nicholson</b> <sup>(2),(3)</sup> British Columbia, Canada Chairman and Director	President, Kepis & Pobe Financial Group Inc., a private investment company	Since June 27, 2008	7,619,697
<b>Robert Cross</b> <sup>(1),(2),(3)</sup> British Columbia, Canada Director	Independent director and, in some cases, non-executive chair of boards of public companies principally in the resource sector	Since June 27, 2008	5,675,616
<b>Victor Redekop</b> <sup>(1),(3),(4)</sup> Alberta, Canada Director	Director, Simmons Group Inc., a drilling services company	Since June 27, 2008	2,929,437
<b>Eric Brown</b> <sup>(1),(2)</sup> British Columbia, Canada Director	Independent consultant	Since June 27, 2008	13,000
<b>General Wesley Clark (retired)</b> <sup>(4)</sup> Arkansas, USA Director	Chief Executive Officer, Wesley K. Clark and Associates	Since July 21, 2009	421,000
<b>Wolf Regener</b> <sup>(4)</sup> California, USA President, CEO and Director	President and CEO of the Company	Since May 25, 2010	1,560,927

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Corporate Governance Committee.

(4) Member of the HS&E Committee.

(5) Shares beneficially owned, or controlled or directed, directly or indirectly, as at May 8, 2012, based upon information furnished to the Company by individual directors.

No proposed director is to be elected under any arrangement or understanding between the proposed director and any other person or company, except the directors and executive officers of the Company acting solely in such capacity.

To the knowledge of the Company no proposed director:

- (a) is, as at the date of the Information Circular, or has been, within 10 years before the date of the Information Circular, a director, chief executive officer ("CEO") or chief financial officer ("CFO") of any company (including the Company) that:
- (i) was the subject, while the proposed director was acting in the capacity as director, CEO or CFO of such company, of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days; or
  - (ii) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the proposed director ceased to be a

director, CEO or CFO but which resulted from an event that occurred while the proposed director was acting in the capacity as director, CEO or CFO of such company; or

- (b) is, as at the date of this Information Circular, or has been within 10 years before the date of the Information Circular, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (c) has, within the 10 years before the date of this Information Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director; or
- (d) 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
- (e) has been subject to any penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

Certain directors of the Company are presently directors of other reporting issuers (see "Participation of Directors in Other Reporting Issuers").

#### **Appointment of Auditors**

The shareholders will be asked to vote for the appointment of KPMG LLP, Chartered Accountants, of Calgary, Alberta, as auditors of the Company until the close of the next annual meeting, at such remuneration as may be approved by the board of directors of the Company (the "**Board**"). KPMG were first appointed auditors of the Company in May 2008.

**The persons named as proxyholder in the enclosed form of proxy intend to cast the votes represented by proxy in favour of the foregoing resolution unless the registered holder who has given such proxy has directed that the Shares be otherwise voted.**

#### **EXECUTIVE COMPENSATION AND REMUNERATION OF DIRECTORS**

The following Compensation Discussion and Analysis is intended to provide information about the Company's philosophy, objectives and processes regarding compensation for the executive officers of the Company. It explains how decisions regarding executive compensation are made and the reasoning behind these decisions.

#### **Compensation Philosophy and Objectives of Compensation Programs**

The Company seeks to encourage a steady growth in land acquisitions and exploration and other growth opportunities that are likely to enhance shareholder value, while maintaining reserves and production. To achieve these objectives, the Company believes it is critical to create and maintain compensation programs that attract and retain committed, highly-qualified personnel and to motivate them to assist in the achievement of the Company's business objectives, by providing appropriate rewards and incentives.

The Company's compensation program is designed to reward performance that contributes to the achievement of the Company's business strategy on both a short-term and long-term basis, without unduly increasing the risks associated with the Company's business and its business strategy. In furtherance of the foregoing the Company strives to reward qualities that it believes help achieve its strategy such as teamwork, individual performance in light of general economic and industry specific conditions, efforts to mitigate the business, financial and other risks facing the Company, integrity and resourcefulness, the ability to manage the Company's existing assets, the ability to identify and pursue new business opportunities, responsibility and accountability, and tenure with the Company.

During the year ended December 31, 2011, the executive management team achieved significant milestones which were contemplated in the 2011 business plan and budgets of the Company and considered by the Compensation Committee (in this section, "Executive Compensation and Remuneration of Directors", the Compensation Committee is referred to as the "**Committee**") in the establishment of overall 2011 compensation. Achievements that were reflected in the annual salaries for 2012 and in the cash bonuses awarded for 2011 include:

- securing further concessions and obtaining concession extensions in Europe;
- identification of basins and positions suitable for farm-out and identification of preferred co-venturers;
- maintaining reserves and production of U.S. assets; and
- progress in building teams of skilled personnel in Poland and Germany, the safe drilling of the initial wells in Poland, the identification of a potential new horizon in the Tishomingo field and the achievement of higher production than projected from the field.

### **Risk-Management Implications**

The Committee exercises both positive and negative discretion in relation to compensation and the allocation of 'at-risk' compensation (being cash bonuses and securities-based compensation), to encourage and reward performance that does not increase, and where practical mitigates, the Company's exposure to business and financial risks including those identified in the Company's Annual Information Form and Management's Discussion and Analysis. The nature of the business and the competitive environment in which the Company operates requires some level of risk-taking to achieve growth. The following aspects of the Company's executive compensation program are designed to encourage practices and activities that should enhance long-term value and sustainable growth and limit incentives that could encourage inappropriate or excessive risk-taking:

- an annual cash bonus target, determined as a percentage of an executive's annual salary, that may be earned in a calendar year; and
- staged vesting over a two or three year period of stock options granted to executives with a maximum of one-third vesting per annum.

During the second quarter of 2012, the Committee met to, among other things, consider risks associated with its compensation policies and practices. The Committee did not identify compensation policies or practices that were reasonably likely to have a material adverse effect on the Company.

The Company has not adopted a policy prohibiting Named Executive Officers or directors from purchasing financial instruments that are designed to hedge or offset a decrease in market value of equity securities of the Company granted as compensation or held, directly or indirectly, by Named Executive Officers or directors.

## Compensation Mix

The Company compensates its executive officers through base salary, cash bonuses and the award of stock options under the Company's stock option plan (the "**Option Plan**") at levels which the Committee believes are reasonable in light of the performance of the Company under the leadership of the executive officers. The objective of the compensation program is to provide a combination of short, medium and long term incentives that reward performance and also are designed to achieve retention of high-quality executives.

The following table provides an overview of the elements of the Company's compensation program.

Compensation Element	Award Type	Objective	Key Features
Base Salary	Salary	Provides a fixed level of regularly paid cash compensation for performing day-to-day executive level responsibilities.	Recognizes each officer's unique value and historical contribution to the success of the Company in light of salary norms in the industry and the general marketplace.
Annual Cash Bonuses	Annual non-equity incentive plan	Motivates executive officers to achieve key corporate objectives by rewarding the achievement of these objectives.	Discretionary cash payments recommended to the Board by the Committee based upon contribution to the achievement of corporate objectives and individual performance.
Option Plan	Option-based award	Long-term equity-based incentive compensation that rewards long-term performance by allowing executive officers to participate in the long-term appreciation of the Company's Shares. The Committee believes that the granting of stock options is required in order for the Company to be competitive with its peers from a total remuneration standpoint and to encourage executive officer retention.	Annual and special awards, as determined appropriate by the Committee, granted at market price, vesting ratably over two or three years and having a term of five years.

