

**ARRANGEMENT AGREEMENT**

**BETWEEN**

**SEA DRAGON ENERGY INC.**

**- AND -**

**MADISON PETROGAS LTD.**

**18 AUGUST 2015**

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EXHIBIT A – Arrangement Resolution

EXHIBIT B – Plan of Arrangement

## ARRANGEMENT AGREEMENT

THIS ARRANGEMENT AGREEMENT dated as of 18 August 2015.

### BETWEEN:

**SEA DRAGON ENERGY INC.**, a corporation existing under the Canada Business Corporations Act (hereinafter referred to as “**Sea Dragon**”)

AND

**MADISON PETROGAS LTD.**, a corporation existing under the laws of the Province of Alberta (hereinafter referred to as “**Madison**”)

### WHEREAS:

- A. Sea Dragon wishes to acquire all of the issued and outstanding Madison Shares;
- B. Sea Dragon and Madison wish to propose an arrangement involving, among other things, the acquisition by Sea Dragon of all of the issued and outstanding Madison Shares on the basis of 16.7 Sea Dragon Shares for each Madison Share or 0.477143 of a Sea Dragon Share for each Madison Share after giving effect to the Sea Dragon Consolidation (as defined below);
- C. the Parties intend to carry out the transactions contemplated herein by way of a plan of arrangement under the provisions of the ABCA; and
- D. the Parties have entered into this Agreement to provide for the matters referred to in the foregoing recitals and for other matters relating to such arrangement;

**NOW THEREFORE**, in consideration of the covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the Parties hereby covenant and agree as follows:

## ARTICLE 1 INTERPRETATION

### 1.1 Definitions

In this Agreement, including the recitals hereto, the following defined terms have the meanings hereinafter set forth:

- (a) “**ABCA**” means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;
- (b) “**Acquisition Proposal**” means, with respect to Sea Dragon or Madison, as the case may be, any inquiry or the making of any offer or proposal to such Party or its securityholders from any Person or Persons “acting jointly or in concert” (within the meaning of MI 62-104), whether or not subject to due diligence or other conditions or whether or not in writing, prior to the termination of this Agreement or consummation of the Arrangement, as applicable, which constitutes, or may reasonably be expected to lead to (in either case whether in one transaction or a series of transactions):
  - (i) any direct or indirect sale, issuance or acquisition of shares or other equity interests (or securities convertible into or exercisable for such shares or interests) in such Party representing 20% or more of the issued and outstanding voting securities in such Party;
  - (ii) any direct or indirect acquisition or purchase (or any lease, joint venture, acquisition of a royalty interest, farm-in, farm-out, development agreement, long-term supply

agreement or other arrangement having the same economic effect as an acquisition or purchase) of assets of such Party representing 20% or more of the consolidated assets of such Party;

- (iii) an amalgamation, arrangement, merger, business combination, consolidation or other similar transaction involving such Party;
  - (iv) a take-over bid, tender offer, issuer bid, exchange offer, recapitalization, liquidation, dissolution, reorganization or other similar transaction involving such Party or any of its subsidiaries; or
  - (v) any other transaction, the consummation of which would or could reasonably be expected to impede, interfere with, prevent or delay the transactions contemplated by this Agreement or the Arrangement or which would or could reasonably be expected to materially reduce the benefits to the Other Party under this Agreement or the Arrangement;
  - (vi) except that for the purpose of the definition of “**Superior Proposal**” in Section 1.1(hhhh), the references in the definition of “**Acquisition Proposal**” to “20% or more of the issued and outstanding voting securities” shall be deemed to be references to “50% or more of the issued and outstanding voting securities”, and the references to “20% or more of the consolidated assets” shall be deemed to be references to “all or substantially all of the consolidated assets”;
- (c) “**Agreement**”, “**herein**”, “**hereof**”, “**hereto**”, “**hereunder**” and similar expressions mean and refer to this arrangement agreement (including the exhibits hereto) as supplemented, modified or amended, and not to any particular article, section, exhibit or other portion hereof;
  - (d) “**Applicable Securities Laws**” means, collectively, with respect to Madison or Sea Dragon, the securities legislation of each of the provinces and territories of Canada which are applicable to Sea Dragon or Madison and, with respect to Sea Dragon, the rules, regulations, instruments, orders and policies published and/or promulgated thereunder, the rules and policies of the TSXV, each as such may be amended from time to time prior to the Effective Date;
  - (e) “**Applicable Laws**”, in the context that refers to one or more Persons, means any domestic or foreign, federal, state, provincial or local law (statutory, common or otherwise), constitution, treaty, convention, ordinance, code, rule, regulation, order, injunction, judgment, decree, ruling or other similar requirement enacted, adopted, promulgated or applied by a Governmental Authority, and any terms and conditions of any grant of approval, permission, authority or license of any Governmental Authority, that is binding upon or applicable to such Person or Persons or its or their business, undertaking, property or securities and emanate from a Person having jurisdiction over the Person or persons or its or their business, undertaking, property or securities;
  - (f) “**Arrangement**” means the arrangement under the provisions of section 193 of the ABCA, on the terms and conditions set forth herein and in the Plan of Arrangement as supplemented, modified or amended or made at the direction of the Court in the Final Order;
  - (g) “**Arrangement Resolution**” means the special resolution of the Madison Shareholders in respect of the Arrangement to be considered at the Madison Meeting substantially in the form attached hereto as Exhibit “A” hereto;
  - (h) “**Articles of Arrangement**” means the articles of arrangement to be prepared by Madison, with the cooperation, consultation and prior approval of Sea Dragon, acting reasonably, as provided for herein, in respect of the Arrangement required under subsection 193(10) of the ABCA to be sent to the Registrar for filing after the Final Order has been granted, giving effect to the Arrangement;

