



**ADIRA ENERGY LTD.**

**MANAGEMENT INFORMATION CIRCULAR**

**For the Annual Meeting of Shareholders**

**to be held on November 10, 2015**

**October 14, 2015**

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**ADIRA ENERGY LTD.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**NOTICE IS HEREBY GIVEN** that an annual meeting (the “**Meeting**”) of the holders of the common shares (collectively, the “**Shareholders**” or individually, a “**Shareholder**”) of Adira Energy Ltd. (the “**Corporation**”) will be held at the offices of the Corporation at Suite 800, 120 Adelaide St. West., Toronto, Ontario, M5H 1T1, on November 10, 2015 at the hour of 10:00 a.m. (Toronto time) for the following purposes:

1. to receive the audited financial statements of the Corporation for the financial year ended December 31, 2014, together with the report of the auditor thereon;
2. to elect the directors of the Corporation;
3. to appoint MNP LLP as auditor of the Corporation for the ensuing year and to authorize the directors of the Corporation to fix its remuneration;
4. to consider and, if thought appropriate, pass, with or without variation, an ordinary resolution approving the Corporation’s rolling stock option plan, as more fully described in the accompanying management information circular dated October 14, 2015 (the “**Circular**”);
5. to transact such other business as may properly be brought before the Meeting or any adjournment or adjournments thereof.

Accompanying this Notice of Annual Meeting of Shareholders is the Circular, form of proxy or voting instruction form, and, for Shareholders who had requested such information, a copy of the Corporation’s audited consolidated financial statements and the report of the auditor thereon, and management’s discussion and analysis for the financial year ended December 31, 2014.

A Shareholder wishing to be represented by proxy at the Meeting or any adjournment thereof must deposit their duly executed form of proxy with the Corporation’s transfer agent and registrar, Computershare Investor Services Inc., on or before 10:00 a.m. on November 6, 2015, or if the Meeting is adjourned, at the latest 48 hours (excluding Saturdays, Sundays and holidays) before the time set for any reconvened meeting at which the proxy is to be used.

Shareholders who are unable to be present personally at the Meeting are urged to sign, date and return the enclosed form of proxy in the envelope provided for that purpose. If you plan to be present personally at the Meeting, you are requested to bring the enclosed form of proxy for identification. The record date for the determination of those Shareholders entitled to receive the Notice of Annual Meeting of Shareholders and to vote at the Meeting is the close of business on October 6, 2015.

DATED at Toronto, Ontario this 14<sup>th</sup> day of October, 2015.

BY ORDER OF THE BOARD

(Signed) DENNIS BENNIE  
Chairman of the Board

**ADIRA ENERGY LTD.****MANAGEMENT INFORMATION CIRCULAR****SOLICITATION OF PROXIES**

This management information circular (the “**Circular**”) is furnished in connection with the solicitation of proxies by the management of Adira Energy Ltd. (the “**Corporation**”) for use at the annual meeting (the “**Meeting**”) of holders (collectively, the “**Shareholders**” or individually, a “**Shareholder**”) of common shares in the capital of the Corporation (“**Common Shares**”) to be held at the time and place and for the purposes set forth in the attached Notice of Annual Meeting of Shareholders (the “**Notice**”). The solicitation will be primarily by mail, but proxies may also be solicited personally or by telephone by regular employees of the Corporation. The cost of solicitation will be borne by the Corporation except for the cost of postage required to return the forms of proxy which will be borne by the individual Shareholders.

The Corporation has distributed or made available for distribution, copies of the Notice, the Circular and form of proxy or voting instruction form (if applicable) (the “**Meeting Materials**”) to clearing agencies, securities dealers, banks and trust companies or their nominees (collectively, the “**Intermediaries**”) for distribution to Beneficial Shareholders (as defined below) whose Common Shares are held by or in custody of such Intermediaries. Such Intermediaries are required to forward such documents to Beneficial Shareholders unless a Beneficial Shareholder has waived the right to receive them. The Corporation has elected not to pay for the delivery of the Meeting Materials to objecting Beneficial Shareholders by the Intermediaries. As such, objecting Beneficial Shareholders will not receive the Meeting Materials unless the Intermediaries assume the cost of delivery. The Corporation is sending proxy-related materials directly to non-objecting Beneficial Shareholders, through the services of its transfer agent and registrar, Computershare Investor Services Inc. The solicitation of proxies from Beneficial Shareholders will be carried out by the Intermediaries or by the Corporation if the names and addresses of the Beneficial Shareholders are provided by Intermediaries. The Corporation is not relying on the notice-and-access provisions of securities laws for delivery of the Meeting Materials to registered Shareholders or Beneficial Shareholders.

**APPOINTMENT AND REVOCATION OF PROXIES**

The persons named in the enclosed form of proxy are officers and/or directors of the Corporation. **A Shareholder has the right to appoint a person (who need not be a Shareholder) to attend and act for such Shareholder and on his, her or its behalf at the Meeting other than the persons designated in the enclosed form of proxy. Such right may be exercised by inserting in the blank space provided for that purpose the name of the desired person or by completing another proper form of proxy.** In either case, as a Shareholder you can choose from three different ways to vote your Common Shares by proxy: (a) by mail or delivery in the addressed envelope provided or deposited at the offices of Computershare Investor Services Inc. (“**Computershare**”), Proxy Department, 100 University Avenue, 9th Floor, Toronto, Ontario, Canada M5J 2Y1, on behalf of the Corporation, so as to arrive not later than 10:00 a.m. (Toronto time) on Friday, November 6, 2015, or if the Meeting is adjourned, at the latest 48 hours (excluding Saturdays, Sundays and holidays) before the time set for any reconvened meeting at which the proxy is to be used; (b) by telephone (toll free) at 1-866-732-VOTE (8683); or (c) on the internet at [www.investorvote.com](http://www.investorvote.com).

Proxies given by Shareholders for use at the Meeting may be revoked prior to their use:

- (a) by depositing an instrument in writing executed by the Shareholder or by such Shareholder's attorney duly authorized in writing or, if the Shareholder is a corporation, by an officer or attorney thereof duly authorized indicating the capacity under which such officer or attorney is signing:
  - (i) at the office of Computershare, on behalf of the Corporation, at any time up to and including 10:00 a.m. (Toronto time) on Friday, November 6, 2015, or if the Meeting is adjourned, at the latest 48 hours (excluding Saturdays, Sundays and holidays) before the time set for any reconvened meeting at which the proxy is to be used; or
  - (ii) with the chairman of the Meeting on the day of the Meeting or any adjournment thereof; or
- (b) in any other manner permitted by law.

### **EXERCISE OF DISCRETION BY PROXIES**

The persons named in the accompanying form of proxy will vote the Common Shares in respect of which they are appointed in accordance with the direction of the Shareholders appointing them. **In the absence of such direction, such Common Shares will be voted in favour of the passing of the matters set out in the Notice. The form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice and with respect to other matters which may properly come before the Meeting or any adjournment thereof.** At the time of the printing of this Circular, the management of the Corporation knows of no such amendments, variations or other matters to come before the Meeting other than the matters referred to in the Notice. **However, if any other matters which at present are not known to the management of the Corporation should properly come before the Meeting, the proxy will be voted on such matters in accordance with the best judgment of the named proxies.**

### **ADVICE TO BENEFICIAL SHAREHOLDERS**

**Shareholders should note that only proxies deposited by Shareholders whose names appear on the records of the Corporation as the registered holders of Common Shares, or non-objecting beneficial owners whose names have been provided to the Corporation's registrar and transfer agent, can be recognized and acted upon at the Meeting.** The information set forth in this section is therefore of significant importance to a substantial number of Shareholders who do not hold their Common Shares in their own name (referred to as "**Beneficial Shareholders**"). If Common Shares are listed in an account statement provided to a Shareholder by an Intermediary, then in almost all cases those Common Shares will not be registered in such Shareholder's name on the records of the Corporation. Such Common Shares will more likely be registered under the name of the Shareholder's Intermediary or an agent of that Intermediary. In Canada, the vast majority of such Common Shares are registered under the name of CDS & Co., as nominee for CDS Clearing and Depository Services Inc., which acts as a depository for many Canadian Intermediaries. Common Shares held by Intermediaries or their nominees can only be voted for or against resolutions upon the instructions of the Beneficial Shareholder. Without specific instructions, Intermediaries are prohibited from voting Common Shares for their clients.

Applicable regulatory policy requires Intermediaries to seek voting instructions from Beneficial Shareholders in advance of shareholders' meetings. Every Intermediary has its own mailing procedures

and provides its own return instructions, which should be carefully followed by Beneficial Shareholders in order to ensure that their Common Shares are voted at the Meeting. Often the form of proxy supplied to a Beneficial Shareholder by its Intermediary is identical to the form of proxy provided by the Corporation to the Intermediaries. However, its purpose is limited to instructing the Intermediary how to vote on behalf of the Beneficial Shareholder. The majority of Intermediaries now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. (“**Broadridge**”). Broadridge typically mails the voting instruction forms or proxy forms to the Beneficial Shareholders and asks the Beneficial Shareholders to return the voting instructions forms or proxy forms to Broadridge. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Common Shares to be represented at the Meeting. A Beneficial Shareholder receiving a proxy or voting instruction form from Broadridge cannot use that proxy to vote Common Shares directly at the Meeting - the proxy must be returned to Broadridge well in advance of the Meeting in order to have the Common Shares voted.

Although Beneficial Shareholders may not be recognized directly at the Meeting for the purposes of voting Common Shares registered in the name of their Intermediary, a Beneficial Shareholder may attend the Meeting as proxyholder for the Intermediary and vote their Common Shares in that capacity. Beneficial Shareholders who wish to attend the Meeting and indirectly vote their own Common Shares as proxyholder for the Intermediary should enter their own names in the blank space on the management form of proxy or voting instruction form provided to them and return the same to their Intermediary (or the agent of such Intermediary) in accordance with the instructions provided by such Intermediary or agent well in advance of the Meeting. **Beneficial Shareholders should carefully follow the instructions of their Intermediaries and their service companies.**

All references to shareholders in this Circular and the accompanying form of proxy and Notice are to Shareholders of record unless specifically stated otherwise.

#### **NOTE TO NON-OBJECTING BENEFICIAL OWNERS**

The Meeting Materials are being sent to both registered and Beneficial Shareholders. If you are a Beneficial Shareholder, and the Corporation or its agent has sent the Meeting Materials directly to you, your name and address and information about your holdings of Common Shares, have been obtained in accordance with applicable securities regulatory requirements from the Intermediary holding Common Shares on your behalf. By choosing to send the Meeting Materials to you directly, the Corporation (and not the Intermediary holding Common Shares on your behalf) has assumed responsibility for (i) delivering the Meeting Materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the request for voting instructions.

#### **VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF**

The Corporation has fixed the close of business on October 6, 2015 as the record date (the “**Record Date**”) for the purposes of determining Shareholders entitled to receive the Notice and vote at the Meeting. As at the Record Date, 17,112,022 Common Shares carrying the right to one vote per share at the Meeting were issued and outstanding.

In accordance with the provisions of the *Canada Business Corporations Act* (the “**Act**”), the Corporation will prepare a list of the holders of Common Shares on the Record Date. Each holder of Common Shares named on the list will be entitled to vote the Common Shares shown opposite his, her or its name on the list at the Meeting.

As at the date of this Circular, Dennis Bennie owns 16.87% of the voting rights attached to the Common Shares. To the knowledge of the directors and executive officers of the Corporation, as at the date of this Circular, no other persons beneficially own, control or direct, directly or indirectly, voting securities of the Corporation carrying 10% or more of the voting rights attached to the Common Shares.

## PARTICULARS OF MATTERS TO BE ACTED UPON

### 1) Election of Directors

The Board of Directors of the Corporation (the “**Board**”) presently consists of three directors, namely, Dennis Bennie, Alan Friedman and Alan Rootenberg. The Board works together with Management to recommend nominees for election to the Board for consideration and approval. The nominees are, in the opinion of the Board, well qualified to act as directors for the coming year. Each nominee has established his eligibility and willingness to serve as director, if elected. Shareholders will vote for the election of individual directors separately. Each director elected will hold office until the next annual meeting of Shareholders or until his successor is duly elected or appointed pursuant to the by-laws of the Corporation.

The following tables set out certain information as of the date of this Circular with respect to the persons being nominated at the Meeting for election as directors. Information regarding Common Shares owned by each director of the Corporation is presented to the best knowledge of management of the Corporation and has been furnished to management of the Corporation by such directors.

Name and Residence	Position in the Corporation	Period of Service	Principal Occupation	Shares Owned Directly or Indirectly
Dennis Bennie <sup>(1)(2)(3)</sup> Ontario, Canada	Chairman of the Board and Director	August 2009 – Present	General Partner, XDL Capital Group	2,886,929
Alan Friedman <sup>(1)(3)</sup> Ontario, Canada	Executive Vice President and Director	August 2009 – Present	Executive Vice President, Eco (Atlantic) Oil & Gas Ltd.  Executive Vice President – Corporate Development, Adira Energy Ltd..	330,273
Alan Rootenberg <sup>(1)(2)</sup> Ontario, Canada	Director  Former Chief Financial Officer	August 2013 – Present  September 2009 – January 2011	Chief Financial Officer, Eco (Atlantic) Oil & Gas Ltd.	303,333

**Notes:**

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Disclosure Committee

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

Except as set forth below, to the knowledge of the Corporation, no proposed director is, as at the date of this Circular, or has been, within 10 years before the date of this Circular, a director, chief executive officer or chief financial officer of any company (including the Corporation) that:

- (a) was subject to a cease trade order, an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under applicable securities legislation, and which in all cases was in effect for a period of more than 30 consecutive days (an “**Order**”), which Order was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer of such company; or
- (b) was subject to an Order that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer of such company.

Mr. Rootenberg was the interim Chief Financial Officer of Talware Networx Inc., a company that was listed on the TSX Venture Exchange (the “**Exchange**”), until he resigned in April 2008. 13 months later, in May 2009, the common shares of Talware Networx Inc. were the subject of a cease trade order and the company was delisted from the Exchange.

The foregoing information, not being within the knowledge of the Corporation, has been furnished by the proposed director.

***Bankruptcies, or Penalties or Sanctions***

To the knowledge of the Corporation, no proposed director:

- (a) is, as at the date of this Circular, or has been within 10 years before the date of this Circular, a director or executive officer of any company (including the Corporation) 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;
- (b) has, within 10 years before the date of this 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 his assets;
- (c) 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
- (d) 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.

The foregoing information, not being within the knowledge of the Corporation, has been furnished by the proposed directors.