The Named Executive Officers are also eligible to participate in the same benefits offered to all full-time employees. The Company does not view these benefits as a significant element of its compensation structure but does believe that they can be used in conjunction with base salary to attract, motivate and retain individuals in a competitive environment.

## Assessment of Compensation

In determining appropriate levels of executive compensation the Committee utilizes publicly available compensation surveys and information contained within annual proxy circulars. The Committee also takes into account recommendations made by the Chief Executive Officer in respect of the Named Executive Officers (other than himself). In reviewing comparative data, the Committee does not engage in benchmarking for the purposes of establishing compensation levels relative to any predetermined point. In the Committee's view, external and third-party survey data provides an insight into external competitiveness, but is not an appropriate single basis for establishing compensation levels. This is primarily due to the differences in the size, scope and location of operations of comparable corporations and the lack of sufficient appropriate matches to provide statistical relevance.

**Salary:** Base salary is intended to compensate core competences in the executive role relative to skills, experience and contribution to the Company. Base salary provides fixed compensation determined by reference to competitive market information. The Committee believes that salaries should be competitive and, as such, should provide the executive officers with an appropriate compensation that reflects their level of responsibility, industry experience, individual performance and contribution to the growth of the Company. The 2011 base salaries of the Named Executive Officers of the Company disclosed in the "Summary Compensation Table" were established primarily on this basis.

**Annual Cash Bonuses:** Bonuses are paid at the discretion of the Board on recommendation of the Committee, based upon the achievement of corporate objectives and the individual executive's contribution thereto. Bonuses awarded by the Committee are intended to be competitive with the market while rewarding executive officers for meeting qualitative goals, including delivering near-term financial and operating results, developing long-term growth prospects, improving the efficiency and effectiveness of business operations and building a culture of teamwork focused on creating long-term shareholder value. Consistent with the flexible nature of the annual bonus program, the Committee does not assign any specific weight to any particular performance goal nor is any specific weight assigned to the performance goals in the aggregate. The Board can exercise discretion to award compensation absent attainment of a pre-determined performance goal, or to reduce or increase the size of a bonus award. To date, the Board has not exercised its discretion to award a bonus absent attainment of applicable performance goals. The Committee considers not only the Company's performance during the year with respect to the qualitative goals, but also with respect to market and economic trends and forces, extraordinary internal and market-driven events, unanticipated developments and other extenuating circumstances. In sum, the Committee analyzes the total mix of available information on a qualitative, rather than quantitative, basis in making bonus determinations. Target bonuses for Named Executive Officers may be exceeded, if an executive officer is instrumental in the achievement of favourable milestones in addition to pre-determined objectives, and in circumstances where an executive's individual commitment and performance is exceptional.

**Long-Term Incentives:** The allocation of stock options, and the terms of those options, is an integral component of the compensation package of the executive officers of the Company. The Company's Option Plan is in place for the purpose of providing stock options to its officers, employees and consultants. The Committee believes that the grant of options to the executive officers and share ownership by such officers serve to motivate achievement of the Company's long-term strategic objectives and the result will benefit all shareholders of the Company. Stock options are awarded to employees of the Company (including the Named Executive Officers) by the Board based in part upon the recommendation of the Committee, which bases its recommendations in part upon recommendations of the Chief Executive Officer relative to the level of responsibility and contribution of the individuals toward the Company's goals and objectives.

To date, stock options granted to Named Executive Officers generally vest in tranches of one-third at the time of grant (subject to any applicable probationary period) and one-third on each of the first and second anniversary date of grant. The Committee exercises its discretion to adjust the number of stock options awarded based upon its assessment of individual and corporate performance and the anticipated future hiring requirements of the Company. Also, the Committee considers the overall number of stock options that are outstanding relative to the number of outstanding Shares of the Company and the overall number of stock options held by each individual optionee relative to the number of stock options that are available under the Option Plan in determining whether to make any new grants of stock options and the size of such grants. The granting of specific options to Named Executive Officers is generally reviewed by the Committee for recommendation to the Board for final approval.

## Performance Analysis

The following graph compares the yearly change in the cumulative total shareholder return since the Company's Shares commenced trading in July 2008, assuming an investment of C\$100 was made on July 10, 2008 in the Shares, with the cumulative total return of the S&P/TSX Composite Index for the comparable period.



The trend shown in the above graph does not correspond to the Company's compensation to its Named Executive Officers during the same periods. Total compensation of Named Executive Officers has generally declined over the three year period ended December 31, 2011. The Compensation Committee reviews and recommends to the Board the remuneration of the Company's Named Executive Officers. The Committee's recommendations are based on a number of factors, including the Company's performance as measured by the advancement of business objectives, which performance is not necessarily reflected in the trading price of the Shares on the TSX. See "Compensation Discussion and Analysis" above. The trading price of the Shares on the TSX is subject to fluctuation based on a number of factors, many of which are outside the control of the Company. These include, but are not limited to, fluctuations and volatility in commodity prices for crude oil, natural gas and natural gas liquids, fluctuations and volatility in foreign exchange rates, global economic conditions, changes in government, environmental policies, legislation and royalty regimes, and other factors, some of which are disclosed and discussed under the heading "Business Risks" in the Company's Management's Discussion and Analysis for the period ended December 31, 2011 and under the heading "Risk Factors" in the Annual Information Form of the Company for the year ended December 31, 2011.

## Compensation Governance

The Company's executive compensation program is administered by the Committee, which is comprised solely of independent directors. During the fiscal year ended December 31, 2011, the Committee was comprised of Messrs. Ford Nicholson, Robert Cross and Eric Brown. Each of the members of the Committee is independent, as defined by applicable securities legislation, and is experienced in dealing with compensation matters by virtue of having previously held senior executive or similar positions requiring such individuals to be directly involved in establishing compensation philosophy and policies and in determining overall compensation of executives.

As part of its mandate, the Committee reviews and recommends to the Board the remuneration of the Company's senior executive officers. The Committee is also responsible for reviewing the Company's

compensation policies and guidelines generally. During 2011 the Committee held one (1) formal meeting and several informal meetings to address compensation matters including matters relating to hiring decisions and option awards. The Committee also met during the first quarter of 2012 to assess performance of senior executives during 2011 and, together with management, to identify individual and corporate objectives for 2012.

The Committee has a written mandate that sets out the Committee's structure, operations, and responsibilities. Among other things, the mandate requires the Board to appoint to the Committee three or more directors who meet the independence and experience requirements of applicable securities laws and stock exchange policies, as determined by the Board. The chair of the Committee may be designated by the Board or, if it does not do so, the members of the Committee may elect a chair by majority vote. Decisions at Committee meetings are decided by a majority of votes cast. The mandate also grants the Committee access to officers, employees and information of the Company and the authority to engage independent counsel and advisors as it deems necessary to perform its duties and responsibilities. The mandate of the Committee is described under "Corporate Governance Practices - Compensation of Directors and the Chief Executive Officer".

### Summary Compensation Table

The following table sets forth the total compensation for services in all capacities to the Company and its subsidiaries provided directly or indirectly by the Company (including its subsidiaries) for the periods indicated in respect of each of the Chief Executive Officer and the Chief Financial Officer and the other three most highly compensated executive officers of the Company and its subsidiaries or the three most highly compensated individuals acting in a similar capacity as at December 31, 2011 whose individual total compensation for the most recently completed financial year exceeded \$150,000 and any individual who would have satisfied these criteria but for the fact that individual was not serving as such an officer at the end of the most recently completed financial year (collectively, the "Named Executive Officers").