- (i) **“Business Day”** means a day other than a Saturday, Sunday or other day when banks in the City of Calgary, Alberta and London, England are not generally open for business;
- (j) **“BDO”** means BDO Canada LLP;
- (k) **“CBCA”** means the *Canada Business Corporations Act*, as amended, including the regulations promulgated thereunder;
- (l) **“Certificate”** means the certificate or other confirmation of filing to be issued by the Registrar pursuant to subsection 193(11) of the ABCA giving effect to the Arrangement;
- (m) **“Confidentiality Agreements”** means the confidentiality agreements dated 1 July 2015 and 6 July 2015 between Sea Dragon and Madison;
- (n) **“Contract”** means, with respect to a Party, a contract, lease, instrument, note, bond, debenture, mortgage, agreement, arrangement or understanding, written or oral, to which such Party, or any of its subsidiaries, is a Party or under which such Party or any of its subsidiaries is bound, has unfulfilled obligations or contingent liabilities or is owed unfulfilled obligations, whether known or unknown, and whether asserted or not;
- (o) **“Court”** means the Court of Queen’s Bench of Alberta;
- (p) **“Depository”** means Equity Financial Trust Company or such other Person that may be appointed by and at the expense of Sea Dragon for the purpose of receiving deposits of certificates formerly representing Madison Shares;
- (q) **“Disclosed Personal Information”** has the meaning ascribed thereto in Section 4.3(b);
- (r) **“Dissent Rights”** means the rights of dissent granted in favour of registered Madison Shareholders in respect of the Arrangement to be described in the Plan of Arrangement;
- (s) **“distribution”** means “distribution” or “distribution to the public”, as the case may be, as defined under Applicable Securities Laws; and “distribute” has a corresponding meaning;
- (t) **“Effective Date”** has the meaning ascribed thereto in Section 2.1(e);
- (u) **“Effective Time”** means the time at which Articles of Arrangement are filed with the Registrar on the Effective Date;
- (v) **“Encumbrances”** means, in the case of property or an asset, all mortgages, pledges, charges, liens, debentures, hypothecs, trust deeds, outstanding demands, burdens, capital leases, assignments by way of security, security interests, conditional sales contracts or other title retention agreements or similar interests or instruments charging, or creating a security interest in, or against title to, such property or assets, or any part thereof or interest therein, and any agreements, leases, options, easements, rights of way, restrictions, executions or other charges or encumbrances (including notices or other registrations in respect of any of the foregoing) (whether by Applicable Laws, contract or otherwise) against title to any of the property or assets, or any part thereof or interest therein;
- (w) **“Environmental Approvals”** means all permits, certificates, licences, authorizations, consents, instructions, registrations, directions or approvals issued or required by Governmental Authorities pursuant to Environmental Laws;
- (x) **“Environmental Laws”** means, with respect to any Person or its business, activities, property, assets or undertaking, all Applicable Laws, relating to environmental or health and safety matters of the jurisdiction applicable to such Person or its business activities, property, assets or undertaking including legislation governing the use, transportation, handling, manufacture, generation and storage of Hazardous Substances and the plugging of wells;

- (y) “**Final Order**” means the order of the Court approving the Arrangement to be granted pursuant to subsection 193(9) of the ABCA in respect of Madison Shareholders, Madison and Sea Dragon, as such order may be affirmed, amended or modified by the Court (with the consent of both Madison and Sea Dragon, each acting reasonably) at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended (provided that such amendment is acceptable to both Madison and Sea Dragon, each acting reasonably) on appeal;
- (z) “**FirstEnergy**” means FirstEnergy Capital Corp., financial advisors to Madison;
- (aa) “**Governmental Authority**” means any
- (i) national, federal, provincial, state, regional, municipal, local or other government or any governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau ministry or agency, domestic or foreign;
  - (ii) any subdivision, agent, commission, board or authority of any of the foregoing;
  - (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing; and
  - (iv) any stock exchange, including the TSXV;
- (bb) “**Governmental Authorizations**” means all licences, permits, certificates, consents, orders, grants, registrations, recognition orders, exemption relief orders, no-action relief and other authorizations (including in connection with Environmental Laws) from any Governmental Authority;
- (cc) “**Hazardous Substances**” means any pollutant, contaminant, waste of any nature, hazardous substance, hazardous material, toxic substance, dangerous substance or dangerous good as defined, judicially interpreted or identified in any Environmental Laws;
- (dd) “**IFRS**” means International Financial Reporting Standards and interpretations as issued by the International Accounting Standards Board;
- (ee) “**Interim Order**” means an interim order of the Court concerning the Arrangement under subsection 193(4) of the ABCA, containing declarations and directions with respect to the Arrangement and the holding of the Madison Meeting, as such order may be affirmed, amended or modified by any court of competent jurisdiction;
- (ff) “**Investment Canada Act**” means the *Investment Canada Act*, R.S.C. 1985, c. 28 (1st Supp.), as amended;
- (gg) “**ITA**” means the *Income Tax Act (Canada)*, R.S.C. 1985, c. 1 (5th Supp.), as amended, including the regulations promulgated thereunder, as amended from time to time;
- (hh) “**Madison**” means Madison PetroGas Ltd., a corporation existing under the ABCA;
- (ii) “**Madison Board**” means the board of directors of Madison as it may be comprised from time to time including any duly constituted and acting committee thereof;
- (jj) “**Madison Budget**” has the meaning ascribed thereto in Section 3.3(h)(ii);
- (kk) “**Madison Concession Documents**” means, collectively, the concession agreements, development leases and joint operating agreements entered into by Madison in connection with the Madison Projects, all as described in the Madison Disclosure Letter;
- (ll) “**Madison Damages Event**” has the meaning ascribed thereto in Section 6.3;

- (mm) “**Madison Disclosure Letter**” means the disclosure letter dated the date hereof from Madison to Sea Dragon as may be amended or supplemented by agreement between Madison and Sea Dragon prior to the Effective Time;
- (nn) “**Madison Financial Statements**” means, collectively, (i) the audited financial statements of Madison as at and for the fiscal years ended 31 December 2013 and 31 December 2014, together with the notes thereto and the auditors’ report thereon and (ii) the unaudited financial statements of Madison as at and for the three month period ended 31 March 2015;
- (oo) “**Madison Group**” has the meaning ascribed thereto in Section 4.2(c);
- (pp) “**Madison Information**” means the information to be included in the Sea Dragon Information Circular describing Madison and the business, operations and affairs of Madison as required by Applicable Laws and the Interim Order and the matters to be considered at the Sea Dragon Shareholders’ Meeting;
- (qq) “**Madison Information Circular**” means the management information circular and proxy statement of Madison, together with all appendices thereto, to be mailed or otherwise distributed by Madison to the Madison Shareholders in connection with the Madison Meeting;
- (rr) “**Madison Material Contracts**” has the meaning ascribed thereto in Section 4.2(aa);
- (ss) “**Madison Nominees**” means each of Michael Doyle, David Mitchell, David Richards and Barrie Wright;
- (tt) “**Madison Optionholders**” means holders of Madison Options;
- (uu) “**Madison Option Plan**” means the Madison share option plan effective 31 August 2006 and the agreements thereunder;
- (vv) “**Madison Options**” means the outstanding stock options of Madison, whether or not vested, entitling the holders thereof to acquire Madison Shares;
- (ww) “**Madison Plans**” has the meaning ascribed thereto in Section 4.2(bb);
- (xx) “**Madison Projects**” means all of Madison’s direct and indirect ownership or interests in the Bakassi West Block, Cameroon and the West Gharib G&H Blocks, Egypt which are described in the Madison Disclosure Letter;
- (yy) “**Madison Public Record**” means all information posted by or on behalf of Madison after 31 December 2013 on its website ([www.madison.petro.com](http://www.madison.petro.com));
- (zz) “**Madison Related Parties**” has the meaning ascribed thereto in Section 4.2(q);
- (aaa) “**Madison Reserve Report**” has the meaning ascribed thereto in Section 4.2(t).
- (bbb) “**Madison Shares**” means the common shares in the capital of Madison;
- (ccc) “**Madison Shareholders**” means holders of Madison Shares;
- (ddd) “**Madison Meeting**” means the special meeting of Madison Shareholders to be held to consider the Arrangement Resolution and related matters, and any adjournment(s) thereof;
- (eee) “**Madison Termination Fee**” has the meaning ascribed thereto in Section 6.3;
- (fff) “**Madison Transaction Costs**” means all the costs of Madison in connection with this Agreement and the Arrangement, including, without limitation, estimated fees and expenses of financial, legal, accounting and engineering advisors, printing, mailing and shareholder communication costs and the Madison Meeting costs;