**COMMON SHARES REPRESENTED BY PROXIES IN FAVOUR OF MANAGEMENT WILL BE VOTED IN FAVOUR OF EACH OF THE PROPOSED NOMINEES UNLESS A SHAREHOLDER HAS SPECIFIED IN HIS, HER OR ITS PROXY THAT HIS, HER OR ITS COMMON SHARES ARE TO BE WITHHELD FROM VOTING IN RESPECT OF ANY**



**PARTICULAR NOMINEE OR NOMINEES. MANAGEMENT DOES NOT CONTEMPLATE THAT ANY OF SUCH NOMINEES WILL BE UNABLE TO SERVE AS DIRECTORS. HOWEVER, IF FOR ANY REASON, ANY OF THE PROPOSED NOMINEES DO NOT STAND FOR ELECTION OR ARE UNABLE TO SERVE AS SUCH, PROXIES IN FAVOUR OF MANAGEMENT NOMINEES WILL BE VOTED FOR ANOTHER NOMINEE IN THEIR DISCRETION UNLESS THE SHAREHOLDER HAS SPECIFIED IN HIS, HER OR ITS PROXY THAT HIS, HER OR ITS COMMON SHARES ARE TO BE WITHHELD FROM VOTING IN RESPECT OF ANY PARTICULAR NOMINEE OR NOMINEES.**

## **2) Appointment of Auditor**

Management proposes to nominate MNP LLP (“MNP”) as auditor of the Corporation to hold office until the next annual meeting of Shareholders. MNP has been the auditor of the Corporation since January 29, 2015. The appointment of MNP as auditor of the Corporation must be approved by a majority of the votes cast by Shareholders present in person or represented by proxy at the Meeting.

**COMMON SHARES REPRESENTED BY PROXIES IN FAVOUR OF MANAGEMENT WILL BE VOTED IN FAVOUR OF THE APPOINTMENT OF MNP AS AUDITOR OF THE CORPORATION AND THE AUTHORIZING OF THE DIRECTORS TO FIX THEIR REMUNERATION, UNLESS THE SHAREHOLDER HAS SPECIFIED IN THE PROXY THAT HIS, HER OR ITS OWN SHARES ARE TO BE WITHHELD FROM VOTING IN RESPECT THEREOF.**

## **3) Approval of Stock Option Plan**

### *Summary of Stock Option Plan*

The policies of the Exchange provide that the Board may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees, management company employees and consultants of the Corporation and its affiliates, non-transferable options to purchase Common Shares for a period of up to ten years from the date of grant, provided that the number of Common Shares reserved for issuance may not exceed 10% of the total issued and outstanding Common Shares at the date of the grant.

The purpose of the incentive stock option plan (the “**Stock Option Plan**”) established by the Corporation, pursuant to which the Corporation may grant incentive stock options, is to promote the profitability and growth of the Corporation by facilitating the efforts of the Corporation to obtain and retain key individuals. The Stock Option Plan provides an incentive for and encourages ownership of the Common Shares by its key individuals so that they may increase their stake in the Corporation and benefit from increases in the value of the Common Shares. Pursuant to the Stock Option Plan, the maximum number of Common Shares reserved for issuance in any 12 month period to any one optionee other than a consultant, may not exceed 5% of the issued and outstanding Common Shares at the date of the grant. The maximum number of Common Shares reserved for issuance in any 12 month period to any consultant may not exceed 2% of the issued and outstanding Common Shares at the date of the grant and the maximum number of Common Shares reserved for issuance in any 12 month period to all persons engaged in investor relations activities may not exceed 2% of the issued and outstanding number of Common Shares at the date of the grant. Incentive stock options may be exercised until the earlier of: (a) the expiry time of such option; and (b) 30 days following the date the optionee ceases to be a director, officer or employee of the Corporation or its affiliates or a consultant or a management company employee, provided that if the cessation of such position or arrangement was by reason of death, disability, or retirement, the option may be exercised within a maximum period of 180 days after such

death, disability, or retirement, subject to the expiry date of such option. Notwithstanding the foregoing, in the event of termination for cause, all options held by such terminated optionee will be cancelled immediately.

Additionally, the Stock Option Plan allows Israeli employees to be issued stock options in a manner that will allow the employees to benefit from section 102 of the Israeli tax Ordinance. This is achieved through:

- The Israel Appendix to the Option Plan – This is an appendix that applies only to Israeli residents and sets out the terms and conditions under which options are granted to Israeli employees.
- The Israel Option Agreement – This form allows Israeli employees to select the Section 102 route.

As at the date of this Circular, there are outstanding options for the purchase of 2,782,667 Common Shares under the Stock Option Plan, representing 4.62% of the issued and outstanding Common Shares.

### ***Approval of the Stock Option Plan***

As the Stock Option Plan provides for a rolling maximum number of Common Shares which may be issuable upon the exercise of options granted under the Stock Option Plan, Exchange Policy 4.4 requires that the Stock Option Plan receive shareholder approval each year at the annual shareholders' meeting. Accordingly, Shareholders will be asked to consider and, if thought appropriate, pass a resolution approving the Stock Option Plan. A copy of the Stock Option Plan is attached as Schedule "A" to this Circular.

The Board has unanimously approved the Stock Option Plan and recommends that Shareholders vote FOR the resolution regarding the Stock Option Plan. In order to approve the Stock Option Plan, the following resolution must be approved by a majority of the votes cast by Shareholders present in person or represented by proxy at the Meeting. The complete text of the resolution which management intends to place before the Meeting for approval, confirmation and adoption, with or without modification, is as follows:

**"IT IS HEREBY RESOLVED**, by ordinary resolution, that:

1. The Stock Option Plan, in the form attached as Schedule "A" to the management information circular of the Corporation dated October 14, 2015, is hereby authorized and approved.
2. Any one officer and director of the Corporation be and is hereby authorized for and on behalf of the Corporation to execute and deliver all such instruments and documents and to perform and do all such acts and things as may be deemed advisable in such individual's discretion for the purpose of giving effect to this resolution, the execution of any such document or the doing of any such other act or thing being conclusive evidence of such determination."

**COMMON SHARES REPRESENTED BY PROXIES IN FAVOUR OF MANAGEMENT NOMINEES WILL BE VOTED IN FAVOUR OF THE RESOLUTION TO APPROVE THE STOCK OPTION PLAN IN THE ABSENCE OF DIRECTION TO THE CONTRARY FROM THE SHAREHOLDER APPOINTING THEM.**

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

The objective of this disclosure is to communicate the compensation of each Named Executive Officer (“NEO”) and director of the Corporation. This disclosure will provide insight into executive compensation as a key aspect of the overall stewardship and governance of the Corporation.

For purposes of this Information Circular, NEO means an individual who, at any time during the year, was:

- (a) the Corporation’s Chief Executive Officer (“CEO”);
- (b) the Corporation’s Chief Financial Officer (“CFO”);
- (c) each of the Corporation’s three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year and whose total compensation was, individually, more than CDN\$150,000 for that financial year; and
- (d) each individual who would be a named executive officer under paragraph (c) but for the fact that the individual was neither an executive officer of the Corporation, nor acting in a similar capacity, at the end of the most recently completed financial year.

Based on the foregoing definition, during the most recently completed financial year of the Corporation, there were two (2) NEOs. In assessing executive compensation, the Corporation does not have any formal objectives or criteria; instead, it relies mainly on Board and compensation committee of the Corporation (the “**Compensation Committee**”) discussion. Currently, any material commitments, inclusive of remuneration, are required to be preapproved by the Board.

### *Elements of Compensation*

The Corporation’s compensation program for its NEOs has three principal components: base salary, incentive bonus’ and stock options.

#### Base Salary

Each NEO (as defined below) receives a base salary, which constitutes a significant portion of the NEO’s compensation package. Base salary is recognition for discharging day-to-day duties and responsibilities and reflects the NEO’s performance over time, as well as that individual’s particular experience and qualifications. A NEO’s base salary is reviewed by the Board on an annual basis and may be adjusted to take into account performance contributions for the year and to reflect sustained performance contributions over a number of years.

#### Incentive Bonus

Incentive bonuses, in the form of cash payments, are designed to add a variable component of compensation based on corporate and individual performances for each officer and employee. No bonuses were paid to any NEO during the most recently completed financial year.

## Stock Options

The Corporation's directors, officers, employees and consultants, if any, are eligible under the Stock Option Plan to receive grants of stock options. The Stock Option Plan is an important part of the Corporation's long-term incentive strategy for its NEOs and directors, permitting them to participate in appreciation of the market value of the Common Shares over a stated period of time. The Stock Option Plan is intended to reinforce commitment to long-term growth in profitability and shareholder value. The size of the stock option grants to NEOs and directors is dependent on each NEO's and director's level of responsibility, authority and importance to the Corporation and to the degree to which such NEO's or director's long term contribution to the Corporation will be key to its long term success. The Board believes that the Stock Option Plan aligns the interests of the NEOs and the Board with shareholders by linking a component of executive compensation to the longer term performance of the Common Shares.

Options are granted at the recommendation of the Board, based upon the Board's review of a proposal from the Compensation Committee. In monitoring or adjusting the option allotments, the Board takes into account its own observations on individual performance (where possible) and its assessment of individual contribution to shareholder value, previous option grants and the objectives set for the NEOs. The scale of options is generally commensurate to the appropriate level of base compensation for each level of responsibility. The Board will make these determinations subject to and in accordance with the provisions of the Stock Option Plan. See above under "Particulars of Matters to Be Acted Upon – *Approval of Stock Option Plan*" for further details regarding the Stock Option Plan.

### ***Compensation of Directors***

The Board or the Compensation Committee will recommend how much, if any, cash compensation will be paid to directors for services rendered by directors, in such capacity, to the Corporation. The directors of the Corporation may be paid cash compensation commensurate with the prevailing level of compensation for directors in the same industry in which the Corporation operates. The directors of the Corporation may also be compensated for their services as directors through the granting of stock options in such amounts and upon such terms as may be recommended by the Compensation Committee or as approved by the Board from time to time.

NEOs who also act as directors of the Corporation will not receive any additional compensation for services rendered in such capacity, other than as paid by the Corporation to such NEOs in their capacity as executive officers.

### ***Compensation Risk***

The Board and, as applicable, the Compensation Committee, considers and assesses the implications of risks associated with the Corporation's compensation practices and devotes such time and resources as is believed to be necessary in the circumstances. The Corporation's practice of compensating its NEOs primarily through a mix of salary and stock options is designed to mitigate risk by: (i) ensuring that the Corporation retains such individuals ; and (ii) aligning the interests of such individuals with the short-term and long-term objectives of the Corporation and its shareholders. As at the date of this Circular, the Board had not identified risks arising from the Corporation's compensation policies and practices that are reasonably likely to have a material adverse effect on the Corporation.

### ***Financial Instruments***

Except as prohibited by law, the NEOs and directors are not currently prohibited from purchasing financial instruments, such as prepaid variable forward contracts, equity swaps, collars or units of

exchange funds, that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by a NEO or director. To the Corporation's knowledge, no such financial instrument has been purchased.

The Corporation's Insider Trading Policy stipulates that insiders of the Corporation should refrain from frequent buying and selling of the securities of the Corporation for the purpose of realizing the short-term profits and should acquire securities of the Corporation only as a long-term investment. Subject to certain limited exceptions, the Act specifically prohibits insiders from engaging in selling short or trading in call or put options.

### ***Compensation Governance***

In order to assist the Board in fulfilling its oversight responsibilities with respect to compensation matters, the Board has established the Compensation Committee and has reviewed and approved the Compensation Committee's Charter. The Compensation Committee is composed Mr. Dennis Bennie and Mr. Alan Rootenberg. Each of Messrs. Bennie and Rootenberg is independent as such term is defined in National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (“NI 58-101”).

The Compensation Committee meets on compensation matters as and when required with respect to executive compensation. The primary goal of the Compensation Committee as it relates to compensation matters is to ensure that the compensation provided to the NEOs and the Corporation's other senior officers is determined with regard to the Corporation's business strategies and objectives, such that the financial interest of the NEOs and senior officers is aligned with the financial interest of shareholders, and to ensure that their compensation is fair and reasonable and sufficient to attract and retain qualified and experienced executives. The Compensation Committee is given the authority to engage and compensate any outside advisor that it determines to be necessary to carry out its duties.

As a whole, the members of the Compensation Committee have direct experience and skills relevant to their responsibilities in executive compensation, including making informed decisions on the suitability of the Corporation's compensation policies and practices. Each of the members of the Compensation Committee has sat on the board of directors and related committees of other public companies.

Neither the Board nor the Compensation Committee has, at any time since the Corporation's most recently completed fiscal year, retained a compensation consultant or advisor to assist the Board or the Compensation Committee in determining the compensation for any of the Corporation's executive officers' or directors' compensation.

### **Summary Compensation Table – Named Executive Officers**

The following table sets forth the compensation paid or awarded to NEOs for the three most recently completed financial years ended December 31, 2014 (in thousands of US dollars).

Name and principal position	Year	Salary/ Fee	Share-based awards	Option-based awards <sup>(1)</sup>	Non-equity incentive plan compensation		Pension value	All other compensation	Total compensation
					Annual incentive plans	Long-term incentive plans			
		(US\$)	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)
Gadi Levin, CEO and CFO	2012 2013 2014	191 204 109	Nil Nil Nil	90 27 13	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	281 231 122
Alan Friedman, Executive Vice President, Corporate Development	2012 2013 2014	Nil Nil Nil	Nil Nil Nil	78 19 9	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	144 <sup>(2)</sup> 144 <sup>(2)</sup> 103 <sup>(2)</sup>	222 163 112

**Notes:**

- (1) The fair value of the stock options issued prior to the year ended December 31, 2011, has been calculated using the Black-Scholes option pricing model and stock options issued during the year ended December 31, 2012 and thereafter, has been calculated using the Binominal option pricing mode.
- (2) Compensation was paid to Rivonia Capital Inc., in respect of Mr. Friedman's consulting time, in his capacity as an officer of the Corporation.

**Incentive Plan Awards – NEOs*****Outstanding Share-Based Awards and Option-Based Awards***

The following table sets forth all share-based and option-based awards outstanding for the NEOs as of December 31, 2014. There were no share-based awards outstanding as of December 31, 2014.

Name	Option-Based Awards			
	Number of securities underlying unexercised options	Option exercise price	Option expiration date	Value of unexercised in-the-money options <sup>(1)</sup>
	(#)	(US\$)		(US\$)
Gadi Levin	16,667	9.00	July 21, 2015	Nil
	16,667	2.58	May 2, 2016	Nil
	60,667	0.86	August 21, 2017	Nil
Alan Friedman	16,667	9.00	January 27, 2015	Nil
	10,000	3.46	January 10, 2017	Nil
	70,667	0.86	August 21, 2017	Nil

**Notes:**

- (1) The "value of unexercised in-the-money options" is calculated based on the difference between the closing price of \$0.07 for the Common Shares on the Exchange on December 31, 2014 and the exercise price of the options, multiplied by the number of unexercised options.

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

The following table sets forth the value of all incentive plan awards vested or earned for each NEO during the year ended December 31, 2014.

Name & Principal Positions	Option-based awards – Value vested during the year <sup>(1)</sup> (US\$)	Share-based awards – Value vested during the year (US\$)	Non-equity incentive plan compensation – Value earned during the year (US\$)
Gadi Levin	Nil	Nil	Nil
Alan Friedman	Nil	Nil	Nil

**Note:**

- (1) The “value vested during the year” is calculated based on the difference between the closing price for the Common Shares on the Exchange as of the date of vesting and the exercise price of the options, multiplied by the number of vested options.

**Management Contracts – Termination and Change of Control Benefits***Mr. Gadi Levin*

Effective July 21, 2010, the Corporation entered into an employment agreement with Mr. Levin pursuant to which Mr. Levin agreed to provide his services to the Corporation in the capacity of CFO for a term to continue until terminated (the “**Levin Employment Agreement**”). The Levin Employment Agreement was subsequently assigned to Adira Israel in accordance with the terms therein.