Name and Principal Position	Year	Salary (\$)	Share Based Awards (\$)	Non-Equity Incentive Plan			Pension Value (\$)	All Other Comp- ensation <sup>(4)</sup> (\$)	Total Comp- ensation (\$)
				Option- Based Awards <sup>(1)(2)</sup> (\$)	Annual Incentive Plans <sup>(3)</sup> (\$)	Long-Term Incentive Plans (\$)			
<b>Wolf Regener,</b> President and Chief Executive Officer	2011	337,500	Nil	Nil	140,000	Nil	Nil	Nil	477,500
	2010	277,939	Nil	463,500	150,000	Nil	Nil	Nil	891,439
	2009	200,988	Nil	836,190	88,000	Nil	Nil	Nil	1,125,178
<b>Warren Nelson,</b> Chief Financial Officer and Vice President	2011	278,438	Nil	Nil	85,000	Nil	Nil	Nil	363,438
	2010 <sup>(5)</sup>	204,166	Nil	1,208,685	105,000	Nil	Nil	Nil	1,517,851
<b>James Hill,</b> Vice President, New Ventures	2011	221,417	Nil	Nil	31,000	Nil	Nil	Nil	252,417
	2010	209,958	Nil	Nil	28,000	Nil	Nil	Nil	237,958
	2009	176,435	Nil	154,850	21,000	Nil	Nil	Nil	352,285
<b>Steve Warshauer,</b> Vice President, Exploration	2011 <sup>(6)</sup>	225,463	Nil	Nil	56,000	Nil	Nil	Nil	281,463
	2010	188,525	Nil	362,000	50,000	Nil	Nil	Nil	600,525
<b>Martin Robert,</b> Vice President, Engineering and Operations	2011	277,000	Nil	Nil	110,000	Nil	Nil	Nil	387,000
	2010 <sup>(7)</sup>	Nil	Nil	858,000	Nil	Nil	Nil	Nil	858,000

- (1) Represents options to purchase Shares of the Company, with each option upon exercise entitling the holder to acquire one Share. The grant date fair value has been calculated in accordance with Section 3870 of the CICA Handbook. The value of option-based awards was determined using the Black-Scholes option pricing model. These options were granted and the Company's Share trading price is reported in Canadian dollars. The US\$ amounts were calculated using the currency rates in effect on the date of grant.
  - Wolf Regener: In 2009, the value of option-based awards, using the Black-Scholes option pricing model, was 1,350,000 Shares at C\$0.62. The options were granted at an exercise price of C\$0.63, which was the closing price for the Shares on the TSX on the day prior to the date of grant. Key additional weighted average assumptions used were: (i) the risk free interest rate, which was 2.70%; (ii) current time to expiration of the option which was assumed to be 5 years; and (iii) the volatility for the Shares on the TSX, which was 211%. In 2010, the value of option-based awards, using the Black-Scholes option pricing model, was 500,000 Shares at C\$0.93. The options were granted at an exercise price of C\$2.85, which was the closing price for the Shares on the TSX on the day prior to the date of grant. Key additional weighted average assumptions used were: (i) the risk free interest rate, which was 2.10%; (ii) current time to expiration of the option which was assumed to be 5 years; and (iii) the volatility for the Shares on the TSX, which was 71%.
  - Warren Nelson In 2010, the value of option-based awards, using the Black-Scholes option pricing model, was 500,000 Shares at C\$2.26. The options were granted at an exercise price of C\$2.12. Key additional weighted average assumptions used were: (i) the risk free interest rate, which was 2.79%; (ii) current time to expiration of the option which was assumed to be 5 years; and (iii) the volatility for the Shares on the TSX, which was 112%.
  - James Hill In 2009, the value of option-based awards, using the Black-Scholes option pricing model, was 250,000 Shares at C\$0.62. The options were granted at an exercise price of C\$0.63, which was the closing price for the Shares on the TSX on the day prior to the date of grant. Key additional weighted average assumptions used were: (i) the risk free interest rate, which was 2.70%; (ii) current time to expiration of the option which was assumed to be 5 years; and (iii) the volatility for the Shares on the TSX, which was 211%.
  - Steve Warshauer In 2010, the value of option-based awards, using the Black-Scholes option pricing model, was 200,000 Shares at C\$1.42 and 50,000 shares at C\$1.56. The options were granted at exercise prices of C\$1.72 and C\$2.85, respectively, which were the closing prices for the Shares on the TSX on the days prior to the date of grant. Key additional weighted average assumptions used were: (i) the risk free interest rate, which were 2.45% and 2.44%, respectively; (ii) current time to expiration of the options which was assumed to be 5 years; and (iii) the volatility for the Shares on the TSX, which was 118% and 63%, respectively.
  - Martin Robert In 2010, the value of option-based awards, using the Black-Scholes option pricing model, was 550,000 Shares at C\$1.56. The options were granted at an exercise price of C\$2.85, which was the closing price for the Shares on the TSX on the day prior to the date of grant. Key additional weighted average assumptions used were: (i) the risk free interest rate, which was 2.44%; (ii) current time to expiration of the option which was assumed to be 5 years; and (iii) the volatility for the Shares on the TSX, which was 63%.
- (2) The actual value of the options granted to the Named Executive Officers will be determined based on the market price of the Shares at the time of exercise of such options, which may be greater or less than grant date fair value reflected in the table above. See "Outstanding Share-Based and Option-Based Awards - Named Executive Officers".
- (3) Annual Incentive Plan amounts represent discretionary cash bonuses earned in the year noted but paid in the following year. See "Compensation Discussion and Analysis".
- (4) "Nil" indicates perquisites and other personal benefits did not exceed \$50,000 or 10 percent of the total of the annual salary of the Named Executive Officer during the reporting period. "All Other Compensation" includes perquisites and other benefits including vehicle allowance, parking, life insurance premiums and club membership fees.
- (5) Mr. Nelson was appointed Vice President on March 8, 2010 and Vice President and Chief Financial Officer effective April 1, 2010. He would have earned \$250,000 had he worked for the entire 2010 year.
- (6) Mr. Warshauer was appointed Vice President - Exploration on February 11, 2011 at an annual salary of \$228,000.
- (7) Mr. Robert was appointed Vice President - Engineering and Operations on December 1, 2010 and would have earned \$275,000 had he worked for the entire year.

### **Outstanding Option-Based Awards - Named Executive Officers**

The Company's Option Plan was adopted in 2008 and approved by the shareholders on May 27, 2009. Pursuant to the Option Plan, the Company may grant incentive stock options to directors, officers, employees and consultants of the Company or any subsidiary thereof. For a description of the Option Plan, see "Equity Compensation Plans".

The following table sets forth information with respect to all outstanding stock options granted under the Option Plan to the Named Executive Officers, as at December 31, 2011.