- (ggg) **“Madison Voting Agreements”** means a voting support agreement in form and substance satisfactory to Sea Dragon, acting reasonably, between Sea Dragon and each of the directors and officers of Madison pursuant to which each such Person agrees, among other things, not to dispose of their Madison Shares prior to the Effective Date, to vote in favour of the Arrangement Resolution and to otherwise support the Arrangement;
- (hhh) **“Madison Warrants”** means the common share purchase warrants of Madison to acquire Madison Shares;
- (iii) **“Madison Warrantholders”** means holders of Madison Warrants;
- (jjj) **“Madison Warrant Indenture”** means the warrant indenture dated 27 July 2012, as amended by a first supplemental indenture dated 17 April 2014, between Madison and Alliance Trust Company;
- (kkk) **“Material Adverse Change”** or **“Material Adverse Effect”** means, with respect to Madison or Sea Dragon, as the case may be, any fact or state of facts, circumstance, change, effect, occurrence or event that individually or in the aggregate is, or would reasonably be expected to be, material and adverse to the condition (financial or otherwise), business, operations, properties, licenses, permits, concessions, affairs, assets, liabilities (contingent or otherwise), capitalization, production, results of operations or cash flows of Madison or Sea Dragon and their respective subsidiaries, taken as a whole, as the case may be, or would reasonably be expected to prevent or materially delay the consummation of the Arrangement, other than any such change, effect, occurrence or event relating to or resulting from:
- (i) conditions affecting the oil and gas industry generally in jurisdictions in which Madison or Sea Dragon, as the case may be, carries on business, and not specifically relating to Madison or Sea Dragon, as the case may be, including changes in royalties, Applicable Laws or Taxes;
  - (ii) general economic, financial, currency exchange, securities or commodity prices in Canada or elsewhere;
  - (iii) in the case of Madison, any matter which has been publicly disclosed by Madison in the Madison Public Record or has been communicated in writing to Sea Dragon, in each case prior to the date of this Agreement, and in the case of Sea Dragon, any matter which has been publicly disclosed by Sea Dragon in the Sea Dragon Public Record or has been communicated in writing to Madison, in each case prior to the date of this Agreement; except in each case to the extent of any changes, effects, facts or state of facts, circumstances, occurrences or events that arise after the date hereof;
  - (iv) any acts of God, riots, terrorism, sabotage, earthquakes, epidemics, military action or war (whether or not declared), change in global, national or regional political conditions, civil unrest or similar event or any escalation or worsening thereof, as applicable;
  - (v) any change in applicable generally accepted accounting principles generally applicable to the oil and gas industry, including IFRS; or
  - (vi) any change, effect or circumstance arising from the actions or matters permitted or contemplated by this Agreement, or consented to or approved in writing by the other Party, including the public announcement of this Agreement;
  - (vii) in the case of Sea Dragon, relating to a change in the market price or trading volume of the Sea Dragon Shares:
    - (A) as a result of this Agreement and the Arrangement or the announcement thereof; or

(B) as a result of a change, effect, event of occurrence excluded from the definition of Material Adverse Effect under Section 1.1 (kkk)(i) or 1.1(kkk)(ii); or

(viii) in the case of Madison, any matter expressly disclosed by the Madison Disclosure Letter or this Agreement or consented to in writing by Sea Dragon after the date hereof, and in the case of Sea Dragon, any matter expressly disclosed by the Sea Dragon Disclosure Letter or this Agreement or consented to in writing by Madison after the date hereof, or, in all cases, occurring as a direct result hereof;

provided, however that the change or effect referred to in Section 1.1(kkk)(i), 1.1(kkk)(ii), 1.1(kkk)(iv) or 1.1(kkk)(v) does not primarily relate only to (or have the effect of primarily relating only to) Madison or Sea Dragon, as the case may be, or disproportionately affects either Madison or Sea Dragon and their respective subsidiaries, taken as a whole, as the case may be, compared to other entities of similar size operating in the oil and gas industry, in which case, the relevant exclusion from this definition of Material Adverse Change or Material Adverse Effect referred to above shall not be applicable;

- (lll) “**MI 62-104**” means Multilateral Instrument 62-104 – Take Over Bids and Issuer Bids;
- (mmm) “**Misrepresentation**”, “**Material Change**” and “**Material Fact**” have the meanings ascribed thereto under the Applicable Securities Laws;
- (nnn) “**Non-Retained Employees**” has the meaning ascribed thereto in Section 2.6(a);
- (ooo) “**Other Party**” means: (i) with respect to Sea Dragon, Madison; and (ii) with respect to Madison, Sea Dragon;
- (ppp) “**Outside Date**” means 5 October 2015 or such other date as the Parties may agree;
- (qqq) “**Parties**” means, collectively, the parties to this Agreement, and “**Party**” means any one of them;
- (rrr) “**Permitted Encumbrances**” means: (i) any overriding royalties, net profits interests or other encumbrances applicable to the interests of a Party in its petroleum and natural gas rights and leases and all related tangibles, equipment, facilities and miscellaneous interests as taken into account in the Madison Reserve Report or the Sea Dragon Reserve Report, as applicable; (ii) easements, rights of way, servitudes or other similar rights, including, without limitation, rights of way for highways, railways, sewers, drains, gas or oil pipelines, gas or water mains, electric light, power, telephone or cable television towers, poles, and wires; (iii) the regulations and any rights reserved to or vested in any municipality or governmental, statutory or public authority to levy taxes or to control or regulate any Party’s interests in any manner, including, without limitation, the right to control or regulate production rates and the conduct of operations; (iv) the rights reserved by the other parties by the terms of the Madison Concession Documents or the Sea Dragon Concession Documents, as applicable; (v) the reservations, limitations, provisos and conditions in any original grants from the Government of Egypt or Cameroon of any of the Madison Projects or Sea Dragon Projects, as the case may be, or any interest therein and statutory exceptions to title; (vi) undetermined or inchoate liens incurred or created in the ordinary course of business as security for a Party’s share of the costs and expenses of the development or operation of any of its assets, which costs and expenses are not delinquent as of the Effective Time; (vii) undetermined or inchoate mechanics’ liens and similar liens for which payment for services rendered or goods supplied is not delinquent as of the Effective Time; (viii) liens granted in the ordinary course of business to a Governmental Authority respecting operations pertaining to petroleum and natural gas rights; (ix) any encumbrances under a Party’s existing credit facilities; and (x) in respect of Sea Dragon, any other circumstance, matter or thing disclosed in the Sea Dragon Disclosure Letter;
- (sss) “**Person**” includes any individual, firm, partnership, joint venture, venture capital fund, association, trust, trustee, executor, administrator, legal personal representative, estate group,

body corporate, corporation, unincorporated association or organization, Governmental Authority, syndicate or other entity, whether or not having legal status;