The Levin Employment Agreement contained certain representations, warranties and covenants, including, among other things, standard confidentiality, non-competition and non-solicitation covenants that will apply during the term of the Levin Employment Agreement and for a period of six months thereafter.

Pursuant to the Levin Employment Agreement, each party thereto was entitled to terminate the Levin Employment Agreement at any time by providing the other party two months’ written notice. In addition, Adira Israel was entitled to terminate the Levin Employment Agreement immediately without notice and/or payment in lieu thereof if Mr. Levin has materially breached the Levin Employment Agreement and such breach is not cured within 30 days from the date on which Adira Israel informs Mr. Levin of such breach.

If the Levin Employment Agreement was terminated due to a change of control in the Corporation (as defined in the Levin Employment Agreement), by Adira Israel without cause (as defined in the Levin Employment Agreement) or by Mr. Levin for good reason (as defined in the Levin Employment Agreements), Mr. Levin was entitled to a payment equal to twenty four months’ salary and 100% of the unvested stock options granted to Mr. Levin will be accelerated and be vested (“**Levin Separation Payment**”). The Levin Separation Payment amounts described above include any prior notice entitlement required under the Levin Employment Agreement.

Effective November 1, 2013, the scope of Mr. Levin’s employment became part-time and his monthly salary was reduced to NIS 17,000 (US\$4,359, based on an exchange rate of one U.S. dollar into New Israeli Shekel (“**NIS**”) on December 30, 2014, as published by the International Monetary Fund.

If, on December 31, 2014, the Levin Employment Agreement was terminated by Adira Energy without cause or due to a change of control in the Corporation, Mr. Levin would have received a special separation payment equal to approximately 612,000 New Israeli Shekels (“**NIS**”) (US\$156,923, based on an exchange rate of one U.S. dollar into NIS on December 30, 2014, as published by the International Monetary Fund).

On May 22, 2015, the Levin Employment Agreement was terminated including the Levin Special Separation Payment. Mr. Levin took on the role of CEO in addition to his CFO functions.

*Mr. Alan Friedman*

Effective May 1, 2011, the Corporation entered into a consulting agreement with Rivonia Capital Inc. (“**Rivonia**”), a company wholly owned by Mr. Friedman, pursuant to which Mr. Friedman agreed to provide his services to the Corporation in the capacity of Executive Vice President, Corporate Development for a term to continue until terminated (the “**Rivonia Service Agreement**”).

The Rivonia Service Agreement contained certain representations, warranties and covenants, including, among other things, standard confidentiality, non-competition and non-solicitation covenants that apply during the term of the Rivonia Service Agreement and for a period of six months thereafter.

Pursuant to the Rivonia Service Agreement, each party thereto was entitled to terminate the Rivonia Service Agreement at any time by providing sixty days’ written notice. In addition, the Corporation was entitled to terminate the Rivonia Service Agreement immediately without notice and/or payment in lieu thereof if Rivonia or Mr. Friedman materially breach the Rivonia Service Agreement and such breach was not cured within 30 days from the date on which the Corporation informs such party of such breach.

Furthermore, if the Rivonia Service Agreement was terminated by the Corporation without cause (as defined in the Rivonia Service Agreement), by Rivonia or Mr. Friedman for good reason (as defined in the Rivonia Service Agreement) or due to a change of control in the Corporation (as defined in the Rivonia Service Agreement), Rivonia was entitled to a payment equal to twenty four months’ compensation (the “**Rivonia Separation Payment**”) and 100% of the stock options granted to Mr. Friedman would vest immediately. The special separation payment amounts described above include any prior notice entitlement required under the Rivonia Service Agreement.

Notwithstanding the foregoing, effective March 1, 2013, 50% of Rivonia’s compensation accrued and became payable on the happening of certain prescribed events. Additionally, if the Rivonia Service Agreement was terminated by the Corporation without cause (as defined in the Rivonia Service Agreement) or by Rivonia or Mr. Friedman for good reason (as defined in the Rivonia Service Agreement), the payment of 50% of the Separation Payment would be delayed until the happening of certain prescribed events.

If, on December 31, 2014, the Rivonia Service Agreement was terminated by the Corporation without cause or due to a change of control in the Corporation, Rivonia would have received a Rivonia Separation Payment equal to approximately \$288,000.

On May 22, 2015, the Rivonia Service Agreement was terminated including the Rivonia Separation Payment.

**Director Compensation**

No cash compensation was paid to the directors of the Corporation in their capacity as directors during the financial year ended December 31, 2014. The directors of the Corporation are eligible to receive options to purchase Common Shares pursuant to the terms of the Stock Option Plan.



### ***Director Compensation Table***

The following table sets forth all amounts of compensation provided to the directors of the Corporation (other than directors who are also NEOs) during the financial year ended December 31, 2014 (in thousands of US dollars):

<b>Name<sup>(1)</sup></b>	<b>Fees Earned</b>	<b>Share-based awards</b>	<b>Option-based awards</b>	<b>Non-equity incentive plan compensation</b>	<b>Pension value</b>	<b>All other compensation</b>	<b>Total</b>
	<b>(US\$)</b>	<b>(US\$)</b>	<b>(US\$)</b>	<b>(US\$)</b>	<b>(US\$)</b>	<b>(US\$)</b>	<b>(US\$)</b>
Dennis Bennie	Nil	Nil	8	Nil	Nil	43 <sup>(2)</sup>	51
Colin Kinley <sup>(3)</sup>	Nil	Nil	30	Nil	Nil	Nil	30
Alan Rootenberg	Nil	Nil	Nil	Nil	Nil	Nil	Nil

**Notes:**

- (1) Information regarding Mr. Friedman is set out above under “Summary Compensation Table – Named Executive Officers”.
- (2) Compensation was paid to Delrina Consolidated Ltd., in respect of Mr. Bennie’s consulting time, in his capacity as a Chairman of the Corporation.
- (3) Colin Kinley resigned as a director of the Company on July 16, 2015.

### ***Incentive Plan Awards - Outstanding Share-Based Awards and Option-Based Awards***

The following table sets forth all awards outstanding for each of the directors of the Corporation (other than directors who are also NEOs) as of December 31, 2014. There were no share-based awards outstanding as of December 31, 2014.

	<b>Option-Based Awards</b>			
<b>Name<sup>(1)</sup></b>	<b>Number of securities underlying unexercised options</b>	<b>Option exercise price</b>	<b>Option expiration date</b>	<b>Value of unexercised in-the-money options<sup>(2)</sup></b>
	<b>(#)</b>	<b>(US\$)</b>		<b>(US\$)</b>
Dennis Bennie	16,667	9.15	January 27, 2015	Nil
	6,667	3.46	January 10, 2015	Nil
	101,333	0.86	August 21, 2017	Nil
Colin Kinley	16,667	9.15	January 27, 2015	Nil
	53,333	12.15	January 17, 2017	Nil
	6,667	12.15	March 17, 2017	Nil
	10,000	0.86	August 21, 2017	Nil
Alan Rootenberg	Nil	Nil	Nil	Nil

**Notes:**

- (1) Information regarding Mr. Friedman is set out above under “Summary Compensation Table – Named Executive Officers”.
- (2) The “value of unexercised in-the-money options” is calculated based on the difference between the closing price of \$0.07 for the Common Shares on the Exchange on December 31, 2014 and the exercise price of the options, multiplied by the number of unexercised options.

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

The following table sets forth the value of all incentive plan awards vested or earned by each director of the Corporation (other than directors who are also NEOs) during the year ended December 31, 2014 (in thousands of US dollars).

<b>Name<sup>(1)</sup></b>	<b>Option-based awards – Value vested during the year<sup>(2)</sup></b>	<b>Share-based awards – Value vested during the year</b>	<b>Non-equity incentive plan compensation – Value earned during the year</b>
	<b>(US\$)</b>	<b>(US\$)</b>	<b>(US\$)</b>
Dennis Bennie	Nil	Nil	Nil
Colin Kinley	Nil	Nil	Nil
Alan Rootenberg	Nil	Nil	Nil

**Notes:**

- (1) Information regarding Mr. Friedman is set out above under “Summary Compensation Table – Named Executive Officers”.
- (2) The “value vested during the year” is calculated based on the difference between the closing price for the Common Shares on the Exchange as of the date of vesting and the exercise price of the options, multiplied by the number of vested options.

### **SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

The following table provides information regarding the number of Common Shares to be issued upon the exercise of outstanding options and the weighted-average exercise price of the outstanding options in connection with the Stock Option Plan as at December 31, 2014. There were no equity compensation plans not approved by security holders of the Corporation as at December 31, 2014.

<b>Plan Category</b>	<b>Number of Common Shares to be issued upon exercise of outstanding options</b>	<b>Weighted-average exercise price of outstanding options</b>	<b>Number of Common Shares remaining available for future issuance under equity compensation plans</b>
	<b>(#)</b>	<b>(\$)</b>	<b>(#)</b>
<b>Equity compensation plans approved by security holders</b>	416,000	5.99	813,202
<b>Total</b>	416,000	5.99	813,202

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

As at the date of this Circular, no individual who is an executive officer, director, employee or former executive officer, director or employee of the Corporation or any of its subsidiaries is indebted to the Corporation or any of its subsidiaries pursuant to the purchase of securities or otherwise.

No individual who is, or at any time during the financial year ended December 31, 2014 was, a director or executive officer of the Corporation, a proposed management nominee for election as a director of the Corporation, or an associate of any such director, executive officer or proposed nominee, was indebted to the Corporation or any of its subsidiaries during the financial year ended December 31, 2014 or as at the date of this Circular in connection with security purchase programs or other programs.

## REPORT ON CORPORATE GOVERNANCE

Maintaining a high standard of corporate governance is a priority for the Board and the Corporation's management as both believe that effective corporate governance will help create and maintain shareholder value in the long term. A description of the Corporation's corporate governance practices, which addresses the matters set out in NI 58-101 – *Disclosure of Corporate Governance Practices*, is set out at Schedule "B" to this Circular.

### AUDIT COMMITTEE DISCLOSURE

The audit committee of the Corporation's (the "**Audit Committee**") primary purpose is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting and accounting compliance, the audit process and processes for identifying, evaluating and monitoring the management of the Corporation's principal risks impacting financial reporting. The committee also assists the Board with the oversight of financial strategies and overall risk management.

A copy of the charter of the Audit Committee (the "**Audit Committee Charter**") is attached as Schedule "C" to this Circular.

#### Composition of Audit Committee

The Audit Committee is comprised of Messrs. Bennie, Rootenberg and Friedman. Messrs. Bennie and Rootenberg are "independent" as such term is defined in National Instrument 52-110 – *Audit Committees* ("**NI 52-110**"). Mr. Friedman is not considered independent as he is currently an officer of the Corporation. The Corporation is of the opinion that all three members of the Audit Committee are "financially literate" as such term is defined in NI 52-110.

#### Relevant Education and Experience

All the members of the Audit Committee have the education and/or practical experience required to understand and evaluate financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation's financial statements.

The education and experience of each Audit Committee member that is relevant to such member's responsibilities as a member of the Audit Committee are set forth below:

- (a) Dennis Bennie: Mr. Bennie qualified as a chartered accounting in 1975. Over the past 26 years, Mr. Bennie has founded and managed several private and public companies.
- (b) Alan Rootenberg: Mr. Rootenberg is a chartered accountant. Mr. Rootenberg has served as a senior executive of several public companies.
- (c) Alan Friedman: Mr. Friedman has played an integral role in the acquisition of various mining and oil and gas assets, financings and go-public transactions for many resource companies over the past 14 years. He has and continues to sit as a director on several boards.

### Audit Committee Oversight

At no time since the commencement of the Corporation's most recently completed financial year have any recommendations by the Audit Committee respecting the appointment and/or compensation of the Corporation's external auditors not been adopted by the Board.

### Reliance on Certain Exemptions

At no time since the commencement of the Corporation's most recently completed financial year has the Corporation relied on exemptions in relation to "*De Minimis Non-audit Services*" or any exemption provided by Part 8 of NI 52-110.

### Pre-Approval Policies and Procedures

Pursuant to the terms of the Audit Committee Charter, the Audit Committee shall pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by the Corporation's external auditor.

### External Auditor Service Fees (By Category)

The following table sets forth information regarding the amount billed to the Corporation by its principal independent auditors for the years ended December 31, 2014 and December 31, 2013.

	Year Ended December 31,	
	2014 (US\$)	2013 (US\$)
Audit Fees <sup>(1)</sup> :	\$25,000	\$90,000
Audit Related Fees <sup>(2)</sup> :	Nil	Nil
Tax Fees <sup>(3)</sup> :	\$23,000	\$80,000
<b>Total:</b>	<b>\$48,000</b>	<b>\$170,000</b>

#### Notes:

- (1) This category includes the aggregate fees billed by our independent auditor for the audit of our consolidated annual financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements.
- (2) This category includes the aggregate fees billed in each of the last two fiscal years for assurance and related services by the independent auditors that are reasonably related to the performance of the audits or reviews of the financial statements and are not reported above under "Audit Fees," and generally consist of fees for other engagements under professional auditing standards, accounting and reporting consultations.
- (3) This category includes the aggregate fees billed in each of the last two fiscal years for professional services rendered by the independent auditors for tax compliance, tax planning and tax advice.

### Exemption

As the Corporation is listed on the Exchange, it is a "venture issuer" and avails itself of exemptions from the requirements of Part 3 Composition of the Audit Committee and Part 5 Reporting Obligations of NI 52-110, which require the independence of each member of an audit committee and the disclosure of audit committee information in an annual information form, respectively.

### INTERESTS OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

To the knowledge of the Corporation, no director or executive officer of the Corporation, or any person who has held such a position since the beginning of the Corporation's last fiscal year, nor any proposed

nominee for election as a director of the Corporation, nor any associate or affiliate of the foregoing persons, has any material interest, direct or indirect, in any transaction in which the Corporation has participated since the commencement of the Corporation's most recently completed financial year or in any proposed transaction which has materially affected or will materially affect the Corporation.

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

To the knowledge of the Corporation, no person or company who has been a director or executive officer of the Corporation at any time since the beginning of the Corporation's last completed financial year, no proposed nominee for election as a director of the Corporation and no associate or affiliate of any of the foregoing persons has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting other than the election of directors.

#### **ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information is provided in the Corporation's audited financial statements and Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2014. In addition, copies of the Corporation's annual financial statements and MD&A and this Circular may be obtained upon request to the Corporation. The Corporation may require the payment of a reasonable charge if the request is made by a person who is not a shareholder of the Corporation.

#### **APPROVAL OF BOARD OF DIRECTORS**

The contents of this Circular and the sending of it to each director of the Corporation, to the auditor of the Corporation, to the Shareholders and to the appropriate governmental agencies, have been approved by the directors of the Corporation.