Name	Option-Based Awards					
	Number of Securities Underlying Unexercised Options (#) <sup>(1)</sup>	Option Exercise Price (US <sup>(2)</sup> )/C\$	Option Expiration Date	Value of Unexercised In-the-Money Options (US/C\$) <sup>(3)</sup>	Number of Options That Have Not Vested (#)	Market Value of Option-Based Awards That Have Not Vested (US/C\$) <sup>(3)</sup>
Wolf Regener	1,350,000 500,000	0.58/0.63 2.72/2.85	July 27, 2014 September 1, 2015	1,269,000/1,242,000 Nil/Nil	Nil 166,667	Nil/Nil Nil/Nil
James Hill	250,000	0.58/0.63	July 27, 2014	235,000/230,000	Nil	Nil/Nil
Warren Nelson	500,000 50,000	2.06/2.12 2.72/2.85	March 8, 2015 November 30, 2015	Nil/Nil Nil/Nil	166,667 16,667	Nil/Nil Nil/Nil
Steve Warshauer	200,000 50,000	1.61/1.72 2.72/2.85	February 8, 2015 November 30, 2015	Nil/Nil Nil/Nil	66,667 16,667	Nil/Nil Nil/Nil
Martin Robert	550,000	2.72/2.85	November 30, 2015	Nil/Nil	183,334	Nil/Nil

- (1) Options granted to Named Executive Officers are typically subject to vesting on the basis that one-third of the number granted vest on the date of grant, a further one-third vest on the first anniversary of the date of grant and the remaining third vest on the second anniversary of the date of grant.
- (2) These options were granted and the Company's Share trading price is reported in Canadian dollars. The US\$ figure was calculated based on the closing price of the Shares of C\$1.55 (US\$1.52) on December 30, 2011, the last trading day of the financial year.
- (3) Calculated based on the closing price of the Company's Shares of C\$1.55 (US\$1.52) on December 30, 2011, the last trading day of the financial year.

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

The following table sets forth information in respect of the value of awards granted pursuant to the Option Plan to the Named Executive Officers of the Company that vested during the period ending December 31, 2011 and bonuses awarded to Named Executive Officers, for the financial year ending December 31, 2011.

Name	Option-Based Awards - Value Vested During Year <sup>(1)(2)</sup> (US/C\$)	Share-Based Awards - Value Vested During Year (US/C\$)	Non-Equity Incentive Plan Compensation- Value Earned During Year (US/C\$) <sup>(3)</sup>
Wolf Regener	1,992,334/1,777,333 <sup>(4)</sup>	N/A	140,000/139,776
James Hill	351,665/318,332 <sup>(5)</sup>	N/A	31,000/30,950
Warren Nelson	Nil/Nil	N/A	85,000/84,864
Steve Warshauer	Nil/Nil	N/A	56,000/55,910
Martin Robert	Nil/Nil	N/A	110,000/109,824

- (1) Calculated based on the difference between the market value of the Shares on the applicable date of vesting (based on the closing price of the Shares on the vesting date) and the applicable exercise price of the options which vested.
- (2) The actual value of the options granted to the Named Executive Officer will be determined based on the market price of the Shares at the time of exercise of such options, which may be greater or less than the value at the date of vesting reflected in the table above.
- (3) The cash bonus compensation was awarded in US\$. The C\$ figure was calculated based upon the noon exchange rate on March 28, 2012 (the date the bonus compensation was awarded) as reported by the Bank of Canada.
- (4) The following options vested during the financial year ended December 31, 2011: (a) a total of 450,000 options vested on July 27, 2011 with an exercise price of C\$0.63 (US\$0.58), which are valued at C\$1,719,000 (US\$1,899,000) based upon a close price of C\$4.45 (US\$4.80); and (b) a total of 166,667 options vested on September 1, 2011 with an exercise price of C\$2.85 (US\$2.72), which are valued at C\$58,333 (US\$93,334) based upon a close price of C\$3.20 (US\$3.28). The US\$ figure was calculated based upon the noon exchange rate on the vesting date, as reported by the Bank of Canada.
- (5) During the fiscal year ended December 31, 2011, a total of 83,333 options vested on July 27, 2011 with an exercise price of C\$0.63 (US\$0.58), which are valued at C\$318,332 (US\$351,665) based upon a close price of C\$4.45 (US\$4.80). The US\$ figure was calculated based upon the noon exchange rate on the vesting date, as reported by the Bank of Canada.

Additional information regarding the significant terms of the Company's Option Plan is provided under "Equity Compensation Plans" below.

### **Pension Plan Benefits**

The Company has not established a pension plan for the benefit of its executive officers that provides for payments or benefits at, following, or in connection with retirement.

### **Deferred Compensation Plans**

The Company does not have any deferred compensation plans relating to a Named Executive Officer.

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

Wolf Regener is employed by the Company as President and Chief Executive Officer. His current salary is \$350,000 per annum. His employment contract provides for a severance payment upon termination of his employment either (a) without cause, or (b) on a "Change of Control", being an event resulting in new persons possessing more than 50% of the voting power of the Company or any successor company, and where one of the following circumstances occurs within twenty-four (24) months of such event: (i) he is terminated without cause; (ii) his working location is transferred to a location more than fifty (50) miles from the Company's current place of business in Camarillo, California; (iii) he is demoted to a position of lesser seniority or authority; or (iv) his base salary is reduced to an annual amount at least 25% less than his base salary prior to the acquisition (together, the "**triggering events**"). Upon occurrence of either of these events, the Company will pay Mr. Regener a severance payment in the amount of twenty-four (24) months' pay calculated on the basis of his base salary at the time of his termination, payable in accordance with the Company's standard payroll schedule. The Company will also reimburse his health care premiums for twenty-four (24) months of medical benefits. In the event of the termination of his employment upon either of the above events, all stock options then held by him will immediately vest and will remain exercisable until the earlier of the expiry date of the said options and the date which is twenty-four (24) months immediately following the date upon which such notice of termination is delivered by the Company. Assuming a triggering event took place on December 31, 2011, the incremental payments, payables and benefits that Mr. Regener would be entitled to are \$700,000 plus approximately \$49,618 in benefits (amount of premiums). Mr. Regener would also be entitled to the amount of any bonus awarded but not then paid.

Warren Nelson is employed by the Company as Vice President and Chief Financial Officer. His current salary is \$285,000 per annum. His employment contract provides for severance in the event of a triggering event (as defined above) as follows: eighteen (18) months' pay calculated on the basis of his base salary at the time of his termination, payable in accordance with the Company's standard payroll schedule; health care premiums for eighteen (18) months of medical benefits; and all stock options then held will immediately vest and will remain exercisable until the earlier of the expiry date of the said options and the date which is twenty-four (24) months immediately following the date upon which such notice of termination is delivered by the Company. Assuming a triggering event took place on December 31, 2011, the incremental payments, payables and benefits that Mr. Nelson would be entitled to as at such date are \$427,500 plus approximately \$35,803 in benefits (amount of premiums). Mr. Nelson would also be entitled to the amount of any bonus awarded but not then paid.

James Hill is employed by the Company as Vice-President of Exploration – New Ventures. His current salary is \$228,000 per annum. In the event a triggering event (as defined above) occurs, Mr. Hill is entitled to the following severance payment: twelve (12) months' pay calculated on the basis of his base salary at the time of his termination, payable in accordance with the Company's standard payroll schedule; reimbursement of health care premiums for twelve (12) months of medical benefits; and all stock options then held will immediately vest and will remain exercisable until the earlier of the expiry date of the said options and the date which is twenty-four (24) months immediately following the date

upon which such notice of termination is delivered by the Company. Assuming a triggering event took place on December 31, 2011, the incremental payments, payables and benefits that Mr. Hill would be entitled to as at such date are \$228,000 plus approximately \$31,953 in benefits (amount of premiums). Mr. Hill would also be entitled to the amount of any bonus awarded but not then paid.