- (ttt) **“Plan of Arrangement”** means the plan of arrangement under the ABCA substantially in the form set forth in Exhibit “B” to this Agreement, as such plan of arrangement may be amended or supplemented from time to time in accordance with the terms thereof and hereof;
- (uuu) **“PNGs”** means petroleum, natural gas and related hydrocarbons;
- (vvv) **“Registrar”** means the Registrar of Corporations or the Deputy Registrar of Corporations appointed pursuant to section 263 of the ABCA;
- (www) **“Retained Employees”** means those Madison and Sea Dragon employees that a Party has advised the Other Party in writing that such Party intends to retain as employees and that have waived any severance or change of control payments resulting from the Arrangement;
- (xxx) **“Ryder Scott”** means Ryder Scott Company Canada, an independent qualified reserve evaluator;
- (yyy) **“Sea Dragon”** means Sea Dragon Energy Inc., a corporation existing under the CBCA;
- (zzz) **“Sea Dragon Board”** means the board of directors of Sea Dragon, as it may be comprised from time to time, including any duly constituted and acting committee thereof;
- (aaaa) **“Sea Dragon Budget”** has the meaning ascribed thereto in Section 3.1(h)(ii);
- (bbbb) **“Sea Dragon Concession Documents”** means, collectively, the concession agreements, development leases and joint operating agreements entered into by Sea Dragon in connection with the Sea Dragon Projects, all as described in the Sea Dragon Disclosure Letter;
- (cccc) **“Sea Dragon Consolidation”** means the consolidation of the Sea Dragon Shares on a 35 to 1 basis;
- (dddd) **“Sea Dragon Consolidation Resolution”** means the special resolution of the Sea Dragon Shareholders to authorize and approve the Sea Dragon Consolidation;
- (eeee) **“Sea Dragon Continuing Directors”** means Paul Moase and Paul Welch;
- (ffff) **“Sea Dragon Credit Facility”** means the agreement amongst Sea Dragon, certain subsidiaries of Sea Dragon, BNP Paribas, HSBC Bank PLC and certain affiliates of BNP Paribas and HSBC Bank PLC dated 23 September 2011, as amended on 25 September 2013 and 17 December 2014 and further amended and restated on 21 April 2015;
- (gggg) **“Sea Dragon Damages Event”** has the meaning ascribed thereto in Section 6.1;
- (hhhh) **“Sea Dragon Disclosure Letter”** means the disclosure letter dated the date hereof from Sea Dragon to Madison as may be amended or supplemented by agreement between Sea Dragon and Madison prior to the Effective Time;
- (iiii) **“Sea Dragon Financial Statements”** means collectively, (i) the audited consolidated financial statements of Sea Dragon as at and for the fiscal years ended 31 December 2013 and 31 December 2014, together with the notes thereto and the auditors’ report thereon and (ii) the unaudited financial statements of Sea Dragon as at and for the three month period ended 31 March 2015;
- (jjjj) **“Sea Dragon Group”** has the meaning ascribed thereto in Section 4.1(c);
- (kkkk) **“Sea Dragon Information”** means the information to be included in the Madison Information Circular describing Sea Dragon and the business, operations and affairs of Sea Dragon as

required by Applicable Laws and the Interim Order and the matters to be considered at the Madison Meeting;

- (llll) **“Sea Dragon Information Circular”** means the management information circular and proxy statement of Sea Dragon, together with all appendices thereto, to be mailed or otherwise distributed by Sea Dragon to the Sea Dragon Shareholders in connection with the Sea Dragon Shareholders’ Meeting;
- (mmmm) **“Sea Dragon Material Contracts”** has the meaning ascribed thereto in Section 4.1(dd);
- (nnnn) **“Sea Dragon Name Change Resolution”** means the special resolution of Sea Dragon Shareholders changing the name of Sea Dragon to “SDX Energy Inc.”;
- (oooo) **“Sea Dragon Optionholders”** means holders of Sea Dragon Options;
- (pppp) **“Sea Dragon Option Plan”** means the Sea Dragon share option plan and the agreements thereunder;
- (qqqq) **“Sea Dragon Options”** means the outstanding stock options of Sea Dragon, whether or not vested, entitling the holders thereof to acquire Sea Dragon Common Shares;
- (rrrr) **“Sea Dragon Plans”** has the meaning ascribed thereto in Section 4.1(ee);
- (ssss) **“Sea Dragon Projects”** means all of Sea Dragon’s direct and indirect ownership or interests in the NW Gemsa Concession, the South Disouq Concession and the South Ramadan Concession in Egypt, which are each described in the Sea Dragon Disclosure Letter;
- (tttt) **“Sea Dragon Public Record”** means all information filed by or on behalf of Sea Dragon after 31 December 2013 with the Securities Authorities, in compliance, or intended compliance, with any Applicable Securities Laws;
- (uuuu) **“Sea Dragon Reserve Report”** has the meaning ascribed thereto in Section 4.1(v);
- (vvvv) **“Sea Dragon Resolutions”** means the Sea Dragon Consolidation Resolution and the Sea Dragon Name Change Resolution;
- (wwww) **“Sea Dragon Resigning Directors”** means Said S. Arrata, Olivier Serra, Ahmed Farid Moaaz, Barry Swan, Rob Moffat and Ken Fitzgerald;
- (xxxx) **“Sea Dragon Shareholders”** means the holders of Sea Dragon Shares;
- (yyyy) **“Sea Dragon Shareholders’ Meeting”** means the annual and special meeting of the Sea Dragon Shareholders, including any adjournment thereof, to be held to consider, and if deemed advisable, approve the Sea Dragon Resolutions;
- (zzzz) **“Sea Dragon Shares”** means the common shares in the capital of Sea Dragon;
- (aaaaa) **“Sea Dragon Termination Fee”** has the meaning ascribed thereto in Section 6.1;
- (bbbb) **“Sea Dragon Transaction Costs”** means all costs of Sea Dragon in connection with this Agreement and the Arrangement, including, without limitation, estimated fees and expenses of financial, legal, accounting and engineering advisors, printing, mailing and shareholder communication costs and the Sea Dragon Shareholders’ Meeting costs;
- (cccc) **“Sea Dragon Voting Agreements”** means a voting support agreement in form and substance satisfactory to Madison, acting reasonably, between Madison and each of the directors and officers of Sea Dragon and any Sea Dragon Shareholder that holds over 10% of the Sea Dragon Shares pursuant to which each such Person agrees, among other things, not to dispose of their Sea Dragon Shares prior to the Effective Date, to vote in favour of the Sea Dragon

Resolutions and to otherwise support the transactions contemplated by the Sea Dragon Resolutions;