**DATED** as of the 14<sup>th</sup> day of October, 2015.

BY ORDER OF THE BOARD

(Signed) DENNIS BENNIE  
Chairman of the Board

**SCHEDULE "A"**  
**STOCK OPTION PLAN**

**ADIRA ENERGY LTD.**

**STOCK OPTION PLAN**

**(August 31, 2009, amended April 13, 2011, May 30, 2012)**

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**ADIRA ENERGY LTD.**

**STOCK OPTION PLAN**

**(August 31, 2009, amended April, 2011, May 30, 2012)**

**1. PURPOSE**

**1.1 Purpose**

The purpose of the Plan is to advance the interests of Adira Energy Ltd. (the “**Corporation**”) by attracting, retaining and motivating persons as directors, officers, key employees and consultants of the Corporation and its Affiliated Corporations and providing them with a greater incentive to develop and promote the growth and success of the Corporation by granting to them options to purchase shares in the capital of the Corporation.

**2. INTERPRETATION**

**2.1 Definitions**

For the purposes of the Plan, unless they are otherwise defined elsewhere herein, the following terms have the following meanings, respectively:

- (a) “**Affiliate**” has the meaning set forth in the *Securities Act* (Ontario), as amended from time to time;
- (b) “**Affiliated Corporation**” is a corporation which is an “affiliate” (as such term is defined in the *Securities Act* (Ontario), as amended from time to time) of the Corporation;
- (c) “**Applicable Law**” means the requirements relating to the administration of stock option plans under the applicable corporate and securities laws of Ontario and Canada, any stock exchange or quotation system on which the Shares are listed or quoted and the applicable laws of any foreign country or jurisdiction which apply to Options granted under the Plan;
- (d) “**Associate**” has the meaning set forth in the *Securities Act* (Ontario), as amended from time to time;
- (e) “**Board**” means the board of directors of the Corporation;
- (f) “**Business Day**” means a day that is not a Saturday, a Sunday or a statutory or legal holiday in Toronto, Ontario;
- (g) “**Cause**” means any act or omission by the Optionee which would in law permit an employer to, without notice or payment in lieu of notice, terminate the Optionee’s employment or services, and shall include, without limitation, the meaning attributed thereto in the employment agreement or consulting agreement, as may be applicable, of such Optionee;
- (h) “**Change of Control**” has the meaning set forth in Subsection 4.11(a) hereof;
- (i) “**Change of Control Price**” has the meaning set forth in Subsection 4.11(a) hereof;



- (j) “**Committee**” has the meaning set forth in Subsection 3.1(c) hereof;
- (k) “**Consultant Optionee**” means an individual, other than an Employee Optionee or an Executive Optionee, that:
  - (i) is engaged to provide on an ongoing bona fide basis consulting, technical, management or other services to the Corporation or to an Affiliated Corporation, other than services provided in relation to a distribution;
  - (ii) provides the services under a written contract between the Corporation or an Affiliated Corporation and the individual or a Consultant Company or Consultant Partnership of the individual;
  - (iii) in the reasonable opinion of the Corporation, spends or will spend a significant amount of time and attention on the affairs and business of the Corporation or an Affiliated Corporation; and
  - (iv) has a relationship with the Corporation or an Affiliated Corporation that enables the Consultant to be knowledgeable about the business and affairs of the Corporation.
- (l) “**Consultant Company**” means, for an individual consultant, a company of which the individual consultant is an employee or shareholder;
- (m) “**Consultant Partnership**” means, for an individual consultant, a partnership of which the individual consultant is an employee or partner;
- (n) “**Corporation**” means Adira Energy Ltd. and includes any successor corporation thereto;
- (o) “**Date of Grant**” means, for any Option, the date specified by the Board at the time it grants the Option or, if no such date is specified, the date upon which the Option was granted;
- (p) “**Disability**” means the mental or physical state of the Optionee such that, as a result of illness, disease, mental or physical disability or similar cause, the Optionee has been unable to fulfil his or her obligations as an employee or consultant of the Corporation or an Affiliated Corporation either for any consecutive six month period or for any period of twelve months (whether or not consecutive) in any consecutive 12-month period, provided that, where the Optionee has entered into a written employment or consulting agreement with the Corporation or an Affiliated Corporation, “Disability” will have the meaning attributed to that term, or the term equivalent in concept, contained in that employment or consulting agreement;
- (q) “**Eligible Person**” means a bona fide Consultant Optionee, Employee Optionee or Executive Optionee or any of their subsidiaries;
- (r) “**Eligible Transferee**” means, in respect of a particular Optionee, such of the following as have specifically been designated by the Board as an Eligible Transferee of such Optionee: (i) a registered retirement savings plan or a registered retirement investment fund, of which the Optionee is the beneficiary; (ii) a Holding Company; or (iii) a trust, the beneficiary of which is the Optionee;

- (s) “**Employee Optionee**” means a current full-time or part-time employee or contract employee of the Corporation or of an Affiliated Corporation and shall include, other than for the purposes of Sections 4.8 and 4.9, any registered retirement savings plans or registered income funds established by or for the employee (or under which such employee is the beneficiary) and a Holding Company of such individual;
- (t) “**Exchange**” means the stock exchange or quotation system and, where the context permits, includes all other stock exchanges and quotation systems designated by the Board, on which the Shares are or may be listed or quoted from time to time (provided that if, for the purposes of the Plan it is necessary to have reference to a single Exchange, then such Exchange shall be any stock exchange or quotation system on which the Shares are then listed or quoted as designated by the Board);
- (u) “**Executive Optionee**” means a current director or an officer of the Corporation or of an Affiliated Corporation and shall include, other than for the purposes of Sections 4.8 and 4.9, any registered retirement savings plans or registered retirement income funds established by or for the individual director or officer (or under which such director or officer is the beneficiary) and a Holding Company of such individual;
- (v) “**Exercise Price**” has the meaning set forth in Section 4.2 hereof;
- (w) “**Fair Market Value**” means, at any date in respect of Shares, the closing price of such Shares on the Exchange on the last Business Day preceding such date (less the applicable discount). In the event that such Shares did not trade on such Business Day, the Fair Market Value shall be the average of the bid and ask prices in respect of such Shares at the close of trading on such date or such other price determined by the Board, acting reasonably;
- (x) “**Holding Company**” means a corporation wholly-owned and controlled by an Optionee;
- (y) “**Insider**” has meaning ascribed thereto in the *Securities Act* (Ontario);
- (z) “**Option**” means a right granted to an Eligible Person to purchase Shares on the terms of the Plan;
- (aa) “**Optionee**” means the Eligible Person to whom an Option has been granted and includes, other than for the purposes of Sections 4.8 and 4.9 hereof, any Eligible Transferee to whom an Optionee has transferred an Option in accordance with the terms of the Plan;
- (bb) “**Option Agreement**” has the meaning set forth in Section 4.5 hereof;
- (cc) “**Person**” means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association or organization, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency, authority or entity however designated or constituted;
- (dd) “**Plan**” means this stock option plan of the Corporation (as the same may be amended or varied from time to time);

- (ee) **“Retirement”** means retirement from active employment with the Corporation or an Affiliated Corporation at or after the age of 65 or, with the consent for the purposes of the Plan of such officer of the Corporation or an Affiliated Corporation as may be designated by the Board, at or after such earlier age and upon the completion of such years of service as the Board may specify;
- (ff) **“Shares”** means the common shares in the capital of the Corporation as constituted from time to time or, in the event of an adjustment contemplated by Section 5.1 hereof, such other shares or securities to which an Optionee may be entitled upon the exercise of an Option as a result of such adjustment;
- (gg) **“Termination Date”** means:
  - (i) in the case of an Employee Optionee or Executive Optionee whose employment or term of office with the Corporation or an Affiliated Corporation, as the case may be, terminates in the circumstances set out in Sections 4.8 or 4.9 hereof, the date that is designated by the Corporation or an Affiliated Corporation, as the case may be, as the last day of the Optionee’s employment or term of office with the Corporation or an Affiliated Corporation, as the case may be, and “Termination Date” specifically does not mean the date on which any period of contractual or reasonable notice that the Corporation or an Affiliated Corporation, as the case may be, may be required by contract or at law to provide to the Optionee would expire;
  - (ii) in the case of an Executive Optionee who received Options in his or her capacity as a director of the Corporation or an Affiliated Corporation, the date which is the earliest of: (A) the date that such Executive Optionee resigns as a director of the Corporation or an Affiliated Corporation; (B) the date that such Executive Optionee is not re-elected as a director; and (C) the date that such Executive Optionee is removed from the board of directors of the Corporation or an Affiliated Corporation; and
  - (iii) in the case of a Consultant Optionee whose consulting agreement or arrangement with the Corporation or an Affiliated Corporation, as the case may be, terminates in the circumstances set out in Sections 4.8 or 4.9 hereof, the date that is designated by the Corporation or an Affiliated Corporation, as the case may be, as the date on which the Optionee’s consulting agreement or arrangement is terminated, and “Termination Date” specifically does not mean the date on which any period of notice of termination that the Corporation or an Affiliated Corporation, as the case may be, may be required to provide to the Optionee under the terms of the consulting agreement or arrangement would expire;or such later date as may be determined by the Board in the case of Options granted to a specific Optionee;
- (hh) **“Transfer”** includes any sale, exchange, assignment, gift, bequest, disposition, hypothecation, mortgage, charge, pledge, encumbrance, grant of security interest or other arrangement by which possession, legal title or beneficial ownership passes from one Person to another, or to the same Person in a different capacity, whether or not voluntary and whether or not for value, and any agreement to effect any of the foregoing; and the

words “Transferred”, “Transferring” and similar words have corresponding meanings; and

- (ii) “**Vesting Schedule**” has the meaning set forth in Section 4.4 hereof.

## **2.2 Interpretation**

- (a) Whenever the Board or, where applicable, the Committee is to exercise discretion in the administration of the terms and conditions of the Plan, the term “discretion” means the sole and absolute discretion of the Board or the Committee, as the case may be.
- (b) As used herein, the terms “Article”, “Section”, “Subsection” and paragraph” mean and refer to the specified Article, Section, Subsection and paragraph hereof, respectively.
- (c) Words importing the singular number only include the plural and vice versa, and words indicating gender include all genders.
- (d) In the Plan, a Person is considered to be “controlled” by a Person if:
  - (i) in the case of a corporation or similar entity,
    - (A) voting securities of the first-mentioned Person carrying more than 50% of the votes ordinarily exercisable at meetings of shareholders of the corporation are held, otherwise than by way of security only, by or for the benefit of the other Person; and
    - (B) the votes carried by such securities are entitled, if exercised, to elect a majority of the directors of the first-mentioned Person;
  - (ii) in the case of a partnership that does not have directors, other than a limited partnership, the second-mentioned Person holds more than 50% of the interests in the partnership; or
  - (iii) in the case of a limited partnership, the general partner is the second-mentioned Person.

## **3. ADMINISTRATION**

### **3.1 Administration**

- (a) The Plan shall be administered by the Board in accordance with the rules and policies of the Exchange in respect of employee stock option plans. The Board shall receive recommendations of management and shall determine and designate from time to time those Eligible Persons to whom an Option should be granted, the number of Shares which will be optioned from time to time to any Eligible Person and the terms and conditions of the Option.
- (b) Subject to Applicable Law, Subsection 3.1(c) hereof and the limitations of the Plan, the Plan will be administered by the Board and the Board has the sole and complete authority, in its discretion, to:
  - (i) grant Options to Eligible Persons;

- (ii) determine the terms, limitations, restrictions and conditions upon such grants;
- (iii) interpret and construe the terms and conditions of the Plan and the Options;
- (iv) adopt, amend and rescind such administrative guidelines and other rules relating to the Plan as the Board may from time to time deem advisable; and
- (v) make all other determinations and to take all other actions in connection with the implementation and administration of the Plan as the Board may deem necessary or advisable.

The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any agreement relating thereto in the manner and to the extent it shall deem necessary to effectuate the purpose and intent of the Plan. The Committee may adopt special guidelines and provisions for Persons who are residing in, or subject to, the taxes of, any jurisdiction outside of Canada (including, without limitation, countries, states, provinces and localities) to comply with applicable tax, and securities and other laws and may impose any limitations and restrictions that it deems necessary to comply with the applicable tax, securities and other laws of such jurisdiction outside of Canada.

Any decision, interpretation or other action made or taken in good faith by or at the direction of the Corporation, the Board or the Committee or any of its members arising out of or in connection with the Plan shall be within the absolute discretion of all and each of them, as the case may be, and shall be final, binding and conclusive on the Corporation, Optionees and their respective heirs, executors, administrators, successors and permitted assigns.

The Board's interpretation, construction or determination of its guidelines and rules will be conclusive and binding upon all parties concerned. The day-to-day administration of the Plan may be delegated to such officers and employees of the Corporation or of an Affiliated Corporation as the Board may in its sole discretion determine.

- (c) To the extent permitted by Applicable Law, the Board may, from time to time, delegate to a committee (the "**Committee**") of the Board all or any of the powers conferred on the Board under the Plan. In such event, the Committee will exercise the powers delegated to it by the Board in the manner and on the terms authorized by the Board. Any decision made or action taken by the Committee arising out of or in connection with the administration or interpretation of the Plan in this context is final and conclusive. If the Committee is appointed, the Board shall designate one of the members of the Committee as chairman and the Committee shall hold meetings, subject to the by-laws of the Corporation, at such times and places as it shall deem advisable; including, without limitation, by telephone conference or by written consent to the extent permitted by Applicable Law. A majority of the Committee members shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members. Any decision or determination reduced to writing and signed by all the Committee members in accordance with the by-laws of the Corporation, shall be fully as effective as if it had been made by a vote at a meeting duly called and held. The Committee shall keep minutes of its meetings and shall make such rules and regulations for the conduct of its business as it shall deem advisable.

- (d) Notwithstanding the foregoing, the additional provisions set forth in Exhibit "A" attached hereto entitled "Provisions Applicable to Residents of Israel" shall apply to those Participants (as hereinafter defined) who are resident in the State of Israel (Participants who are residents of Israeli are referred to herein as "**Israeli Participants**").

### **3.2 Shares Reserved**

- (a) Options may be granted in respect of authorized and unissued Shares. Subject to an increase by the Board in its sole and absolute discretion, Applicable Law and any shareholder or other approval which may be required, and subject further to any adjustments pursuant to Section 5.1, the maximum aggregate number of Shares which may be reserved by the Corporation for issuance under the Plan will be such number of Shares as is equal to 10% of the aggregate number of outstanding Shares from time to time.
- (b) Any Shares subject to an Option which has been granted under the Plan and which is cancelled or terminated for any reason without having been exercised will be added back to the number of Shares reserved for issuance under the Plan and such Shares will again be available for grant under the Plan. No fractional Shares may be issued, and the Board may determine the manner in which any fractional Share value will be treated.

### **3.3 Eligibility**

Participation in the Plan shall be limited to Eligible Persons. Participation shall be voluntary and the extent to which any Eligible Person shall be entitled to participate in the Plan shall be, subject to the terms of the Plan and Applicable Law, determined in the sole and absolute discretion of the Board. Eligibility to participate does not confer upon any Optionee any right to be granted Options pursuant to the Plan.