Martin Robert is employed by the Company as Chief Operating Officer at a current salary is \$305,000 per annum. If Mr. Robert's employment agreement is terminated without cause, his employment contract entitles him, in addition to ten (10) weeks of advance notice (or pay in lieu), the following payments upon termination: an amount equal to his unused vacation through the date of termination; an amount equal to the amount paid to him for reasonable moving expenses to relocate his personal property from Calgary, Alberta to Camarillo, California; and a lump sum payment of \$10,000. If Mr. Robert is terminated upon a Change of Control (which is defined, in this instance, as an event resulting in new persons possessing more than 50% of the voting power of the Company or any successor company, and where one of the following circumstances occurs within twenty-four (24) months of such event: (i) he is terminated without cause; (ii) his working location is transferred to a location more than fifty (50) miles from the Company's current place of business in Camarillo, California; (iii) there is a material diminution in his authority, duties or responsibilities; or (iv) his base salary is reduced by any amount), Mr. Robert is entitled to a severance payment of twelve (12) months' pay calculated on the basis of his base salary at the time of his termination, payable in accordance with the Company's standard payroll schedule; and all stock options then held will immediately vest and will remain exercisable until the earlier of the expiry date and the date which is ninety (90) days immediately following the date upon which such notice of termination is delivered by the Company. Assuming a termination without cause took place on December 31, 2011, the incremental payments, payables and benefits that Mr. Robert would be entitled to as at such date is \$10,000 plus approximately \$13,219 in benefits (vacation pay and moving expenses). Assuming a Change of Control took place on December 31, 2011, the incremental payments, payables and benefits that Mr. Robert would be entitled to as at such date are \$275,000 plus approximately \$13,219 in benefits. Mr. Robert would also be entitled to any bonus awarded and not then paid.

The Company's Option Plan agreements, including those agreements with the Named Executive Officers, contain a provision that if a Change of Control occurs, all option shares subject to outstanding options will become vested, whereupon such options may be exercised in whole or in part subject to the approval of the TSX, if necessary.

### **Compensation of Directors**

During 2011, the directors of the Company received no cash or share-based compensation for their services in their capacities as directors or members of the Board committees. Non-executive directors are generally eligible to receive grants of stock options under the Company's Option Plan subject to an annual equity award value maximum. The Company does not presently have share-based awards or non-equity incentive plans for its non-executive directors.

No form of compensation was provided and no options were granted to directors, who are not also Named Executive Officers, during the Company's most recently completed financial year.

## Outstanding Option-Based Awards – Directors

The following table sets forth information with respect to all outstanding option-based awards to directors who are not Named Executive Officers under the Option Plan as at December 31, 2011.

Option-Based Awards					
Name	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (US/C\$)	Option Expiration Date	Option-Based Awards – Value Vested During the Year <sup>(1)</sup> (US/C\$)	Value of Unexercised In-the-Money Options <sup>(2)</sup> (US/C\$)
Ford Nicholson	1,450,000	0.58/0.63	July 27, 2014	1,955,269/1,769,936 <sup>(3)</sup>	1,363,000/1,334,000
	500,000	2.72/2.85	September 1, 2015	93,333/58,333 <sup>(4)</sup>	Nil/Nil
Robert Cross	1,450,000	0.58/0.63	July 27, 2014	1,955,269/1,769,936 <sup>(3)</sup>	1,363,000/1,334,000
Victor Redekop	400,000	0.58/0.63	July 27, 2014	562,669/509,336 <sup>(5)</sup>	376,000/368,000
Eric Brown	400,000	0.58/0.63	July 27, 2014	562,669/509,336 <sup>(5)</sup>	376,000/368,000
Wesley Clark	400,000	0.58/0.63	July 27, 2014	562,669/509,336 <sup>(5)</sup>	376,000/368,000

(1) Calculated by determining the difference between the market price of the Shares on the applicable date of vesting and the applicable exercise price of the stock options. The US\$ figure was calculated based upon the noon exchange rate on the vesting date, as reported by the Bank of Canada.

(2) Calculated based on the difference between the market value of the Shares at December 30, 2011 which was C\$1.55 (US\$1.52) and the exercise price of the option.

(3) A total of 463,334 options vested on July 27, 2011 with an exercise price of C\$0.63 (US\$0.58), which are valued at C\$1,769,936 (US\$1,955,269) based upon a close price of C\$4.45 (US\$4.80).

(4) A total of 166,667 options vested on September 1, 2011 with an exercise price of C\$2.85 (US\$2.72), which are valued at C\$58,333 (US\$93,333) based upon a close price of C\$3.20 (US\$3.28).

(5) A total of 133,334 options vested on July 27, 2011 with an exercise price of C\$0.63 (US\$0.58), which are valued at C\$509,336 (US\$562,669) based upon a close price of C\$4.45 (US\$4.80).

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

Except as set out herein, no person who has been a director or executive officer of the Company at any time since the beginning of the Company's last financial year, no proposed nominee of management of the Company for election as a director of the Company and no associate or affiliate of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership or otherwise, in matters to be acted upon at the Meeting other than the election of directors.

## INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Management of the Company is not aware of any material interest, direct or indirect, of any director or officer of the Company, any person or company who beneficially owns, controls or directs, directly or indirectly, more than 10 percent of the Company's voting securities, or any associate or affiliate of such person in any transaction within the year ending December 31, 2011 or in any proposed transaction which in either case has materially affected or will materially affect the Company or its subsidiaries.

## MANAGEMENT CONTRACTS

No management functions of the Company or any subsidiaries are performed to any substantial degree by a person other than the directors or executive officers of the Company.

## DIRECTORS' AND OFFICERS' INDEMNIFICATION INSURANCE

Pursuant to the terms of the Company's Articles and certain indemnification agreements, the Company may be required to indemnify its current and former directors and officers and, in certain instances, individuals who have acted at the Company's request as a director or officer of another corporation

against all costs incurred by such persons in respect of any action to which such person is made a party by reason of being a current or former director or officer of the Company or such other corporation. Such persons are entitled to be indemnified by the Company only if they have acted honestly and in good faith with a view to the best interests of the Company, and in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, such person had reasonable grounds for believing that his conduct was lawful.

The Company has directors' and officers' liability insurance for the benefit of its directors and officers. The policy limit is \$10,000,000 and the associated deductible for each securities claim and each corporate reimbursement claim is \$100,000 (\$75,000 for an employment practices claim and \$75,000 for all other claims).

### INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

At no time during the year ended December 31, 2011 was there any indebtedness of any director or officer, or any associate of any such director or officer, to the Company or to any other entity which is, or at any time since the beginning of the year ended December 31, 2011 has been, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company.

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The Company has established an equity compensation plan pursuant to which 10% of its outstanding Shares from time to time may be reserved by issuance upon exercise of stock options. The equity compensation plan, referred to herein as the Option Plan, has been established to provide incentives to employees, officers and certain consultants of the Company. The following table summarizes the stock options which were outstanding as at December 31, 2011:

Plan Category	Number of Shares to be issued upon exercise of outstanding stock options (a)	Weighted-average exercise price of outstanding stock options (b) (C\$)	Number of Shares remaining available for future issuance under the Option Plan (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	9,997,235	1.65	3,928,550 <sup>(2)</sup>
Equity compensation plans not approved by security holders	500,000 <sup>(1)</sup>	2.12	Nil
Total	10,497,235	1.68	3,928,550 <sup>(2)</sup>

<sup>(1)</sup> Stock options issued as an employment inducement to executive officers in accordance with the policies of the TSX. These inducement options have the same material terms as those applicable to stock options granted pursuant to the Option Plan.

<sup>(2)</sup> Based on 10% of issued and outstanding Shares as at December 31, 2011.