- (dddd) “**Securities Act**” means the *Securities Act*, R.S.A. 2000, c. S-4, as amended;
- (eeee) “**Securities Authorities**” means the securities commissions or similar securities regulatory authorities in each of the provinces or territories of Canada in which Sea Dragon is a reporting issuer;
- (ffff) “**Sproule**” means Sproule Associates Ltd., an independent qualified reserve evaluator;
- (ggggg) “**subsidiary**” has the meaning ascribed thereto in the Securities Act (and shall include all trusts or partnerships directly or indirectly owned by Madison or Sea Dragon, as the case may be);
- (hhhhh) “**Superior Proposal**” means an unsolicited written *bona fide* Acquisition Proposal made after the date hereof from a Person (in the case of Madison, other than Sea Dragon and in the case of Sea Dragon, other than Madison):
- (i) that is not subject to a financing condition and the funds or other consideration necessary for the consummation of the Acquisition Proposal are, or are reasonably likely to be, available, as demonstrated to the satisfaction of the Sea Dragon Board or Madison Board, as applicable, acting in good faith (after receiving advice from its financial advisor and outside legal counsel);
  - (ii) that the Sea Dragon Board or the Madison Board, as applicable, determines in good faith (after receiving advice from its financial advisor and outside legal counsel) is reasonably likely to be completed without undue delay, taking into account all financial, legal regulatory and other aspects of such Acquisition Proposal and the Person making such proposal;
  - (iii) that did not result from or involve a breach of Section 3.5;
  - (iv) that is not subject to a due diligence or access condition beyond the fifth calendar day after which the Person making the Acquisition Proposal is first afforded access to the books, records and personnel of Sea Dragon or Madison, as applicable; and
  - (v) in respect of which the Sea Dragon Board or the Madison Board, as applicable, has determined in good faith (after the receipt of advice from its legal counsel with respect to (A) and its financial advisors with respect to (B), in each case as reflected in the minutes of the Sea Dragon Board or the Madison Board, as applicable) that: (A) recommending such Acquisition Proposal to the Sea Dragon Shareholders or the Madison Shareholders, as applicable, is necessary in discharge of its fiduciary duties; and (B) such Acquisition Proposal, taking into account all of the terms and conditions thereof, if consummated in accordance with its terms, but without assuming away the risk of non-completion, would result in a transaction more favourable to Sea Dragon and the Sea Dragon Shareholders or Madison and the Madison Shareholders, as applicable, from a financial point of view than the transactions contemplated by this Agreement (including in each case after taking into account any modifications to this Agreement proposed by Sea Dragon or Madison as contemplated by Section 3.5(d));
- (iiii) “**Tax**” or “**Taxes**” shall mean any and all taxes, duties, fees, excises, premiums, assessments, imposts, levies and other charges or assessments of any kind whatsoever however denominated, including any interest, penalties or other additions that may become payable in respect thereof, imposed by any Taxing Authority, whether computed on a separate, consolidated, unitary, combined or other basis, which taxes shall include, without limiting the generality of the foregoing, all income or profits taxes (including, but not limited to, federal income taxes and provincial income taxes), payroll and employee withholding taxes, employment insurance premiums, unemployment insurance, social insurance taxes, Canada Pension Plan contributions, sales and use taxes, value added taxes, *ad valorem* taxes, excise

taxes, franchise taxes, gross receipts taxes, environmental taxes, capital taxes, production taxes, recapture, withholding taxes, employee health taxes, surtaxes, customs, import and export taxes, business license taxes, occupation taxes, real and personal property taxes, stamp taxes, environmental taxes, transfer taxes, workers' compensation and other governmental charges, and other obligations of the same or of a similar nature to any of the foregoing, which Madison or Sea Dragon, as applicable (or any of their respective subsidiaries), as the case may be, is required to pay, withhold, remit or collect;

- (jjjj) **“Tax Returns”** shall mean all reports, estimates, elections, notices, filings, designations, forms, declarations of estimated tax, information statements and returns relating to, or required to be supplied to any Taxing Authority in connection with, any Taxes (including any attached schedules, estimated tax returns, withholding tax returns, and information returns and reports), whether in tangible or electronic form;
- (kkkk) **“Taxing Authority”** shall mean any Governmental Authority responsible for the imposition of any Tax;
- (llll) **“Third Party Approvals”** has the meaning ascribed thereto in Section 5.1(f);
- (mmmm) **“Third Party Beneficiaries”** has the meaning ascribed thereto in Section 10.11;
- (nnnn) **“threatened”** when used in relation to legal action or any other matter, means that a demand or statement (oral or written) has been made or a notice (oral or written) has been given that such legal action or other matter is to be asserted, commenced, taken or otherwise pursued in the future or that an event has occurred or circumstances exist that would lead a reasonable Person to conclude that such legal action or other matter is likely to be asserted, commenced, taken or otherwise pursued in the future;
- (oooo) **“TSXV”** means the TSXV Venture Exchange;
- (pppp) **“United States”** means the United States of America, its territories and possessions, any state of the United States, and the District of Columbia;
- (qqqq) **“U.S. Securities Act”** means the *United States Securities Act of 1933*, as amended, and the rules, regulations and orders promulgated thereunder;
- (rrrr) **“U.S. Securities Laws”** means the federal and state securities legislation of the United States and all rules, regulations and orders promulgated thereunder, as amended from time to time; and
- (ssss) **“Working Capital”** means current assets less current liabilities and debt, calculated in accordance with IFRS (adjusted in the case of Sea Dragon on the basis set out in the Sea Dragon Disclosure Letter).

## 1.2 Interpretation Not Affected by Headings, etc.

The division of this Agreement into articles, sections and subsections is for convenience of reference only and does not affect the construction or interpretation of this Agreement. The terms “this Agreement”, “hereof”, “herein” and “hereunder” and similar expressions refer to this Agreement (including the Exhibits hereto) and not to any particular article, section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

## 1.3 Number and Gender; Derivatives

Words importing the singular number include the plural and vice versa, and words importing the use of any gender include all genders. If a word is defined in this Agreement a grammatical derivative of that word shall have a corresponding meaning.

**1.4 Date for Any Action**

If any date on which any action is required to be taken hereunder by any of the Parties is not a Business Day and a business day in the place where an action is required to be taken, such action is required to be taken on the next succeeding day which is a Business Day and a business day, as applicable, in such place. Notwithstanding the forgoing, this provision does not apply to the time periods set forth in Section 3.5.

**1.5 Entire Agreement**

This Agreement, the Confidentiality Agreements, the Sea Dragon Disclosure Letter and the Madison Disclosure Letter constitute the entire agreement between the Parties pertaining to the subject matter hereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, between the Parties with respect to the subject matter hereof.

**1.6 Statute and Agreement References**

Any reference in this Agreement to any statute or any section thereof shall, unless otherwise expressly stated, be deemed to be a reference to such statute or section as amended, restated or re-enacted from time to time. References to any agreement or document shall be to such agreement or document (together with all schedules and exhibits thereto), as it may have been or may hereafter be amended, supplemented, replaced or restated from time to time.

**1.7 Currency**

All sums of money that are referred to in this Agreement are expressed in lawful money of the United States of America unless otherwise noted.

**1.8 Accounting Matters**

Unless otherwise stated, all accounting terms used in this Agreement shall have the meanings attributable thereto under IFRS and all determinations of an accounting nature are required to be made shall be made in a manner consistent with IFRS.

**1.9 Disclosure in Writing**

Reference to disclosure or communication in writing herein shall, in the case of disclosure to Sea Dragon be references exclusively to the Madison Disclosure Letter or this Agreement, or in the case of disclosure to Madison be references exclusively to the Sea Dragon Disclosure Letter or this Agreement.

**1.10 Interpretation Not Affected by Party Drafting**

The Parties hereto acknowledge that their respective legal counsel have reviewed and participated in settling the terms of this Agreement, and the Parties agree that any rule of construction to the effect that any ambiguity is to be resolved against the drafting party will not be applicable in the interpretation of this Agreement.