## **4. OPTIONS**

### **4.1 Grants**

- (a) The Board may, from time to time, subject to the provisions of the Plan and such other terms and conditions as the Board may prescribe, grant Options to any Eligible Person.
- (b) Subject to the Plan, the Board may impose limitations, restrictions and conditions, in addition to those set out in the Plan, that are applicable to the exercise of an Option, including, without limitation, the nature and duration of any restrictions applicable to a sale or other disposition of Shares acquired upon exercise of an Option and the nature of events, if any, that may cause any Optionee's rights in respect of Shares acquired upon exercise of an Option to be forfeited and the duration of the period of such forfeiture.
- (c) An Eligible Person may receive Options on more than one occasion under the Plan and may receive separate Options on any one occasion.
- (d) the Corporation shall not grant Options:
  - (i) to any one person in any 12 month period which could, when exercised, result in the issuance of Shares exceeding five percent (5%) of the issued and outstanding Shares of the Corporation unless disinterested shareholder approval is obtained;

- (ii) to any one Consultant which could, when exercised, in any 12 month period result in the issuance of Shares exceeding two percent (2%) of the issued and outstanding Shares of the Corporation;
- (iii) to all persons employed by the Corporation who perform investor relations activities which could, when exercised, in any 12 month period result in the issuance of Shares exceeding two percent (2%) of the issued and outstanding Shares of the Corporation nor shall more than 1/4 of any such Options vest in any three month period;
- (iv) if the aggregate number of Shares issuable pursuant to Options granted to Insiders pursuant to the Plan and other security based compensation arrangements would exceed 10% of the Corporation's total issued and outstanding Common Shares unless disinterested shareholder approval is obtained; or
- (v) if the aggregate number of Shares issued to Insiders pursuant to the Plan and other security based compensation arrangements within any one-year period would exceed 10% of the Corporation's total issued and outstanding Shares, unless disinterested shareholder approval is obtained.

#### **4.2 Exercise Price**

- (a) Subject to Applicable Law and to adjustment from time to time in accordance with Section 5.1 hereof, the exercise price (the "**Exercise Price**") of an Option granted pursuant to the Plan will be as determined by the Board but in any event, unless otherwise determined by the Board, shall not be less than the Fair Market Value of the Shares on the Business Day immediately prior to the Date of Grant.
- (b) Furthermore, disinterested shareholder approval is required in order to reduce the exercise price of an Optionee that is an Insider of the Corporation at the time of the proposed amendment.

#### **4.3 Term of Options**

Subject to any accelerated termination as set forth in the Plan, Options must expire no later than ten (10) years after the Date of Grant or such lesser period as applicable regulatory authorities or Applicable Law may require.

#### **4.4 Vesting of Options**

- (a) The Board may determine, in its sole discretion, in respect of an Option, when an Option will become exercisable and the extent to which an Option will vest or will be exercisable in instalments (the "**Vesting Schedule**") and such Vesting Schedule shall be set forth in the applicable Option Agreement. For example, the Board may, in its sole discretion, provide that the vesting of an Option be dependent on the passage of time and/or on the achievement of specified milestones or thresholds.
- (b) Any Options issued to a Consultant Optionee must vest in stages over at least a 12 month period with no more than ¼ of such Options vesting in any three (3) month period.

- (c) Once a portion of an Option vests and becomes exercisable, it shall remain exercisable until expiration or termination of such Option, unless otherwise specified by the Board in connection with the grant of such Option or pursuant to Section 4.11 hereof with respect to a Change of Control. Each Option or portion thereof may be exercised at any time or from time to time, in whole or in part, for up to the total number of Shares with respect to which it is then exercisable.

#### **4.5 Option Agreements**

Each Option must be confirmed by an agreement (an “**Option Agreement**”), in the form of option agreement attached hereto as Exhibit “B” and for Israeli Participants, the form attached hereto as Exhibit “C”, as such forms may be amended by the Board from time to time, and with such changes thereto as may be necessary for any particular Option to a particular Optionee, signed by the Corporation and by the Optionee. In the event an Option is Transferred in accordance with the terms of the Plan, it shall be a condition to the effectiveness of such Transfer that the Eligible Transferee enter into an Option Agreement on the same terms and conditions.

#### **4.6 Exercise of Option and Payment of Exercise Price**

The Optionee may, from time to time and at any time after the vesting of an Option and prior to the expiry of such Option, elect to purchase all or a portion of the Shares available for purchase by lump sum payment by delivering to the Corporation at its registered office (or other office designated in writing by the Corporation to the Optionee), a completed Notice of Exercise substantially in the form attached hereto as Exhibit “D”. Such notice shall specify the number of Shares the Optionee desires to purchase and shall be accompanied by payment in full of the Exercise Price for such Shares. Subject to the provisions of the immediately following sentence, payment may be made by bank draft or certified cheque payable to the order of the Corporation at the time of exercise. Upon receipt of payment in full or, in the discretion of the Board, upon the determination that the fair value of property or past services provided by the Optionee is equal to or greater than the Exercise Price if the Shares had been issued for money, and in any event, subject to the terms of the Plan, the number of Shares in respect of which the Option is exercised will be duly issued as fully paid and non assessable. Without derogating from the aforementioned, as long as the Corporation’s share are listed for trade on a recognized stock exchange, payment of the Exercise Price may be made all or in part by delivery (on a form prescribed by the Board) of an irrevocable direction to a securities broker to sell Shares and to deliver all or part of the sale proceeds to the Corporation in payment of the aggregate Exercise Price.

#### **4.7 Prohibition on Transfer of Options and Shares**

- (a) Subject to the other provisions of this Section 4.7 and Section 4.8, an Option is personal to the Optionee and is non-assignable, other than by will or laws of descent and distribution, and such Option shall be exercisable during the Optionee’s lifetime only by the Optionee to which such Option has been granted. No Optionee may deal with any Option or any interest in it or Transfer any Option now or hereafter held by the Optionee except in accordance with the Plan. If an Optionee’s Holding Company ceases to be wholly-owned by the Optionee, the Holding Company will be deemed to have Transferred any Options held by such Holding Company to the Optionee. A purported Transfer of any Option in violation of the Plan will not be valid and the Corporation will not be required to issue any Shares upon the attempted exercise of an improperly Transferred Option. Nothing contained herein shall permit any Optionee to transfer any Option, whether to an Eligible Transferee or otherwise, without the prior written consent of the Board. Subject to Applicable Law and subject to the prior written consent of the



Board, an Option may be transferred to and from the Optionee and an Eligible Transferee provided that the transferor delivers to the Corporation at its registered office a completed Notice of Transfer substantially in the form attached hereto as “Exhibit “E”.

- (b) Options and Shares issued upon exercise thereof are subject to transfer and resale restrictions pursuant to the constating documents of the Corporation and Applicable Law. The Optionee is responsible for obtaining such legal advice as may be appropriate in connection with any transfer or resale of Options and Shares issued upon the exercise thereof.

#### **4.8 Death, Disability or Retirement of Optionee**

If,

- (a) an Employee Optionee or an Executive Optionee dies or becomes Disabled while an employee, director or officer of the Corporation or an Affiliated Corporation, as the case may be;
- (b) a Consultant Optionee’s consulting agreement or arrangement with the Corporation or an Affiliated Corporation, as the case may be, is terminated by reason of the death or Disability of such Optionee; or
- (c) the employment or term of office of an Employee Optionee or an Executive Optionee with the Corporation or an Affiliated Corporation, as the case may be, terminates due to Retirement,

then

- (d) the executor, administrator or other legal representative of such Optionee’s estate or such Optionee, as the case may be, may exercise any Options granted to such Optionee to the extent that such Options were exercisable at the date of such death, Disability or Retirement and the right to exercise such Options shall terminate on the earlier of:
  - (i) the date that is 180 days from the date of such Optionee’s death, Disability or Retirement; and
  - (ii) the date of expiration specified in the Option Agreement or in the resolution of the Board granting such Option, as the case may be,

provided that any Options granted to such Optionee that were not exercisable at the date of the death, Disability or Retirement shall immediately expire and be cancelled on such date; and

- (e) such Optionee’s eligibility to receive further grants of Options under the Plan shall cease as of the date of such Optionee’s death, Disability or Retirement, as the case may be.

With regard to Options held by a trustee of an Israeli Participant, this Section will apply to the Israeli Participants.

**4.9 Termination of Employment or Services by reason other than Death, Disability or Retirement**

- (a) Where, in the case of an Employee Optionee or Executive Optionee, an Optionee's employment or term of office with the Corporation or an Affiliated Company ceases by reason of the Optionee's death, Disability or Retirement, then the provisions of Section 4.9 hereof shall apply.
- (b) Where, in the case of an Employee Optionee or Executive Optionee, an Optionee's employment or term of office with the Corporation or an Affiliated Corporation terminates by reason of:
  - (i) termination by the Corporation or an Affiliated Corporation without Cause (whether such termination occurs with or without any or adequate reasonable notice, or with or without any or adequate compensation in lieu of such reasonable notice);
  - (ii) voluntary resignation by such Optionee; or
  - (iii) in the case of an Executive Optionee who received Options in his or her capacity as a director of the Corporation or an Affiliated Corporation, the failure of such Executive Optionee to be re-elected as a director or the removal of such Executive Optionee from the board of directors of the Corporation or an Affiliated Corporation,

then any Options granted to such Optionee that are exercisable at the Termination Date shall continue to be exercisable until the earlier of: (A) the date that is 30 days following the Termination Date; and (B) the date of expiration specified in the Option Agreement or in the resolution of the Board granting such Option, as the case may be. Any Options granted to such Optionee that are not exercisable at the Termination Date shall immediately expire and be cancelled on the Termination Date.

- (c) Where, in the case of an Employee Optionee or Executive Optionee, such Optionee's employment or term of office with the Corporation or an Affiliated Corporation is terminated by the Corporation or Affiliated Corporation for Cause then any Options granted to such Optionee, whether or not exercisable at the Termination Date, shall immediately expire and be cancelled on the Termination Date contemporaneously with such termination.
- (d) Where, in the case of a Consultant Optionee, such Optionee's consulting agreement or arrangement terminates by reason of:
  - (i) termination by the Corporation or an Affiliated Corporation for any reason other than for material breach of the consulting agreement or arrangement (whether or not such termination is effected in compliance with any termination provisions contained in such Optionee's consulting agreement or arrangement); or
  - (ii) voluntary termination by such Optionee,

then any Options granted to such Optionee that are exercisable at the Termination Date shall continue to be exercisable until the earlier of: (A) the date that is 30 days following

the Termination Date; and (B) the date of expiration specified in the Option Agreement or in the resolution of the Board granting such Option, as the case may be. Any Options granted to such Optionee that are not exercisable at the Termination Date shall immediately expire and be cancelled on such date.

- (e) Where, in the case of a Consultant Optionee, such Optionee's consulting agreement or arrangement is terminated by the Corporation or an Affiliated Corporation for material breach of the consulting agreement or arrangement (whether or not such termination is effected in compliance with any termination provisions contained in such Optionee's consulting agreement or arrangement), then any Options granted to such Optionee, whether or not such Options are exercisable at the Termination Date, shall immediately expire and be cancelled on the Termination Date contemporaneously with such termination.
- (f) Unless the Board, in its discretion, otherwise determines at any time and from time to time, Options shall not be affected by any change of employment or consulting arrangement within or among the Corporation or an Affiliated Corporation for so long as an Employee Optionee continues to be an employee of the Corporation or an Affiliated Corporation, or for so long as the Executive Optionee continues to be a director or officer of the Corporation or an Affiliated Corporation, or for so long as the Consultant Optionee continues to be engaged as a consultant to the Corporation or an Affiliated Corporation, as the case may be. For greater certainty, if an Optionee ceases to be an Executive Optionee but remains an Employee Optionee, the Options granted to such Optionee shall not be affected by such change.

#### **4.10 Discretion to Permit Exercise**

Notwithstanding the provisions of Sections 4.8 and 4.9 hereof, the Board may, in its discretion, at any time prior to or following the events contemplated in such Sections, permit the exercise of any or all Options held by an Optionee in the manner and on the terms authorized by the Board, provided that the Board shall not, in any case, authorize the exercise of an Option pursuant to this Section beyond the date of expiration specified in the Option Agreement or in the resolution of the Board granting such Option, as the case may be.

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

- (a) For the purposes of the Plan,
  - (i) “**Change of Control**” shall mean the happening of any of the following events: (A) any transaction pursuant to which the Corporation goes out of existence; (B) any transaction pursuant to which any Person or any Associate or Affiliate of such Person and any Person acting jointly or in concert with such Person (within the meaning of the *Securities Act* (Ontario)) (other than the Corporation, a subsidiary of the Corporation or an employee benefit plan of the Corporation (including any trustee of such plan acting as trustee)), hereafter acquires the direct or indirect “beneficial ownership” (as such term is defined in the *Business Corporations Act* (Ontario)) of securities of the Corporation representing 50% or more of the aggregate votes of all of the Corporation's then issued and outstanding securities; (C) the sale of all or substantially all of the Corporation's assets to a Person other than a Person that is an Affiliated Corporation; (D) the dissolution or liquidation of the Corporation except in connection with the

distribution of assets of the Corporation to one or more Persons which were Affiliated Corporations prior to such event; or (E) the occurrence of a transaction requiring approval of the Corporation's shareholders involving the acquisition of the Corporation by an entity through purchase of assets, by amalgamation or otherwise; and

- (ii) **“Change of Control Price”** shall mean the highest price per Share paid in any transaction related to a Change of Control.
- (b) Notwithstanding anything else in the Plan or contained in any Option Agreement, unless otherwise determined by the Board, outstanding Options shall be converted or exchanged into or for options, rights or other securities in any entity participating in or resulting from a Change of Control, (each such Option hereinafter called an **“Alternative Option”**) and any such Alternative Option must meet the following criteria:
- (i) the Alternative Option must be based on stock which is traded on an established securities market, or which will be so traded within 30 days of the Change of Control;
  - (ii) the Alternative Option must provide such Optionee with rights and entitlements substantially equivalent to or better than the rights, terms and conditions applicable under such Option, including, but not limited to, an identical or better exercise schedule; and
  - (iii) the Alternative Option must have economic value substantially equivalent to the value of such Option (determined at the time of the Change of Control) (having regard to such factors as the Board shall reasonably consider applicable).
- (c) The Board may, in its sole discretion, accelerate the vesting of any or all outstanding Options to provide that, notwithstanding the Vesting Schedule or any Option Agreement, such outstanding Options shall be fully vested and conditionally exercisable upon (or prior to) the completion of the Change of Control, provided, however, that the Board shall not, in any case, authorize the exercise of Options pursuant to this Section beyond the date of expiration specified in the Option Agreement or resolution of the Board granting such Options, as the case may be. If the Board elects to accelerate the vesting of the Options, and if any of such Options are not exercised within five Business Days following the giving of notice of such acceleration, such unexercised Options shall terminate and expire upon the completion of the proposed Change of Control. If, for any reason, the Change of Control does not occur within the contemplated time period, the acceleration of the vesting of the Options shall be retracted and vesting shall instead revert to the manner provided in the Vesting Schedule or Option Agreement.
- (d) The Board, in its sole discretion, may provide for the purchase of any Option by the Corporation or an Affiliate or other Person upon (or prior to) the completion of the Change of Control for an amount equal to: (i) the Change of Control Price of each Share underlying an Option multiplied by the Shares underlying such Options, less (ii) the aggregate Exercise Price of such Options.
- (e) If, in connection with a Change of Control, the shareholders of the Corporation are to receive consideration other than consideration consisting solely of cash, then the Board may determine, prior to the occurrence of the Change of Control, that upon the exercise

of any Options after the Change of Control, that the Optionees shall be entitled to receive that consideration which they would have received had they exercised their Options immediately prior to the Change of Control and sold their Shares on the same terms and conditions as the shareholders of the Corporation who sold their Shares in connection with the Change of Control.