### STOCK OPTION PLAN

The Company established the Option Plan which governs the issuance of stock options to directors, officers, employees, management company employees (as defined in the Option Plan), and consultants and service providers of the Company and its subsidiaries that are retained by the Company and its subsidiaries, (the "**Eligible Participants**"). The principal purpose of the Option Plan is to provide the Eligible Participants with the opportunity to acquire an increased proprietary interest in the Company, to align the interests of such Eligible Participants with the interests of the shareholders of the Company and to attract and retain qualified officers, employees and consultants to continue the Company's growth.

The maximum number of Shares reserved for issuance pursuant to the Option Plan, together with any Shares reserved for issuance pursuant to any other security based compensation arrangements (as defined by the rules of the TSX), is 10% of the Company's issued Shares from time to time. As at May 8, 2012, 10% of the issued and outstanding Shares is 14,429,118. As at the same date a total of 10,993,901 Shares are reserved for issuance pursuant to outstanding options under the Option Plan and all other securities-based compensation arrangements, representing approximately 7.62% of the Company's issued and outstanding Shares as at such date, and based on the issued and outstanding Shares as at May 8, 2012, a further 3,435,217 Shares are available and unallocated.

In addition to the limitation on the number of Shares reserved for issuance, the Option Plan contains the following additional limitations:

- (a) the number of Shares reserved for issuance under the Option Plan and all of the Company's other previously established or proposed share compensation arrangements in aggregate shall not exceed 10% of the total number of issued and outstanding Shares at the grant date on a non-diluted basis; and
- (b) the number of Shares issuable to Insiders at any time under all security based compensation arrangements shall not exceed 10% of the total number of issued and outstanding Shares on a non-diluted basis; and
- (c) the number of Shares issued to Insiders as a group within a one year period under all security based compensation arrangements shall not exceed 10% of the total number of issued and outstanding Shares as at the end of such one year period; and
- (d) the maximum non-employee director participation under the Option Plan is limited to an annual equity award value of \$100,000 for non-employee director, provided that this limit does not apply to an initial grant of options to a newly appointed or elected non-employee director.

The exercise price of each stock option is determined by the Board at the time of granting the stock option, provided that the exercise price of stock options granted pursuant to the Option Plan cannot be lower than the closing price of the Shares on the TSX on the last trading day preceding the date of grant.

Pursuant to the terms of the Option Plan, the Board has the discretion to determine the term and vesting provisions of the stock options at the time of granting the stock options. Options granted to date vest as to one-third on the date of grant and one-third on each of the first and second anniversaries of the date of grant.

If any options issued under the Option Plan are not exercised within their term, the Shares reserved and authorized for issuance pursuant to such stock options will again be available for issuance under the Option Plan.

Any unallocated entitlements under the Option Plan must be approved and ratified by shareholders every three years. The next date by which such approval is required is June 3, 2014.

Although the maximum term of options granted under the Option Plan is ten years, options granted to date generally have a five year term. The expiry date of an option is the later of the specified expiry date and, where a blackout period is imposed by the Company and the specified expiry date falls within the blackout period or within 5 trading days after such a blackout period, the date that is 10 trading days following the end of the blackout period.

Options are non-transferable and non-assignable, except in certain specified circumstances. All options held by an Eligible Participant whose office or employment is terminated for cause cease to be exercisable, whether vested or not.

If an optionee ceases to be an Eligible Participant other than for cause or as a result of death or disability, options held by such optionee that have vested remain exercisable for a period of not more than 90 days after the optionee ceases to be an Eligible Participant (30 days if the optionee is engaged in investor relations activities), unless a longer period is provided pursuant to the terms of the Optionee's employment agreement with the Company. In the event of the optionee's death or disability, for a period of 365 days subject, in each case, to the option expiry date, if earlier.

Upon a change of control (as defined in the Option Plan) all Shares subject to stock options shall immediately become vested and may thereupon be exercisable in whole or in part by the option holder. The Board has the power to accelerate the expiry date of outstanding stock options in connection with a take-over bid.

The Option Plan contains a cashless exercise feature whereby the exercise price of options may, at a participant's election, be advanced by an independent brokerage firm. The advance is deducted from the proceeds of sale of the Shares issued on exercise, and the remaining proceeds are paid to the participant.

The Option Plan permits the directors to amend, modify and change the provisions of an option or the Option Plan without obtaining approval of shareholders in certain circumstances. The amendment provisions of the Option Plan are as follows:

- (a) the Board may, at any time and from time to time, amend, suspend or terminate the Option Plan and securities granted thereunder without shareholder approval, provided that no such amendment, suspension or termination may be made without obtaining any required approval of any regulatory authority or stock exchange or the consent or deemed consent of an optionee where such amendment, suspension or termination materially prejudices the rights of that optionee.
- (b) notwithstanding the foregoing, the Board may not, without the approval of the shareholders of the Company, make amendments to the Option Plan for any of the following purposes:
  - (i) to increase the maximum percentage of Shares that may be issued pursuant to options granted under the Option Plan as set out in the Option Plan;
  - (ii) to reduce the exercise price of options;
  - (iii) to extend the expiry date of options;
  - (iv) to increase the non-employee director participation limit outlined above;
  - (v) to permit options to be transferable or assignable other than for normal estate settlement purposes; and
  - (vi) to amend the provisions of this section 7.5(b) of the Option Plan.
- (c) in addition to the changes that may be made pursuant to sections 6.1 to 6.3 of the Option Plan inclusive, the Board may, at any time and from time to time, without the approval of

the shareholders of the Company, amend any term of any outstanding option (including, without limitation, the exercise price, vesting and expiry of the option), provided that:

- (i) any required approval of any regulatory authority or stock exchange is obtained;
- (ii) if the amendments would reduce the exercise price or extend the expiry date of options, approval of the shareholders of the Company must be obtained;
- (iii) the Board would have had the authority to initially grant the option under the terms so amended; and
- (iv) the consent or deemed consent of the optionee is obtained if the amendment would materially prejudice the rights of the optionee under the option.

The Option Plan provides for adjustment, subject to approval of the stock exchange on which the Shares are then listed, of the number of option Shares and/or the exercise price in the event of a Share Reorganization or a Special Distribution (each as defined in the Option Plan). In the case of a Corporate Reorganization (as defined in the Option Plan), an optionee will become entitled to purchase the kind and amount of shares or other securities or property that the optionee would have been entitled to receive had he held the Shares underlying the Options on the effective date of the reorganization, with appropriate adjustments.

### **CORPORATE GOVERNANCE PRACTICES**

National Instrument 58-101 – *Disclosure of Corporate Governance Practices*, establishes recommended corporate governance guidelines for all public companies. The following discloses the Company's corporate governance practices relative to the recommendations.

#### **Independence of Members of Board**

The Company's Board consists of six (6) directors, five (5) of whom are independent based upon the tests for independence set forth in National Instrument 52-110 – *Audit Committees* ("NI 52-110"). Therefore, a majority of the directors are independent, including the chair of the Board, Mr. Nicholson. Mr. Regener is not independent by virtue of holding the office of Chief Executive Officer of the Company.

#### **Management Supervision by Board**

Management reports upon the operations of the Company generally, on a monthly basis, directly to the Board. The directors meet at any time they consider necessary, and as the Chairman considers necessary without the presence of any members of management including executive directors. The Company's auditors, legal counsel and employees may be invited to attend. The audit committee is composed entirely of independent directors who meet with the Company's auditors without management in attendance. The independent directors exercise their responsibilities for independent oversight of management through regular reports of management to the full Board. The directors have regular and full access to management.