**1.11 Knowledge**

Where any representation or warranty contained in this Agreement is expressly qualified by reference to the knowledge of Madison or Sea Dragon, as applicable, it refers to the actual knowledge of David Mitchell, Neil Taylor and Ahmed Rahuma in respect of Madison, and Paul Welch, Olivier Serra and Ahmed Moaaz in respect of Sea Dragon, in each case after reasonable inquiry, and in each case in their capacity as officers of Madison or Sea Dragon and not in their personal capacity, as of the date of this Agreement and does not include any constructive, implied or imputed knowledge of Madison, Sea Dragon or such individuals.

**ARTICLE 2**  
**THE ARRANGEMENT**

**2.1 Plan of Arrangement**

- (a) The Parties agree to carry out the Arrangement in accordance with the Plan of Arrangement pursuant to which (among other things) Sea Dragon will acquire all of the Madison Shares and each Madison Shareholder (other than those Madison Shareholders who have validly exercised Dissent Rights) shall receive, for each one Madison Share, 0.477143 of a Sea Dragon Share (or such other exchange ratio as is determined in accordance with the Plan of Arrangement) after giving effect to the Sea Dragon Consolidation.
- (b) The Arrangement has been and shall continue to be structured and carried out such that on the Effective Date the issuance of Sea Dragon Shares issuable to the Madison Shareholders under the Arrangement: (i) will be made in compliance with Applicable Securities Laws; and (ii) assuming the Arrangement Resolution is approved and the Final Order is obtained and assuming the Court considers the fairness of the terms and conditions of the Arrangement, will not require registration under the U.S. Securities Act, and the rules and regulations promulgated thereunder, in reliance on the exemption from registration provided by section 3(a)(10) of the U.S. Securities Act.
- (c) The Plan of Arrangement may be amended in accordance with Section 7.2.
- (d) Provided all necessary approvals for the Arrangement Resolution are obtained from the Madison Shareholders and all necessary approvals for the Sea Dragon Resolutions are obtained from the Sea Dragon Shareholders, Madison shall, with the cooperation and assistance of Sea Dragon, submit the Arrangement to the Court and apply for the Final Order.
- (e) On the second Business Day after the last of the conditions set forth in Sections 5.1(d) and 5.1(f) has been satisfied or, where not prohibited, waived by the applicable Party or Parties in whose favour the condition is (provided, that on the first Business Day after such conditions have been satisfied or waived each of the other conditions set forth in Article 5 have also been satisfied or, where not prohibited, waived by the applicable Party or Parties in whose favour the condition is), unless another time or date is agreed to in writing by the Parties (the “**Effective Date**”), the Parties will complete the Arrangement and the Arrangement shall become effective at the Effective Time whereupon the steps comprising the Plan of Arrangement will be deemed to occur in the order, at the times, and in the manner set forth therein. The closing of the transactions contemplated hereby will take place at the offices of counsel to Madison or at such other location as may be agreed upon by the Parties.
- (f) The Parties shall use their commercially reasonable efforts to cause the Effective Date to occur on or about 1 October 2015 or as soon thereafter as reasonably practicable and in any event by the Outside Date.

**2.2 Interim Order and Madison Meeting**

- (a) Madison agrees that as soon as reasonably practicable after the date hereof, but in any event prior to 11 September 2015, Madison shall apply in a manner reasonably acceptable to Sea Dragon pursuant to section 193 of the ABCA and, in cooperation with Sea Dragon, acting reasonably, prepare, file and diligently pursue an application for the Interim Order, which shall provide, among other things:
  - (i) for the calling and the holding of the Madison Meeting, including the record date for determining the Persons to whom notice of the Madison Meeting is to be provided and for determining the Persons entitled to vote at the Madison Meeting and for the manner in which such notice is to be provided;
  - (ii) that the securities of Madison for which holders as at the record date established for the Madison Meeting shall be entitled to vote on the Arrangement Resolution shall be the Madison Shares;



- (iii) that all Madison Shareholders as at the record date established for the Madison Meeting shall be entitled to vote on the Arrangement Resolution, with each Madison Shareholder being entitled to one vote for each Madison Share held by it;
  - (iv) that subject to the approval of the Court the requisite level of approval for the Arrangement Resolution shall be at least two-thirds of the aggregate votes cast on the Arrangement Resolution by those Madison Shareholders present in person or represented by proxy and entitled to vote at the Madison Meeting;
  - (v) that, in all other respects, the terms, restrictions and conditions of the constating documents of Madison, including quorum requirements and all other matters, shall apply in respect of the Madison Meeting, except as modified by the Interim Order;
  - (vi) for the grant of the Dissent Rights;
  - (vii) for the notice requirements with respect to the presentation of the application to the Court for the Final Order; and
  - (viii) that the Madison Meeting may be adjourned or postponed from time to time by Madison with the consent of Sea Dragon without the need for additional approval of the Court.
- (b) In pursuing the application for the Interim Order in respect of the Arrangement, Madison shall advise the Court that it is Madison's and Sea Dragon's intention to rely upon the exemption from registration provided by section 3(a)(10) of the U.S. Securities Act with respect to the issuance and distribution of Sea Dragon Shares pursuant to the Arrangement, based on the Court's approval of the Arrangement.

### **2.3 Sea Dragon Shareholders' Meeting**

Sea Dragon shall call the Sea Dragon Shareholders' Meeting to be held on or prior to the same date as the Madison Meeting for the purpose of considering and, if deemed advisable approving the Sea Dragon Resolutions.

### **2.4 Madison and Sea Dragon Information Circulars**

- (a) As promptly as practical following the execution of this Agreement, and in compliance with the Interim Order, as applicable, and Applicable Laws (including Applicable Securities Laws):
  - (i) Madison shall:
    - (A) prepare, in consultation with Sea Dragon, the Madison Information Circular and cause such circular to be mailed to the Madison Shareholders and such other securityholders of Madison or other third parties as may be required pursuant to the Interim Order, and filed with applicable regulatory authorities and other Governmental Authorities in all jurisdictions where the same are required to be mailed and filed; and
    - (B) call, give notice and convene the Madison Meeting.
  - (ii) Sea Dragon shall:
    - (A) prepare, in consultation with Madison, the Sea Dragon Information Circular and cause such circular to be mailed to the Sea Dragon Shareholders and filed with applicable regulatory authorities and other Governmental Authorities in all jurisdictions where the same are required to be mailed and filed; and
    - (B) call, give notice and convene the Sea Dragon Shareholders' Meeting.