## **5. GENERAL**

### **5.1 Capital Adjustments**

- (a) The existence of any Options shall not affect in any way the right and power of the Corporation or its shareholders to make, authorize or determine any adjustment, recapitalization, reorganization, or any other change in the Corporation's capital structure or its business, or any amalgamation, combination, merger or consolidation involving the Corporation, to create or issue any bonds, debentures, Shares or other securities of the Corporation or to determine the rights and conditions attaching thereto, to effect the dissolution or liquidation of the Corporation or any sale or transfer of all or any part of its assets or business, or to effect any other corporate act or proceeding, whether of a similar character or otherwise, whether or not any such action referred to in this Subsection 5.1(a) would have an adverse effect on the Plan or any Option granted hereunder.
- (b) If there is any change in the outstanding Shares by reason of a stock dividend or split, recapitalization, consolidation, combination or exchange of shares or other similar corporate change, other than a Change of Control, subject to any prior approval required of applicable regulatory authorities, the Board may make appropriate substitution or adjustment in:
  - (i) the Exercise Price of unexercised Options;
  - (ii) the number or kind of shares or other securities reserved for issuance pursuant to the Plan; and
  - (iii) the number and kind of shares subject to unexercised Options theretofore granted and in the Exercise Price of those shares,

provided, however, that no substitution or adjustment will obligate the Corporation to issue or sell fractional shares. The determination of the Board as to any adjustment, or as to there being no need for adjustment, will be final and binding on all parties concerned.

- (c) The distribution of a cash dividend and/or any rights offering to other shareholders of the Company, shall not trigger any adjustment to the Options granted under this Plan.

### **5.2 Conditions of Exercise**

The Plan and Options are subject to the requirement that if at any time the Board determines that: (a) the listing, registration or qualification of the Shares subject to such Option upon any stock exchange or quotation system or under any provincial, state or federal law, or that the consent or approval of any governmental body, stock exchange or quotation system or of the holders of the Shares generally, is necessary or desirable, as a condition of, or in connection with the granting of such Option or the issuance of Shares upon the exercise thereof; or (b) the grant of an Option or the issuance of Shares upon the exercise thereof is in conflict with or is inconsistent with Applicable Law, no such Option may be granted

or exercised in whole or in part unless such listing, registration, qualification, consent or approval has been effected or obtained or such conflict or inconsistency is no longer outstanding, each free of any conditions not acceptable to the Board. The Optionees shall, to the extent applicable, co-operate with the Corporation in relation to such registration, qualification or other approval and shall have no claim or cause of action against the Corporation or any of its officers or directors as a result of any failure by the Corporation to obtain or to take any steps to obtain any such registration, qualification, or approval.

### **5.3 Amendment and Termination**

- (a) The Board may amend, suspend or terminate the Plan or any portion of it at any time in accordance with Applicable Law and subject to any required regulatory, Exchange or shareholder approval. However, subject to the terms hereof, unless consent is obtained from the Optionee affected, no amendment, suspension or termination may alter or impair any Options, or any rights related to Options, that were granted to that Optionee prior to the amendment, suspension or termination.
- (b) If the Plan is terminated, the provisions of the Plan and any administrative guidelines and other rules adopted by the Board and in force at the time of termination of the Plan will continue in effect as long as any Option remains outstanding. However, notwithstanding the termination of the Plan, the Board may make any amendments to the Plan or to any outstanding Option that the Board would have been entitled to make if the Plan were still in effect.
- (c) Subject to Applicable Law and to any necessary prior approval of applicable regulatory authorities and with the consent of the affected Optionee, the Board may amend or modify any outstanding Option in any manner, including, without limitation, by changing the date or dates as of which, or the price at which, an Option becomes exercisable, so long as the Board would have had the authority to grant initially the Option as so modified or amended.

### **5.4 Status as Shareholder**

Optionees shall not have any rights as a shareholder with respect to Shares until full payment of the Exercise Price for the Shares has been made to the Corporation and the Corporation has issued the Optionee's Shares.

Upon becoming a shareholder of the Corporation, an Optionee may only transfer Shares in accordance with and subject to Applicable Law and the constating documents of the Corporation.

### **5.5 Withholding Taxes**

The exercise of each Option granted under the Plan is subject to the condition that if at any time the Corporation determines, in its discretion, that the satisfaction of withholding tax or other withholding liabilities is necessary or desirable in respect of such exercise, such exercise is not effective unless such withholding has been effected to the satisfaction of the Corporation. In such circumstances, the Corporation may require that an Optionee pay to the Corporation, in addition to and in the same manner as the Exercise Price for the Shares, such amount as the Corporation is obliged to remit to the relevant taxing authority in respect of the exercise of the Option. Any such additional payment is due no later than the date as of which any amount with respect to the Option exercised first becomes includable in the gross income of the Optionee for tax purposes.

## **5.6 Non Exclusivity and Corporate Action**

- (a) Subject to any required regulatory or shareholder approval, nothing contained herein will prevent the Board from adopting other additional compensation arrangements for the benefit of any Optionee.
- (b) Nothing contained in the Plan or in the Options shall be construed so as to prevent the Corporation or any subsidiary of the Corporation from taking corporate action which is deemed by the Corporation or the subsidiary to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan.

## **5.7 Employment and Board of Directors Position Non-Contractual**

The granting of an Option to an Optionee under the Plan does not confer upon the Optionee any right to continue in the employment of the Corporation or any Affiliated Corporation or as a member of the Board, as the case may be, nor does it interfere in any way with the rights of the Optionee or of the Corporation's rights to terminate the Optionee's employment or consulting arrangements at any time or of the shareholders' right to elect one or more directors of the Corporation.

## **5.8 Indemnification**

Every member of the Board will at all times be indemnified and saved harmless by the Corporation from and against all costs, charges and expenses whatsoever including any income tax liability arising from any such indemnification, that such Board member may sustain or incur by reason of any action, suit or proceeding, taken or threatened against the Board member, otherwise by the Corporation, for or in respect of any act done or omitted by the Board member in respect of the Plan, such costs, charges and expenses to include any amount paid to settle such action, suite or proceeding or in satisfaction of any judgement rendered therein.

## **5.9 Notices**

All written notices to be delivered by the Optionee to the Corporation may be delivered personally, by facsimile or by registered mail, postage prepaid, addressed as follows:

Adira Energy Ltd.  
Suite 800  
120 Adelaide St. West  
Toronto, Ontario  
M5H 1T1

Attention: Alan Friedman, Executive Vice-President  
Facsimile No.: (416) 361 6455

Any notice delivered by the Optionee pursuant to the terms of the Option shall not be effective until actually received by the Corporation at the above address. Any notice to be delivered to the Optionee shall be effective when delivered personally (effective at the time of delivery), by facsimile transmission (effective one day after transmission) or by postage prepaid mail to the last address of the Optionee on the records of the Corporation (which shall be deemed effective the first Business Day after mailing).

### **5.10 Governing Law**

This Plan is created under and is to be governed by and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein, except for Exhibit "A", which will be governed and construed in accordance with the laws of the State of Israel.



**EXHIBIT "A"**

**ISRAEL APPENDIX**

**DEFINITIONS**

For purposes of this Annex and the Option Agreement, the following definitions shall apply:

- (a) **"Affiliate"** - any "employing corporation" within the meaning of Section 102(a) of the Ordinance.
- (b) **"Approved 102 Option"** - an Option granted pursuant to Section 102(b) of the Ordinance and held in trust by a Trustee for the benefit of the Optionee.
- (c) **"Capital Gain Option (CGO)"** - an Approved 102 Option elected and designated by the Corporation to qualify under the capital gain tax treatment in accordance with the provisions of Section 102(b)(2) of the Ordinance.
- (d) **"Controlling Shareholder"** - shall have the meaning ascribed to it in Section 32(9) of the Ordinance.
- (e) **"Corporation"** - Adira Energy Ltd.
- (f) **"Employee"** - a person who is employed by an Israeli resident Affiliate, including an individual who is serving as a director or an office holder, but excluding any Controlling Shareholder, all as determined in Section 102 of the Ordinance.
- (g) **"ITA"** - the Israeli Tax Authorities.
- (h) **"Non-Employee"** - a consultant, adviser, service provider, Controlling Shareholder or any other person who is not an Employee.
- (i) **"Ordinary Income Option (OIO)"** - an Approved 102 Option elected and designated by the Corporation to qualify under the ordinary income tax treatment in accordance with the provisions of Section 102(b)(1) of the Ordinance.
- (j) **"Plan"** - The Corporation's Stock Option Plan dated August 31, 2009.
- (k) **"102 Option"** - any Option granted to Employees pursuant to Section 102 of the Ordinance.
- (l) **"3(i) Option"** - an Option granted pursuant to Section 3(i) of the Ordinance to any person who is a Non-Employee.
- (m) **"Ordinance"** - the Israeli Income Tax Ordinance [New Version] 1961 as now in effect or as hereafter amended.
- (n) **"Section 102"** - Section 102 of the Ordinance and any regulations, rules, orders or procedures promulgated thereunder as now in effect or as hereafter amended.

- (o) **“Trustee”** - any individual or entity appointed by the Corporation to serve as a trustee and approved by the ITA, all in accordance with the provisions of Section 102(a) of the Ordinance.
- (p) **“Unapproved 102 Option”** - an Option granted pursuant to Section 102(c) of the Ordinance and not held in trust by a Trustee.

For the avoidance of any doubt, it is hereby clarified that any capitalized terms not specifically defined in this Annex shall be construed according to the interpretation given to it in the Plan.

## 1. GENERAL

1.1. This Annex (the: “**Annex**”) shall apply only to Optionees who are residents of the state of Israel at the date of grant or those who are deemed to be residents of the state of Israel for the payment of tax at the date of grant. The provisions specified hereunder shall form an integral part of the Plan, which applies to the issuance of options to purchase Shares of the Corporation. According to the Plan, options to purchase the Corporation’s Shares may be issued to employees, directors, consultants and service provides of the Corporation or its affiliates.

1.2 This Annex is effective with respect to Options granted following Amendment no. 132 of the Ordinance, which entered into force on January 1, 2003.

1.3 This Annex is to be read as a continuation of the Plan and only modifies options granted to Israeli Optionees so that they comply with the requirements set by the Israeli law in general, and in particular with the provisions of Section 102 (as specified herein), as may be amended or replaced from time to time. For the avoidance of doubt, this Annex does not add to or modify the Plan in respect of any other category of Optionees.

1.4 The Plan and this Annex are complimentary to each other and shall be deemed as one. In any case of contradiction, whether explicit or implied, between the provisions of this Annex and the Plan, the provisions set out in the Annex shall prevail.

## 2. ISSUANCE OF OPTIONS

2.1 The persons eligible for participation in the Plan as Optionees shall include any Employees and/or Non-Employees of the Corporation or of any Affiliate; provided, however, that (i) Employees may only be granted 102 Options; and (ii) Non-Employees and/or Controlling Shareholders may only be granted 3(i) Options.

2.2 The Corporation may designate Options granted to Employees pursuant to Section 102 as Unapproved 102 Options or Approved 102 Options.

2.3 The grant of Approved 102 Options shall be made under this Annex adopted by the Board, and shall be conditioned upon the approval of this Annex by the ITA.

2.4 Approved 102 Options may either be classified as Capital Gain Options (“**CGOs**”) or Ordinary Income Options (“**OIOs**”).

2.5 No Approved 102 Options may be granted under this Annex to any eligible Employee, unless and until, the Corporation’s election of the type of Approved 102 Options as CGO or OIO granted to Employees (the: “**Election**”), is appropriately filed with the ITA. Such Election shall become effective beginning the first date of grant of an Approved 102 Option under this Annex and shall remain in effect at least until the end of the year following the year during which the Corporation first granted Approved 102 Options. The Election shall obligate the Corporation to grant *only* the type of Approved 102 Option it has elected, and shall apply to all Optionees who were granted Approved 102 Options during the period indicated herein, all in accordance with the provisions of Section 102(g) of the Ordinance. For the avoidance of doubt, such Election shall not prevent the Corporation from granting Unapproved 102 Options simultaneously.

2.6 All Approved 102 Options must be held in trust by a Trustee, as described in Section 3 below.

2.7 For the avoidance of doubt, the designation of Unapproved 102 Options and Approved 102 Options shall be subject to the terms and conditions set forth in Section 102.

### **3. TRUSTEE**

3.1 Approved 102 Options which shall be granted under this Annex and/or any Shares allocated or issued upon exercise of such Approved 102 Options and/or other shares received subsequently following any realization of rights, including without limitation bonus shares, shall be allocated or issued to the Trustee and held for the benefit of the Optionees for such period of time as required by Section 102 or any regulations, rules or orders or procedures promulgated thereunder (the: “**Holding Period**”). In the case the requirements for Approved 102 Options are not met, then the Approved 102 Options may be regarded as Unapproved 102 Options, all in accordance with the provisions of Section 102.

3.2 Notwithstanding anything to the contrary, the Trustee shall not release any Shares allocated or issued upon exercise of Approved 102 Options prior to the full payment of the Optionee’s tax liabilities arising from Approved 102 Options which were granted to him and/or any Shares allocated or issued upon exercise of such Options.

3.3 With respect to any Approved 102 Option, subject to the provisions of Section 102 and any rules or regulation or orders or procedures promulgated thereunder, a Optionee shall not sell or release from trust any Share received upon the exercise of an Approved 102 Option and/or any share received subsequently following any realization of rights, including without limitation, bonus shares, until the lapse of the Holding Period required under Section 102 of the Ordinance. Notwithstanding the above, if any such sale or release occurs during the Holding Period, the sanctions under Section 102 of the Ordinance and under any rules or regulation or orders or procedures promulgated thereunder shall apply to and shall be borne by such Optionee.

3.4 Upon receipt of Approved 102 Option, the Optionee will sign an undertaking in which he or she will give his or her consent to the grant of the Option under Section 102, and will undertake to comply with the terms of Section 102 and the trust agreement between the Corporation and the Trustee.

3.5 Approved 102 Options that do not comply with the requirements of Section 102 shall be considered either 3(i) Options or Unapproved 102 Options as applicable.

### **4. THE OPTIONS**

The terms and conditions, upon which the Options shall be issued and exercised, shall be as specified in the Option Agreement to be executed pursuant to the Plan and to this Annex. Each Option Agreement shall state, inter alia, the number of Shares to which the Option relates, the type of Option granted thereunder (whether a CGO, OIO, Unapproved 102 Option or a 3(i) Option), the vesting provisions and the Exercise Price.

### **5. FAIR MARKET VALUE**

Without derogating from the definition of “Fair Market Value” enclosed in Section 2.1(w) of the Plan and solely for the purpose of determining the tax liability pursuant to Section 102(b)(3) of the Ordinance, if at the date of grant the Corporation’s shares are listed on any established stock exchange or a national market system or if the Corporation’s shares will be registered for trading within ninety (90) days following the date of grant of the CGOs, the fair market value of the Shares at the date of grant shall be determined in accordance with the average value of the Corporation’s shares on the thirty (30) trading

days preceding the date of grant or on the thirty (30) trading days following the date of registration for trading, as the case may be.