### Participation of Directors in Other Reporting Issuers

The participation of the directors in other reporting issuers is described in the table below.

Name of Director	Name of Reporting Entity
Ford Nicholson	InterOil Corp.
Robert Cross	Avanti Mining Inc. B2Gold Corp. Bankers Petroleum Ltd. Mena Hydrocarbons Inc. Petrodorado Energy Ltd. Zodiac Exploration Inc.
Victor Redekop	Butte Energy Inc.
Eric Brown	Bankers Petroleum Ltd.
Wesley Clark	Amaya Gaming Group Inc. AMG – Advanced Metallurgical Group N.V. Bankers Petroleum Ltd. Juhl Wind, Inc. Prysmian Sri Rentech, Inc. Rodman & Renshaw, LLC Torvec, Inc.
Wolf Regener	None

### Participation of Directors in Board Meetings

The participation of the directors in Board meetings during the year ended December 31, 2011, is described in the following table:

Director	Meetings of Board of Directors	Meetings of Audit Committee	Meetings of Compensation Committee	Meetings of Corporate Governance Committee	Meetings of HS&E Committee
Ford Nicholson	7/7	N/A	1/1	1/1	N/A
Robert Cross	6/7	3/3	1/1	1/1	N/A
Victor Redekop	7/7	3/3	N/A	1/1	1/1
Eric Brown	7/7	3/3	1/1	N/A	N/A
Wesley Clark	7/7	N/A	N/A	N/A	1/1
Wolf Regener	7/7	N/A	N/A	N/A	1/1

### Board Mandate

The Board has adopted a Board Mandate entitled the "Board of Directors Terms of Reference", the text of which is attached as Schedule "A" to this Information Circular.

### Position Descriptions

The Board has adopted a position description for the Chair of the Board. Specific position descriptions have not been adopted for the chairs of each of its committees as the Board is of the view that the mandates of the committees are sufficiently specific that no separate description is necessary for the chairs of such committees. The Board has developed a position description for the Chief Executive Officer.

## **Orientation and Continuing Education**

While the Company does not have a formal orientation and training program, new Board members are provided with:

1. access to recent, publicly filed documents of the Company;
2. access to management;
3. access to legal counsel in the event of any questions relating to the Company's compliance and other obligations; and
4. internal presentations prepared by Company personnel on matters relevant to the Company's business and operations.

Board members are encouraged to communicate with management, legal counsel and, where applicable, auditors and technical consultants of the Company; to keep themselves current with industry trends and developments and changes in legislation with management's assistance, and to attend related industry seminars and visit the Company's operations. Board members have full access to the Company's records.

## **Ethical Business Conduct**

The Board views good corporate governance as an integral component to the success of the Company and to meet responsibilities to shareholders.

The Board adopted a Code of Conduct (the "**Code**") in 2009. The Code is available on SEDAR at [www.sedar.com](http://www.sedar.com). The Board has instructed its management and employees to abide by the Code and to bring any breaches of the Code to the attention of the Corporate Governance Committee. Compliance with the Code is monitored primarily through the reporting process within the Company's organizational structure, including through the confidential Whistleblower Policy implemented and overseen by the Audit Committee.

It is a requirement of applicable corporate law that directors who have an interest in a transaction or agreement with the Company promptly disclose that interest at any meeting of the Board at which the transaction or agreement will be discussed and abstain from discussions and voting in respect to same if the interest is material. The Code imposes a similar disclosure requirement on all non-director executive officers of the Company and requires such persons to report such conflict to the executive officer to whom that person reports in the course of his employment responsibilities, or, in the case of a senior executive officer, to the Corporate Governance Committee and fully inform such person or the committee, as applicable, of the facts and circumstances related to the conflict or potential conflict. The representative is prohibited from taking any further action in respect of the matter or transaction giving rise to such conflict or potential conflict unless and until he is authorized to do so by his reporting officer, or the Corporate Governance Committee.

## **Nomination of Directors**

The independent Corporate Governance Committee has responsibility for identifying potential Board candidates. The Corporate Governance Committee assesses potential Board candidates to fill perceived needs on the Board for required skills, expertise, independence and other factors. Members of the Board and representatives of the oil and gas industry are consulted for possible candidates. The Board has adopted a written charter that sets forth the responsibilities, powers and operations of the Corporate

Governance Committee, which include considering what competencies and skills the Board, as a whole, should possess, the appropriate size of the Board in order to facilitate effective decision-making and assessing the same on a periodic basis, making recommendations to the Board with respect to filling vacancies, evaluating the performance of individual directors and making recommendations as to their further nomination, reviewing proposed shareholder nominees and making recommendations to the Board regarding resignations of directors. The Corporate Governance Committee has the power to retain outside advisors as it considers necessary for the proper functioning of the committee, at the Company's expense. The Corporate Governance Committee meets at least once annually and otherwise as requested by the Board or considered desirable by the chair of the committee.

### **Compensation of Directors and the Chief Executive Officer**

The members of the Compensation Committee are independent and have the responsibility for determining compensation for the directors and senior management.

The Board has adopted a written charter that sets forth the responsibilities, powers and operations of the Compensation Committee, which include: reviewing the adequacy and form of any compensation program for executive officers; reviewing the adequacy and form of non-employee directors' compensation; reviewing and creating a position description for the President and CEO; evaluating the President and the CEO's performance in light of corporate goals and objectives; and making recommendations to the Board with respect to the President and the CEO's compensation. The Compensation Committee has the power to retain independent legal, accounting or other relevant advisors as it may deem necessary or appropriate to allow it to discharge its responsibilities, at the expense of the Company. The Compensation Committee meets at least once annually and otherwise as requested by the Board or considered desirable by the chair of the committee.

### **Health, Safety and Environmental Committee**

A majority of the members of the Health, Safety and Environmental Committee are independent. The committee is responsible for overseeing the development and implementation of policies and procedures for ensuring a safe, healthy work environment and sustainable development and that are consistent with the Company's objectives, including the objectives of: focusing resources to achieve shareholder profitability in operations without neglecting its commitment to sustainable development; fostering employee commitment and accountability; the development and implementation of effective, realistic systems to minimize risks to health, safety and the environment; fostering open communication with employees, local stakeholders and governments regarding the Company's plans, programs and performance; cooperation with government agencies, local communities, educational institutions and suppliers; and use of technologies that are designed to improve the safe, efficient use of resources, processes and materials. The committee has the authority to engage independent consultants to assist it in fulfilling its mandate.

### **Assessments**

A confidential review of the performance and effectiveness of the Board, the directors and its committees was conducted in 2010, with the assistance of outside counsel. The assessment permits subjective evaluation and is designed to allow Board members to evaluate how well the Board, its committees and individual directors are operating and to make suggestions for improvement. Responses are compiled without attribution by an outside reviewer and provided to the Chairman of the Corporate Governance Committee. The results of the assessment are reported to the Board and the Chief Executive Officer. As part of the assessment, the Board and the individual committees reviewed their respective mandates or charters and in early 2011, certain adjustments were made to reflect the practice of the Board and all

standing committees to review risk management measures in place and in the case of the Compensation Committee, to review compensation practices and policies to ensure that they do not encourage unnecessary or inappropriate risk-taking.

#### **Audit Committee Information**

Disclosure with respect to the composition of the Company's Audit Committee, the Audit Committee Charter and other disclosure required by NI 52-110 is contained in the section "Audit Committee Information" in the Company's Annual Information Form for the year ended December 31, 2011 filed under the Company's profile at [www.sedar.com](http://www.sedar.com).