## 2.5 Preparation of Filings

- (a) Sea Dragon and Madison shall cooperate in:
- (i) seeking the Interim Order and the Final Order, including by Sea Dragon providing Madison on a timely basis any information required to be supplied by Sea Dragon concerning itself in connection therewith. Madison shall provide legal counsel to Sea Dragon with reasonable opportunity to review and comment upon drafts of all material to be filed with the Court in connection with the Arrangement, and shall give reasonable consideration to all such comments. Madison shall also provide legal counsel to Sea Dragon on a timely basis with copies of any notice of appearance and evidence served on Madison or its legal counsel in respect of the application for the Final Order or any appeal therefrom. Subject to Applicable Laws, Madison shall not file any material with the Court or any Governmental Authority in connection with the Arrangement or serve any such material, and shall not agree to modify or amend materials so filed or served, except with Sea Dragon's prior written consent, such consent not to be unreasonably withheld, conditioned or delayed; provided that nothing herein shall require Sea Dragon to agree or consent to any increase in the consideration to be received by Madison Shareholders or other modification or amendment to such filed or served materials that expands or increases Sea Dragon's obligations, or diminishes or limits Sea Dragon's rights, set forth in any such filed or served materials or under this Agreement; and
  - (ii) the taking of all such action as may be required under the ABCA, Applicable Securities Laws and U.S. Securities Laws in connection with the transactions contemplated by this Agreement and the Plan of Arrangement and the taking of all such action as may be required under the ABCA, the Applicable Securities Laws and the U.S. Securities Laws in connection with the transactions contemplated by this Agreement and the Plan of Arrangement.
- (b) Each of Sea Dragon and Madison shall promptly furnish to the other all information concerning it as may be required for the effectuation of the actions described in Section 2.1 and the foregoing provisions of this Section 2.5, and each covenants that no information furnished by it in connection with such actions or otherwise in connection with the consummation of the Arrangement and the other transactions contemplated by this Agreement will contain any Misrepresentation.

## 2.6 Employees, Employment Agreements, Madison Options, Madison Warrants and Sea Dragon Options

- (a) At the Effective Time, each Party shall terminate all employees that are not Retained Employees ("**Non-Retained Employees**") and shall, concurrent with the Effective Time, pay, if such Non-Retained Employee is entitled to a severance or end of service payments, change of control payments or similar payments, conditional upon the execution of a release in favour of Madison and Sea Dragon, in form and substance satisfactory to Madison and Sea Dragon, each acting reasonably, from its own cash resources, any and all severance or end of service payments, change of control payments or similar payments due to such Non-Retained Employees.
- (b) Sea Dragon shall use reasonable commercial efforts to obtain termination agreements from each holder of Sea Dragon Options pursuant to which such holder agrees to surrender his or her Sea Dragon Options on the Effective Date at the time specified in the Plan of Arrangement for nil consideration. Nothing in this Agreement shall prohibit the holders of vested Sea Dragon Options from exercising such Sea Dragon Options in accordance with the terms thereof prior to the Effective Time.
- (c) Madison shall deliver to Sea Dragon concurrent with the signing of this Agreement a termination agreement executed by each Madison Optionholder pursuant to which each such Madison Optionholder agrees to surrender his or her Madison Options on the Effective Date at the time specified in the Plan of Arrangement in consideration of the payment set out in

Section 2.6(c) of the Madison Disclosure Letter. Nothing in this Agreement shall prohibit the holders of vested Madison Options from exercising such Madison Options in accordance with the terms thereof prior to the Effective Time.

- (d) Madison will elect under subsection 110(1.1) of the ITA, in prescribed form, in respect of each Madison Option surrendered for cash consideration under the Plan of Arrangement that neither Madison, nor any Person who does not deal at arm's length with Madison, will deduct, in computing income for the purposes of the ITA, any amount in respect of any cash payment made to the holders of such Madison Options in consideration for the surrender thereof;
- (e) Madison will provide holders of Madison Options who have surrendered such Madison Options for cash consideration under the Plan of Arrangement with evidence in writing of the election under subsection 110(1.1) of the ITA; and
- (f) Sea Dragon shall enter into a supplemental indenture with respect to the Madison Warrants, as contemplated by section 4.1(b) of the Madison Warrant Indenture, such that upon completion of the Arrangement, the Madison Warrants will represent the right to receive, upon exercise thereof, that number of Sea Dragon Shares that such Madison Warrant holder would have been entitled to receive at the Effective Time if he/she/it had been the holder of the number of Madison Shares receivable upon the exchange of Madison Warrants then held by the Madison Warrant holder.

## **2.7 Sea Dragon Board**

- (a) The Parties agree that, concurrently with the Effective Time the Sea Dragon Board, as it exists at that time, shall accept the resignations of the Sea Dragon Resigning Directors, appoint the Madison Nominees to the Sea Dragon Board and take such other action as may be required so that the Sea Dragon Board consists of an independent director mutually agreed to by Madison and Sea Dragon, the Madison Nominees and the Sea Dragon Continuing Directors.
- (b) The Parties agree that, immediately following the completion of the Arrangement, the Sea Dragon Board, as it exists at that time, shall re-confirm the appointment of Paul Welch as President and Chief Executive Officer of Sea Dragon.

## **2.8 Effective Date**

The Arrangement shall become effective at the Effective Time on the Effective Date.

## **2.9 Recommendation of Madison Board**

Based upon, among other things, the fairness opinion of FirstEnergy, the Madison Board has determined that the Arrangement is in the best interests of Madison and is fair to the Madison Shareholders, approved the Arrangement and the entering into of the Arrangement Agreement and has resolved to recommend Madison Shareholders vote in favour of the Arrangement Resolution. Notice of such approvals, determinations and resolution shall, subject to the terms hereof, along with the written fairness opinion of FirstEnergy confirming the aforementioned fairness opinion, be included in the Madison Information Circular.

## **2.10 Recommendation of Sea Dragon Board**

Based upon, among other things, the written fairness opinion of BDO, the Sea Dragon Board has determined that the Arrangement is in the best interests of Sea Dragon and is fair to the Sea Dragon Shareholders, approved the Arrangement and the entering into of the Arrangement Agreement and has resolved to recommend Sea Dragon Shareholders vote in favour of the Sea Dragon Resolutions.

## **2.11 Dissenting Shareholders**

Registered Madison Shareholders entitled to vote at the Madison Meeting may exercise Dissent Rights with respect to their Madison Shares in connection with the Arrangement pursuant to and in the manner set forth in the Plan of Arrangement and the Interim Order. Madison shall promptly give Sea Dragon notice of any written notice of a dissent, withdrawal of such notice, and any other instruments served pursuant to

such Dissent Rights and received by Madison and promptly provide Sea Dragon with copies of such notices and written objections and all other correspondence related thereto.

## **2.12 Section 85.1 Exchange**

The Parties acknowledge and agree that it is their mutual intention that the exchange of Madison Shares by Madison Shareholders for Sea Dragon Shares under the Plan of Arrangement will satisfy the requirements of subsection 85.1(1) of the ITA, except to the extent that any such Madison Shareholder includes any portion of the gain or loss which would otherwise be realized on the disposition of Madison Shares hereunder in its return of income for the taxation year in which such exchange occurs. For greater certainty, neither Madison nor Sea Dragon shall have any responsibility or liability to any Madison Shareholder in the event that subsection 85.1(1) of the ITA is ultimately determined not to apply to such Madison Shareholder's disposition of Madison Shares to Sea Dragon under the Plan of Arrangement.

## **2.13 Tax Withholdings**

Sea Dragon and Madison shall be entitled to deduct and withhold from any amount otherwise payable to any Madison Shareholder or Madison Optionholder including for greater certainty, from any amount payable to a Madison Shareholder who has validly exercised, and not withdrawn, Dissent Rights, as the case may be, under the Plan of Arrangement, such amounts as Sea Dragon or Madison, as the case may be, is required or permitted or reasonably believed to be required or permitted to deduct and withhold from such consideration in accordance with applicable tax laws. Any such amounts will be deducted and withheld from the consideration payable pursuant to the Plan of Arrangement and shall be treated for all purposes as having been paid to the Madison Shareholder or Madison Optionholder, as the case may be, in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate Taxing Authority.