## **6. EXERCISE OF OPTIONS**

Options shall be exercised and, when applicable, by the Trustee, in accordance with the requirements of Section 102, which exercise shall be effective upon receipt of such notice by the in accordance with the provisions of Section 4.6 of the Plan.

## **7. ASSIGNABILITY AND SALE OF OPTIONS**

7.1 Notwithstanding Section 4.7 of the Plan and any other provision of the Plan, no Option or any right with respect thereto, purchasable hereunder, whether fully paid or not, shall be assignable, transferable or given as collateral or any right with respect to them given to any third party whatsoever, and during the lifetime of the Optionee each and all of such Optionee's rights to purchase Shares hereunder shall be exercisable only by the Optionee.

Any such action made directly or indirectly, for an immediate validation or for a future one, shall be void.

7.2 As long as Options or Shares purchased pursuant to thereto are held by the Trustee on behalf of the Optionee, all rights of the Optionee over the shares are personal, cannot be transferred, assigned, pledged or mortgaged, other than by will or laws of descent and distribution.

7.3 Notwithstanding Section 4.7 of the Plan and in addition thereto, any Notice of Transfer shall be, when applicable, in accordance with the provisions and requirements of Section 102.

## **8. INTEGRATION OF SECTION 102 AND TAX ASSESSING OFFICER'S PERMIT**

8.1 With regards to Approved 102 Options, the provisions of the Plan and/or the Annex and/or the Option Agreement shall be subject to the provisions of Section 102 and the Tax Assessing Officer's permit, and the said provisions and permit shall be deemed an integral part of the Plan and of the Annex and of the Option Agreement.

8.2 Any provision of Section 102 and/or the said permit which is necessary in order to receive and/or to keep any tax benefit pursuant to Section 102, which is not expressly specified in the Plan or the Annex or the Option Agreement, shall be considered binding upon the Corporation and the Optionees.

## **9. DIVIDEND**

Subject to the Corporation's incorporation documents, with respect to all Shares (but excluding, for avoidance of any doubt, any unexercised options) allocated or issued upon the exercise of Options and held by the Optionee or by the Trustee as the case may be, the Optionee shall be entitled to receive dividends in accordance with the quantity of such shares, and subject to any applicable taxation on distribution of dividends, and when applicable subject to the provisions of Section 102

## **10. TAX CONSEQUENCES**

10.1 Notwithstanding Section 5.5 of the Plan and in addition thereto, any tax consequences arising from the grant or exercise of any Option, from the payment for Shares covered thereby or from any other event or act (of the Corporation, and/or its Affiliates, and the Trustee or the Optionee), hereunder, shall be borne solely by the Optionee. The Corporation and/or its Affiliates, and/or the Trustee shall withhold

taxes according to the requirements under the applicable laws, rules, and regulations, including withholding taxes at source. Furthermore, the Optionee shall agree to indemnify the Corporation and/or its Affiliates and/or the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Optionee.

10.2 The Corporation and/or, when applicable, the Trustee shall not be required to release any share certificate to an Optionee until all required payments have been fully made.

10.3 With respect to Unapproved 102 Option, if the Optionee ceases to be employed by the Corporation or any Affiliate, the Optionee shall extend to the Corporation and/or its Affiliate a security or guarantee for the payment of tax due at the time of sale of Shares, all in accordance with the provisions of Section 102 and the rules, regulation or orders promulgated thereunder.

**EXHIBIT “B”**

**OPTION AGREEMENT**

Optionee: \_\_\_\_\_  
 (name)  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 (Address)

Grant: \_\_\_\_\_  
 Maximum Number of Shares

Option Exercise Price: \$ \_\_\_\_\_ per Share

Date of Grant: \_\_\_\_\_, 20\_\_

Expiry Date: \_\_\_\_\_, 20\_\_

Vesting Schedule:

Instalment	Date of Vesting (Milestone)	Number of Optioned Shares Vested	Cumulative Number of Optioned Shares Vested
1			
2			
3			
4			

This Option Agreement is made under and is subject in all respects to the Stock Option Plan dated August 31, 2009 (as may be supplemented and amended from time to time) (the “**Plan**”) of Adira Energy Ltd. (the “**Corporation**”), and the Plan is deemed to be incorporated in and to be part of this Option Agreement. The Optionee is deemed to have notice of and to be bound by all of the terms and provisions of the Plan as if the Plan was set forth in full herein (including the restrictions on transfer of the Options and the Shares issuable upon exercise thereof). In the event of any inconsistency between the terms of this Option Agreement and the Plan, the terms of this Option Agreement shall prevail. The Plan contains provisions respecting termination and/or voiding of the Plan or the Option.

This Option Agreement evidences that the Optionee named above is entitled, subject to and in accordance with the Plan, to purchase up to but not more than the maximum number of Shares set out above at the option Exercise Price set out above upon delivery of an exercise form as annexed hereto duly completed and accompanied by certified cheque or bank draft for the aggregate Exercise Price. All undefined terms contained herein shall have the definitions provided in the Plan.

The Optionee hereby agrees that: (a) any rule, regulation or determination, including the interpretation by the Board of the Plan, the Option granted hereunder and the exercise thereof, is final and conclusive for

all purposes and binding on all Persons including the Corporation or Affiliated Corporation, as the case may be, and the Optionee; and (b) the grant of the Option does not affect in any way the right of the Corporation or any Affiliated Corporation to terminate the services and/or employment of the Optionee.

This Option Agreement has been made in and is to be construed under and in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

This Option Agreement is not effective until countersigned by the Corporation and accepted by the Optionee.

Dated: \_\_\_\_\_, 20\_\_

**ADIRA ENERGY LTD.**

By: \_\_\_\_\_

Name:

Title:

Authorized Signing Officer

I have read the foregoing Option Agreement and hereby accept the Option to purchase Shares in accordance with and subject to the terms and conditions of such Option Agreement and the Plan. I understand that I may review the complete Plan by contacting the Secretary of the Corporation. I agree to be bound by the terms and conditions of the Plan governing the option.

Accepted: \_\_\_\_\_, 20\_\_

\_\_\_\_\_  
Signature of Optionee



**EXHIBIT “C”**

ISRAELI OPTION AGREEMENT

**Optionee:** \_\_\_\_\_  
 (Name)  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 (Address)

**Grant:** \_\_\_\_\_  
 Maximum Number of Shares

- Designation:
- Approved 102 Option:
    - Capital Gain Option (CGO); or
    - Ordinary Income Option (OIO)
  - Unapproved 102 Option
  - 3(i) Option

**Option Exercise Price:** \$ \_\_\_\_\_ per Share

**Date of Grant:** \_\_\_\_\_, 20\_\_\_\_

**Expiry Date:** \_\_\_\_\_, 20\_\_\_\_

**Vesting Schedule:**

Instalment	Date of Vesting (Milestone)	Number of Optioned Shares Vested	Cumulative Number of Optioned Shares Vested
1			
2			
3			
4			

This Option Agreement is made under and is subject in all respects to the Stock Option Plan dated August 31, 2009 (as may be supplemented and amended from time to time) (the “**Plan**”) of Adira Energy Ltd. (the “**Corporation**”), and the Israeli Annex (the “**Israeli Annex**”) deemed to be incorporated in and to be part of this Option Agreement. The Optionee is deemed to have notice of and to be bound by all of the terms and provisions of the Plan and Israeli Annex as if the Plan and Israeli Annex were set forth in full herein (including the restrictions on transfer of the Options and the Shares issuable upon exercise thereof). In the event of any inconsistency between the terms of this Option Agreement and the Plan and Israeli Annex, the terms of this Option Agreement shall prevail. The Plan contains provisions respecting termination and/or voiding of the Plan or the Option.

This Option Agreement evidences that the Optionee named above is entitled, subject to and in accordance with the Plan and Israeli Annex, to purchase up to but not more than the maximum number of Shares set out above at the Option Exercise Price set out above upon delivery of an exercise form as annexed hereto duly completed and accompanied by certified cheque or bank draft for the aggregate Exercise Price. All undefined terms contained herein shall have the definitions provided in the Plan and/or the Israeli Annex.

The Optionee accepts and agrees that with respect to any Approved 102 Option granted, subject to the provisions of Section 102 of the Ordinance, he/she shall not sell or release from trust any Share received by him/her upon the exercise of an Approved 102 Option and/or any share received subsequently following any realization of rights, including without limitation, bonus shares, until the lapse of the Holding Period required under Section 102 of the Ordinance. Notwithstanding the above, the Optionee is aware that if any such sale or release occurs during the Holding Period, the sanctions under Section 102 of the Ordinance shall apply to him/her and shall be borne by him/her.

With respect to Approved 102 Options, the Optionee hereby acknowledges that he/she is familiar with the provisions of Section 102 of the Ordinance, including without limitations the type of Option granted to him/her hereunder and the tax implications applicable to such grant. The Optionee accepts the provisions of the trust agreement signed between the Corporation and the Trustee, attached as Exhibit A hereto, and agree to be bound by its terms.

Should any Unapproved 102 Option be granted to the Optionee, the Optionee hereby agrees that should he/she ceases to be employed by the Corporation or any Affiliated Corporation, he/she shall extend to the Corporation and/or its Affiliated Corporation a security or guarantee for the payment of tax due at the time of sale of Shares, all in accordance with the provisions of Section 102 of the Ordinance.

By signing this Option Agreement the Optionee is aware and agrees that any tax consequences arising from the grant or exercise of any Option, from the payment for Shares covered thereby or from any other event or act (of the Corporation and/or its Affiliated Corporations, the Trustee or the Optionee), hereunder, shall be borne solely by the Optionee. The Corporation and/or its Affiliated Corporations and/or the Trustee shall withhold taxes according to the requirements under the applicable laws, rules, and regulations, including withholding taxes at source. Furthermore, the Optionee hereby accepts to indemnify the Corporation and/or its Affiliated Corporations and/or the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Optionee.

The Optionee will not be entitled to receive from the Corporation and/or the Trustee any Shares allocated or issued upon the exercise of the Options prior to the full payments of the Optionee's tax liabilities arising from Options which were granted and/or Shares issued upon the exercise of Options. For the avoidance of doubt, neither the Corporation nor the Trustee shall be required to release any share certificate to the Optionee until all payments required to be made by the Optionee have been fully satisfied.

Optionee confirms that he understands that Approved 102 Options that do not comply with the requirements of Section 102 shall be considered either 3(i) Options or Unapproved 102 Options as applicable.

Please note that the receipt of the Options and the acquisition of the Shares to be issued upon the exercise of the Options may result in tax consequences. THE OPTIONEE IS ADVISED TO CONSULT A TAX ADVISER WITH RESPECT TO THE TAX CONSEQUENCES OF RECEIVING OR EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

The Optionee hereby agrees that: (a) any rule, regulation or determination, including the interpretation by the Board of the Plan and/or the Israeli Annex, the Option granted hereunder and the exercise thereof, is final and conclusive for all purposes and binding on all Persons including the Corporation or Affiliated Corporation, as the case may be, and the Optionee; and (b) the grant of the Option does not affect in any

way the right of the Corporation or any Affiliated Corporation to terminate the services and/or employment of the Optionee.

This Option Agreement has been made in and is to be construed under and in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

This Option Agreement is not effective until countersigned by the Corporation and accepted by the Optionee.

**Dated:** \_\_\_\_\_, 20\_\_\_\_

**ADIRA ENERGY LTD.**

By: \_\_\_\_\_  
Name:  
Title:  
Authorized Signing Officer

I have read the foregoing Option Agreement and hereby accept the Option to purchase Shares in accordance with and subject to the terms and conditions of such Option Agreement, the Plan and the Israeli Annex. I understand that I may review the complete Plan by contacting the Secretary of the Corporation. I agree to be bound by the terms and conditions of the Plan governing the option.

\_\_\_\_\_  
Signature of Optionee

AGREEMENT

**Entered into and signed in Tel Aviv on the \_\_\_\_ day of \_\_\_\_\_ 2010**

Between: Yardeni-Gelfand Trusts (2000) Ltd.  
(hereinafter: **“the Trustee”**)

A n d Adira Energy Ltd.  
(hereinafter : **“the Allocating Company”**)

A n d Adira Energy Israel Services Ltd.  
(hereinafter : **“the Employing Company”**)

(The Allocating Company and the Employing Company shall hereinafter be referred together as **“the Companies”**)

Without derogating from the contents of the Trust Letter signed between the parties on \_\_\_\_\_ (hereinafter: **“the Trust Letter”**) and in addition to the contents of the Trust Letter, the following provisions shall apply:

1. If the employee has obtained a loan for the purpose of acquiring shares under the Companies' Share Allocation Plan (hereinafter: "**the Plan**"), the shares may not be transferred, assigned, pledged, attached, or have any other voluntary lien placed on them, and no power-of-attorney or transfer instrument shall be issued with respect thereto, whether they are valid immediately or shall become valid at some future date, prior to the employee's having repaid the loan. The Trustee shall not transfer the shares, as aforesaid, except after the Allocating Company having confirmed to him that the employee has repaid the said loan, if granted, for the purpose of acquiring shares under the Plan.
2. Out of any amount to be received in consideration for the sale of all or part of the shares, prior to repayment of the tax liability and/or repayment of the loan with respect thereto, the Trustee shall transfer to the Tax Assessment Officer the amount of tax to be transferred pursuant to Section 102 of the Ordinance and the Income Tax Regulations (Tax Relief on Allocation of Shares to Employees), 5763 - 2003 (hereinafter: "**the Regulations**"), and the Trustee shall, prior to any other transfer, repay the employee's outstanding debt, as the case may be, in respect of the loan, as determined by the Allocating Company.

Should the company notify the Trustee that the employee has not repaid all or part of the loan on due repayment date, in accordance with the Loan Agreement, the Trustee shall sell all or part of the shares in his possession, and shall transfer, out of the proceeds obtained in respect thereof, to the Tax Assessment Officer, the tax due under Section 102 of the Ordinance and Regulations, and repay the employee's outstanding debt to the Company in respect of the loan, as shall be determined by the Company. The remaining amount, to the extent it remains, shall be transferred to the entitled employee.

3. Pursuant to the provisions of Section 5 of the Regulations the Allocating Company undertakes to notify the Trustee of any share allocation close to the date of the allocation, and in any event, no later than 10 days from the date of such allocation. The Trustee shall not be liable toward the employee and/or the Allocating Company and/or any third party (including, but without derogating from the generality of the aforesaid, the income tax authorities and any other government or administrative authority), regarding failure to report of allocations, if such failure derives from negligence or omission on the part of the Allocating Company and/or its representative and/or the employee. The employee and/or the Allocating Company undertake to indemnify the Trustee for such liability and/or concerning any claim and/or demand from any party whatsoever, deriving from failure to report as aforesaid.
4. The Trustee shall bear no responsibility and will be indemnified by the employee and/or the Allocating Company for any expense or loss suffered by him in respect of any payments to be effected by him, including payments pertaining to non-withholding of tax at source in connection with granting the options by virtue of the Plan, exercise thereof, allocation of shares, sale of shares, transfer of shares in the employee's name, payment of dividends, etc., provided the Trustee has acted in good faith and reasonably.
5. The Trustee shall not be liable toward the employee and/or any third party (including, but without derogating from the generality of the aforesaid, the income tax authorities and any other government or administrative authority), with respect to any action taken and/or which shall be taken in connection with the Allocation Plan and any issue related thereto or deriving therefrom, provided the Trustee has acted in good faith and in a reasonable manner. The employee and/or the Allocating Company undertake to indemnify the Trustee for such liability and/or in connection with any claim and/or any demand from any party whatsoever, including the tax authorities, in

connection with the Allocation Plan.