#### **ADDITIONAL INFORMATION**

Additional information relating to the Company is on SEDAR at [www.sedar.com](http://www.sedar.com). Shareholders may contact the Chief Financial Officer of the Company at 760 Paseo Camarillo, Suite 350, Camarillo, California 93010, Telephone: (805) 484-3613 to request copies of the Company's financial statements and Management Discussion and Analysis.

Financial information is provided in the Company's consolidated financial statements and the Management Discussion and Analysis related thereto for the year ended December 31, 2011 which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **OTHER MATTERS**

Management of the Company is not aware of any matter to come before the Meeting other than as set forth in the Notice of Meeting. If any other matter properly comes before the Meeting, it is the intention of the persons named in the enclosed form of proxy to vote the shares represented thereby in accordance with their best judgment on such matter.

DATED this 8<sup>th</sup> day of May, 2012.

**Approved by the Board of Directors of  
BNK Petroleum Inc.**

*"Wolf Regener"*

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**WOLF REGENER**

President and Chief Executive Officer

**Schedule "A"**  
**BOARD OF DIRECTORS TERMS OF REFERENCE**

The Board of Directors (the "Board") of BNK Petroleum Inc. (the "Corporation") shall have the oversight responsibility, authority and specific duties as described below.

**Composition**

*Directors and Chairman of the Board*

The Board shall appoint a Chairman of the Board (the "Chairman") and, if the Chairman is not independent, an independent lead director (the "Lead Director") from amongst the directors which comprise the Board shall be appointed as soon as practicable.

To ensure efficient, independent functioning of the Board, the Chairman or, if a Lead Director has been appointed, the Lead Director shall be the effective leader of the Board. As such, the Chairman or the Lead Director, as applicable, is responsible for ensuring that the Board's agenda enables the Board to successfully carry out its duties. The Chairman shall act as chair of all meetings of the Board and shareholders of the Corporation.

*Committees*

In addition to any other committees (including special committees) which the Board may in its discretion constitute from time to time, the Board shall have the following standing committees:

- Audit Committee
- Corporate Governance and Nominating Committee
- Compensation Committee
- Health, Safety and Environmental Committee

Certain of the responsibilities of the Board may be delegated to these or other committees of the Board. The composition and responsibilities of these standing committees and any other standing committees of the Board will be as set forth in their terms of reference, as amended from time to time, and approved by the Board. Until such time as when a Nominating, Environment, Health and Safety or Reserves Committee is established, the Board shall be responsible for all such matters as provided in each committee's terms of reference.

Committee members shall be appointed by the Board. The chair of each committee may be designated by the Board or, failing that, by the members of the particular committee. At each meeting of the Board, the chair of each committee (or such committee member as the chair may designate) shall report the results of meetings and any associated recommendations.

**Communication**

To ensure that the Corporation has in place policies and programs that enable the Corporation to communicate effectively and in a timely manner with its shareholders, other stakeholders, analysts and the public generally, the Board has adopted a Corporate Disclosure Policy. The Board will review the Corporate Disclosure Policy annually to ensure its objectives are being achieved and that the Disclosure Committee is effectively implementing such policy.

### **Meetings and Record Keeping**

Meetings of the Board shall be conducted pursuant to the Company's articles. The following additional provisions shall apply to meetings of the Board:

1. the Board shall meet regularly and at least quarterly at such times and at such locations as the Chairman, in consultation with the Lead Director (if one), shall determine;
2. each member of the Board is expected to attend Board meetings and meetings of committees on which he or she is a member and to be familiar with deliberations and decisions as soon as possible after any missed meetings. Members of the Board are expected to prepare for meetings by reviewing the meeting materials distributed to members of the Board, to the extent feasible, prior to such meetings;
3. the independent directors of the Board shall regularly hold in camera sessions of the Board, with only independent directors present and at such times as the independent directors, Chairman or Lead Director (if one) determine advisable;
4. the Chairman shall, in consultation with the Lead Director (if one) and management, establish the agenda for the meetings and instruct management to circulate appropriate agenda materials to the Board with sufficient time for study prior to the meeting;
5. Management shall receive notice of meetings and may attend meetings of the Board at the invitation of the Chairman or Lead Director (if one);
6. the Corporate Secretary of the Corporation, or any other person selected by the Board, shall act as secretary for the purpose of recording the minutes of each meeting.

The minutes of the meeting of the Board shall be placed in the Corporation's minute book.

### **Responsibilities and Specific Duties**

In accordance with applicable laws, the Board is required to always act honestly and in good faith with a view to the best interests of the Corporation.

The Board is responsible for the stewardship of the Corporation and overseeing the operation of the business of the Corporation. The primary responsibilities of the Board include:

1. to the extent feasible, satisfying itself as to the integrity of the Chief Executive Officer (the "CEO") and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the Corporation;
2. adopting a strategic planning process and approving, at least on an annual basis, a strategic plan for the Corporation which takes into account, among other things, the opportunities and principal risks of the business;
3. identifying, on at least an annual basis, the principal risks of the Corporation's business, and ensuring appropriate systems are implemented to manage these risks;

4. providing continuing education opportunities for all directors so they may maintain or enhance their skills and abilities as directors, as well as ensure their knowledge and understanding of the Corporation's business remains current;
5. adopting a succession plan which includes the appointing, training and monitoring of senior management;
6. adopting and reviewing on an annual basis the Corporation's Corporate Disclosure Policy to ensure that disclosure made by the Corporation is accurate, informative, timely and broadly disseminated all in accordance with applicable laws and stock exchange rules;
7. ensuring that the Corporation has appropriate processes in place to effectively communicate with its employees, government authorities, other stakeholders and the public;
8. ensuring the necessary internal controls and management systems are in place that effectively monitor the Corporation's operations and ensure compliance with applicable laws, regulations and policies, including reviewing on an annual basis the controls and procedures established for the certification of financial and other disclosure made by the Corporation;
9. developing clear position descriptions for the Chairman, the Lead Director (if one), the chairs of each committee and, in consultation with the CEO, the CEO;
10. developing or approving the corporate goals and objectives that the CEO is responsible for meeting;
11. monitoring compliance with the Code of Business Conduct;
12. establishing an appropriate system of corporate governance principles and guidelines applicable to the Corporation, including:
  - (a) reviewing periodically the size of the Board to ensure its continued effectiveness (including, without limitation, facilitating effective decision-making);
  - (b) regularly assessing the effectiveness and contribution of the Board, its committees and each member of the Board considering, among other things, the applicable terms of reference for the Board and each committee and in the case of each member of the Board, the competencies and skills each member is expected to bring to the Board; and
  - (c) reviewing periodically the general responsibilities and function of the Board and its committees and the chair of each committee, and the roles of the Chairman, Lead Director (if one) and the CEO; and
13. reviewing the annual corporate governance disclosure of the Corporation in its information circular.

### **Stakeholder Communication**

Any stakeholder may contact the Board. Matters relating to the Corporation's accounting, internal accounting control or audit matters will be referred to the Audit Committee. Other matters will be referred to the Chairman or the Lead Director (if one). Stakeholders may also directly contact the Chairman or the Lead Director (if one).

**Review of Terms of Reference**

The Board shall review and assess these Terms of Reference and any governance principles and guidelines established by the Board at least annually.

Amendments adopted by the Board of Directors on April 29, 2011.