6. The Allocating Company undertakes to notify the Trustee of any distribution of dividend in the Company within seven (7) days from the date of such distribution.
7. The Company representative to be appointed (hereinafter: “**the Contact Person**”) shall be responsible for establishing contact between the Trustee and the Company, regarding all issues arising out or relating to the Trust Letter and this Agreement, including forwarding of documents and necessary information and details. It should be clarified that no direct contact is to be established between the Employing Company's employees and the Trustee, but through the Contact Person.

**IN WITNESS WHEREOF, THE PARTIES HAVE EXECUTED THIS AGREEMENT:**

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The Trustee

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The Allocating Company  
Adira Energy Ltd.

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The Employing Company  
Adira Energy Israel Services Ltd.



**EXHIBIT "E"**

**NOTICE OF TRANSFER**

**To Request Permission to Transfer an Option, Complete and Return This Form Along with the Original Option Agreement**

The undersigned Optionee (or his or her legal representative(s) permitted under the Stock Option Plan of Adira Energy Ltd., dated August 31, 2009 (as the same may be supplemented and amended from time to time) (the "**Plan**") hereby irrevocably requests permission to transfer the Option evidenced by the attached Option Agreement to the undersigned Person(s), each of whom the Optionee hereby certifies is an Eligible Transferee in accordance with Sections 4.5 and 4.8 of the Plan:

**Direction as to Registration:**

\_\_\_\_\_  
Name of Registered Holder(s)

\_\_\_\_\_

\_\_\_\_\_  
Address of Registered Holder(s)

The undersigned Optionee hereby directs such Option(s) to be registered in the name(s) of such Eligible Transferee(s). Unless they are otherwise defined herein, any defined terms used herein shall have the meaning ascribed to such terms in the Plan.

Dated: \_\_\_\_\_, 20\_\_

_____	)	_____
Witness to the Signature of:	)	Name of Optionee
	)	
	)	
	)	

**SCHEDULE "B"**  
**STATEMENT OF GOVERNANCE PRACTICES**

Governance Disclosure Requirement Under the Corporate Governance National Instrument 58-101 ("NI 58-101")	Comments
<b>Board of Directors</b>	
<p>1. Board of Directors—Disclose how the Board facilitates its exercise of independent supervision over management, including</p> <p>(i) the identity of directors that are independent, and</p> <p>(ii) the identity of directors who are not independent, and the basis for that determination.</p>	<p>As of the date hereof, the Board consists of a total of three directors of which Messrs. Bennie and Rootenberg are considered "independent", as such term is defined in NI 58-101.</p> <p>Mr. Friedman is not considered independent as he is currently an officer of the Corporation.</p>
<p>2. Directorships—If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.</p>	<p>Mr. Friedman: Eco (Atlantic) Oil &amp; Gas Ltd. (TSXV: EOG) Emerge Resources Corp. (TSXV: EME) PharmaCan Capital Corp. (TSXV: MJN)</p>
<b>Orientation and Continuing Education</b>	
<p>3. Describe what steps, if any, the Board takes to orient new Board members, and describe any measures the Board takes to provide continuing education for directors.</p>	<p>The Board is responsible for the orientation and education of new recruits to the Board. Prior to joining the Board, each new Director will meet with the Chairman, the CEO and the CFO of the Corporation. Each such officer shall be responsible for outlining the business and prospects of the Corporation, both positive and negative, with a view to ensuring that the new Director is properly informed to commence his or her duties as a Director. Each new Director will also be given the opportunity to meet with the auditors and counsel to the Corporation. As part of the annual board assessment process the Board determines whether any additional education and training is required for Directors.</p> <p>While the Corporation does not yet have a formal continuing education program, the directors individually and as a group are encouraged to keep themselves informed on changing corporate governance and legal issues. Directors are individually responsible for updating their skills required to meet their obligations as directors. In addition, the Board undertakes thorough strategic planning sessions with management.</p>
<b>Ethical Business Conduct</b>	
<p>4. Describe what steps, if any, the Board takes to encourage and promote a culture of ethical business conduct.</p>	<p>The Directors have adopted a Code of Business Conduct (the "Code") applicable to all employees and officers of the Corporation and all Directors to highlight key issues and identify resources available to them in order to assist them in reaching appropriate decisions. A copy of the Code may be obtained on written request addressed to the CEO of the Corporation. The Board monitors compliance with the Code and Management provides an annual report to the Board regarding issues, if any, arising under the Code.</p>



Governance Disclosure Requirement Under the Corporate Governance National Instrument 58-101 (“NI 58-101”)	Comments
<b>Nomination of Directors</b>	
<p>5. Disclose what steps, if any, are taken to identify new candidates for Board nomination, including: (i) who identifies new candidates, and (ii) the process of identifying new candidates.</p>	<p>The Board is responsible for, among other things, identifying suitable candidates to be recommended for election to the Board by Shareholders or appointment by the Directors, subject to the limits in the Corporation’s articles and the <i>Canada Business Corporations Act</i>. One of the objectives of the Board with respect to the nomination is to maintain the composition of the Directors in a way that provides the best mix of skills and experience to guide the long-term strategy and ongoing business operations of the Corporation.</p> <p>The Board is to conduct an annual review and assessment of the performance of the senior executive officers of the Corporation.</p> <p>The Board reviews and monitors the executive development programs of the Corporation and the long-range plans and personnel policies for recruiting, developing and motivating executives of the Corporation. The Board has reviewed and approved the qualifications of each of the Board nominees standing for election.</p>
<b>Compensation</b>	
<p>6. Disclose what steps, if any, are taken to determine compensation for the directors and CEO, including: (i) who determines compensation, and (ii) the process of determining compensation.</p>	<p>The Compensation Committee was established in July of 2010 and is responsible for conducting an annual review of the performance of the Corporation and its senior executive officers. The results of this annual review are to be communicated to the Board who then makes an evaluation of the overall performance of the Corporation and its senior executive officers. This performance evaluation is communicated to the senior executive officers by the Chair and the Chair of the Compensation Committee. The evaluation is to be used by the Compensation Committee in its deliberations concerning the senior executive officers’ annual compensation. The Compensation Committee is also responsible for reviewing the compensation of the Directors on an annual basis, taking into account such matters as time commitment, responsibility and compensation provided by comparable organizations.</p>
<b>Other Board Committees</b>	
<p>7. If the Board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.</p>	<p><i>Disclosure Committee</i></p> <p>The Disclosure Committee is comprised of Messrs. Bennie and Friedman. The purpose of the Disclosure Committee is to evaluate the effectiveness of the Corporation’s disclosure procedures and help to assess the quality of the public disclosure of the Corporation.</p>
<b>Assessments</b>	
<p>8. Disclose what steps, if any, that the Board takes to satisfy itself that the Board, its committees, and its individual directors are performing effectively.</p>	<p>The Board is responsible to make an annual assessment of the overall performance of the Directors as a group and to report its findings to the full Board. The assessment examines the effectiveness of the Directors as a whole and specifically reviews areas that the Directors and/or Management believe could be improved to ensure the continued effectiveness of the Directors in the execution of their responsibilities.</p>

**SCHEDULE "C"**  
**AUDIT COMMITTEE CHARTER**

**ADIRA ENERGY LTD. (the "Corporation")**

**(Implemented pursuant to National Instrument 52-110 (the "Instrument"))**

The current version of the Instrument, which relates to the composition and function of audit committees, applies to every reporting issuer, including the Corporation. The Instrument requires all affected issuers to have a written audit committee charter which must be disclosed, as stipulated by Form 52-110F2, in the information circular of the Corporation wherein management solicits proxies from the security holders of the Corporation for the purpose of electing directors to the board of directors.

This audit committee charter has been adopted by the board of directors of the Corporation in order to comply with the Instrument and to define the role of the Corporation's audit committee in relation to the oversight of the financial reporting processes of the Corporation. Nothing in this audit committee charter is intended to restrict the ability of the board of directors or the audit committee of the Corporation to alter or vary procedures in order to comply more fully with the Instrument, as amended from time to time.

**Committee Role**

The committee's role is to act on behalf of the board of directors and oversee all material aspects of the company's reporting, control, and audit functions, except those specifically related to the responsibilities of another standing committee of the board. The audit committee's role includes a particular focus on the qualitative aspects of financial reporting to shareholders and on company processes for the management of business/financial risk and for compliance with significant applicable legal, ethical, and regulatory requirements.

In addition, the committee responsible for: (1) selection and oversight of our independent accountant; (2) establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls and auditing matters; (3) establishing procedures for the confidential, anonymous submission by our employees of concerns regarding accounting and auditing matters; (4) establishing internal financial controls; (5) engaging outside advisors; and, (6) funding for the outside auditor and any outside advisors engagement by the audit committee.

The role also includes coordination with other board committees and maintenance of strong, positive working relationships with management, external and internal auditors, counsel, and other committee advisors.

**Committee Membership**

The committee shall consist solely of independent directors (as such term is defined by Securities law) as appointed by the board of directors from time to time. The committee shall have access to its own counsel and other advisors at the committee's sole discretion.

**Committee Operating Principles**

The committee shall fulfill its responsibilities within the context of the following overriding principles:

(1) Communications - The chairperson and others on the committee shall, to the extent appropriate, have contact throughout the year with senior management, other committee chairpersons, and other key

committee advisors, external and internal auditors, etc., as applicable, to strengthen the committee's knowledge of relevant current and prospective business issues.

(2) Committee Education/Orientation - The committee, with management, shall develop and participate in a process for review of important financial and operating topics that present potential significant risk to the company. Additionally, individual committee members are encouraged to participate in relevant and appropriate self-study education to assure understanding of the business and environment in which the company operates.

(3) Annual Plan - The committee, with input from management and other key committee advisors, shall develop an annual plan responsive to the "primary committee responsibilities" detailed herein. The annual plan shall be reviewed and approved by the full board.

(4) Meeting Agenda - Committee meeting agendas shall be the responsibility of the committee chairperson, with input from committee members. It is expected that the chairperson would also ask for management and key committee advisors, and perhaps others, to participate in this process.

(5) Committee Expectations and Information Needs - The committee shall communicate committee expectations and the nature, timing, and extent of committee information needs to management, internal audit, and external parties, including external auditors. Written materials, including key performance indicators and measures related to key business and financial risks, shall be received from management, auditors, and others at least one week in advance of meeting dates. Meeting conduct will assume board members have reviewed written materials in sufficient depth to participate in committee/board dialogue.

(6) External Resources -The committee shall be authorized to access internal and external resources, as the committee requires, to carry out its responsibilities.

(7) Committee Meeting Attendees - The committee shall request members of management, counsel, internal audit, and external auditors, as applicable, to participate in committee meetings, as necessary, to carry out the committee responsibilities. Periodically and at least annually, the committee shall meet in private session with only the committee members. It shall be understood that either internal or external auditors, or counsel, may, at any time, request a meeting with the audit committee or committee chairperson with or without management attendance. In any case, the committee shall meet in executive session separately with internal and external auditors, at least annually.

(8) Reporting to the Board of Directors - The committee, through the committee chairperson, shall report periodically, as deemed necessary, but at least semi-annually, to the full board. In addition, summarized minutes from committee meetings, separately identifying monitoring activities from approvals, shall be available to each board member at least one week prior to the subsequent board of directors meeting.

(9) Committee Self Assessment - The committee shall review, discuss, and assess its own performance as well as the committee role and responsibilities, seeking input from senior management, the full board, and others. Changes in role and/or responsibilities, if any, shall be recommended to the full board for approval.

#### **Meeting Frequency**

The committee shall meet at least once per year, as necessary. Additional meetings shall be scheduled as considered necessary by the committee or chairperson,

### **Reporting to Shareholders**

The committee shall make available to shareholders a summary report on the scope of its activities. This may be identical to the report that appears in the company's annual Form 10-KSB.

### **Committee's Relationship with External and Internal Auditors**

- (1) The external auditors, in their capacity as independent public accountants, shall be responsible to the board of directors and the audit committee as representatives of the shareholders.
- (2) As the external auditors review financial reports, they will be reporting to the audit committee. They shall report all relevant issues to the committee responsive to agreed-on committee expectations. In executing its oversight role, the board or committee should review the work of external auditors.
- (3) The committee shall annually review the performance (effectiveness, objectivity, and independence) of the external and internal auditors. The committee shall ensure receipt of a formal written statement from the external auditors consistent with standards set by the Independent Standards Board and the Securities and Exchange Commission. Additionally, the committee shall discuss with the auditor relationships or services that may affect auditor objectivity or independence. If the committee is not satisfied with the auditors' assurances of independence, it shall take or recommend to the full board appropriate action to ensure the independence of the external auditor.
- (4) The internal audit function shall be responsible to the board of directors through the committee.
- (5) If either the internal or the external auditors identify significant issues relative to the overall board responsibility that have been communicated to management but, in their judgment, have not been adequately addressed, they should communicate these issues to the committee chairperson.
- (6) Changes in the directors of internal audit or corporate compliance shall be subject to committee approval.

### **Primary Committee Responsibilities**

#### ***Monitor Financial Reporting and Risk Control Related Matters***

The committee should review and assess:

- (1) Risk Management - The company's business risk management process, including the adequacy of the company's overall control environment and controls in selected areas representing significant financial and business risk.
- (2) Annual Reports and Other Major Regulatory Filings - All major financial reports in advance of filings or distribution.
- (3) Internal Controls and Regulatory Compliance - The company's system of internal controls for detecting accounting and reporting financial errors, fraud and defalcations, legal violations, and noncompliance with the corporate code of conduct.
- (4) Internal Audit Responsibilities - The annual audit plan and the process used to develop the plan. Status of activities, significant findings, recommendations, and management's response

(5) Regulatory Examinations - SEC inquiries and the results of examinations by other regulatory authorities in terms of important findings, recommendations, and management's response.

(6) External Audit Responsibilities - Auditor independence and the overall scope and focus of the annual/interim audit, including the scope and level of involvement with unaudited quarterly or other interim-period information.

(7) Financial Reporting and Controls - Key financial statement issues and risks, their impact or potential effect on reported financial information, the processes used by management to address such matters, related auditor views, and the basis for audit conclusions. Important conclusions on interim and/or year-end audit work in advance of the public release of financials.

(8) Auditor Recommendations - Important internal and external auditor recommendations on financial reporting, controls, other matters, and management's response. The views of management and auditors on the overall quality of annual and interim financial reporting.

The committee should review, assess, and approve:

(1) The code of ethical conduct,

(2) Changes in important accounting principles and the application thereof in both interim in and annual financial reports.

(3) Significant conflicts of interest and related-party transactions.

(4) External auditor performance and changes in external audit firm (subject to ratification by the full board).

(5) Internal auditor performance and changes in internal audit leadership and/or key financial management.

(6) Procedures for whistle blowers.

(7) Pre-approve allowable services to be provided by the auditor.

(8) Retention of complaints.