## **2.14 Voting Agreements**

- (a) Sea Dragon shall deliver to Madison concurrent with the signing of this Agreement, the Sea Dragon Voting Agreements.
- (b) Madison shall deliver to Sea Dragon concurrent with the signing of this Agreement, the Madison Voting Agreements.

## **ARTICLE 3 COVENANTS**

### **3.1 Covenants of Sea Dragon**

Sea Dragon covenants and agrees that, from the date of this Agreement until the Effective Date or termination of this Agreement, except with the prior written consent of Madison (such consent not to be unreasonably withheld or delayed), and except as otherwise expressly permitted or specifically contemplated by this Agreement (including the Plan of Arrangement) or required by Applicable Laws:

- (a) Sea Dragon will use its reasonable commercial efforts to satisfy or cause the satisfaction of the conditions set forth in Section 5.1 and Section 5.3 as soon as reasonably practicable, to the extent the satisfaction of the same is within the control of Sea Dragon;
- (b) Sea Dragon will forthwith carry out the terms of the Interim Order and the Final Order to the extent applicable to it and will use its reasonable commercial efforts to assist Madison in obtaining such orders and to carry out the intent or effect of this Agreement and the Arrangement;
- (c) Sea Dragon will make all necessary filings and applications under Applicable Laws, including Applicable Securities Laws and U.S. Securities Laws, if applicable, required to be made on the part of Sea Dragon in connection with the transactions contemplated herein and shall take all commercially reasonable action necessary to be in compliance with such Applicable Laws;

- (d) Sea Dragon will not take any action, refrain from taking any action, or permit any action to be taken or not taken, inconsistent with this Agreement, which might directly or indirectly interfere with or affect the consummation of the Arrangement and the transactions contemplated hereby;
- (e) Sea Dragon will provide Madison with all information and documentation reasonably requested in connection with obtaining the Third Party Approvals;
- (f) the business of Sea Dragon shall be conducted only in, and Sea Dragon shall not take any action except in, the usual and ordinary course of business consistent with past practices (for greater certainty, where it is an operator of any property, it shall operate and maintain such property in a proper and prudent manner in accordance with good industry practice and the agreements governing the ownership and operation of such property) and it shall use all commercially reasonable efforts to maintain and preserve its business, assets and business relationships;
- (g) except as permitted by this Agreement or the Arrangement, Sea Dragon shall not, and shall not permit any of its subsidiaries to, directly or indirectly do, or permit to occur, any of the following:
- (i) amend its constating documents;
  - (ii) declare, set aside or pay any dividend or other distribution at any time before the time that is immediately before the Effective Time or make any other payment (whether in cash, shares or property) in respect of its outstanding securities;
  - (iii) issue, grant, sell or pledge or agree to issue, grant, sell or pledge any of its shares or other securities, including, without limitation, securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, its shares (other than the issuance of Sea Dragon Shares pursuant to the exercise of Sea Dragon Options outstanding on the date hereof in accordance with their terms);
  - (iv) split, combine or reclassify any of its shares;
  - (v) redeem, purchase or otherwise acquire any of its outstanding shares or other securities;
  - (vi) amend the terms of any of its securities, including the Sea Dragon Options;
  - (vii) adopt a plan of liquidation or resolutions providing for the liquidation, dissolution, merger, consolidation or reorganization of Sea Dragon or any of its subsidiaries; or
  - (viii) enter into or modify any Contract, commitment or arrangement with respect to any of the foregoing provisions of this Section 3.1(g).
- (h) except as permitted by this Agreement or the Arrangement, Sea Dragon shall not and shall not permit any of its subsidiaries to, directly or indirectly, do or permit to occur any of the following:
- (i) sell, pledge, lease, exclusively license, transfer, dispose of or encumber any assets other than in connection with production in the ordinary course of Sea Dragon's business;
  - (ii) expend or commit to expend any capital expenditures in excess of \$250,000 (or in the case of expenses required to maintain production (e.g. work-overs), \$500,000) individually or in the aggregate with the exception of the commitments contemplated by the Sea Dragon budget as set forth in the Sea Dragon Disclosure Letter (the "**Sea Dragon Budget**") and provided that in the case of capital expenditures expended to address emergencies or other urgent matters involving the potential loss or damage to

property or personal safety, Madison's consent shall not be required where it cannot be received in a reasonably expedient manner;

- (iii) with the exception of the commitments contemplated in the Sea Dragon Budget, expend or commit to expend any amounts more than \$250,000 in the aggregate with respect to any operating expenses; and provided that, any such expenses are in the ordinary course of Sea Dragon's business consistent with past practice;
- (iv) except as contemplated by this Agreement, reorganize, amalgamate, merge or otherwise combine Sea Dragon with any other Person unless in connection with an internal reorganization of the Sea Dragon Group;
- (v) acquire (by merger, amalgamation, consolidation or acquisition of shares or assets) any corporation, partnership or other business organization or division thereof, or make any investment therein either by purchase of shares or securities, contributions of capital or property transfer;
- (vi) acquire any assets with the exception of the commitments contemplated by the Sea Dragon Budget;
- (vii) enter into a new credit facility, incur, extend, renew or replace any indebtedness for borrowed money or any other material liability or obligation, or issue any debt securities or assume, guarantee, endorse or otherwise become responsible for, the obligations of any other individual or Person, or make any loans or advances or amounts in respect of fees payable to legal, financial and other advisors, other than the Sea Dragon Transaction Costs, a refinancing of the Sea Dragon Credit Facility, costs in the ordinary course of business consistent with past practice and costs or amounts otherwise permitted under this Section 3.1(h);
- (viii) pay, settle, discharge or satisfy any material claims, liabilities, litigation, lawsuits, arbitrations, proceedings or obligations other than as reflected or reserved against in the Sea Dragon Financial Statements or otherwise in the ordinary course of business consistent with past practice including, for greater certainty, repayment of amounts owing under the Sea Dragon Credit Facility;
- (ix) authorize, recommend or propose any release or relinquishment of any right under any material Contract;
- (x) waive, release, grant or transfer any material rights of value or modify or change in any material respect any existing license, Sea Dragon Concession Documents, lease, material Contract, production sharing agreement, government land concession or other material document;
- (xi) enter into any contract providing for abandonment or decommissioning of any of the Sea Dragon Projects without the prior written consent of Madison;
- (xii) enter into or terminate any hedges, swaps or other financial instruments or like transactions;
- (xiii) enter into any agreements for the sale of production having a term of more than thirty (30) days;
- (xiv) enter into any material consulting Contract or operating agreement that: (a) cannot be terminated on 30 days' or less notice without penalty; or (b) alone, or in the aggregate with any other consulting Contract or operating agreements, would create an obligation in excess of \$100,000;
- (xv) enter into any Contracts or transactions with any officer or director of Sea Dragon;

- (xvi) enter into any new strategic alliances, partnerships, joint ventures or research studies except as disclosed in the Sea Dragon Disclosure Letter; or
  - (xvii) authorize or propose any of the foregoing, or enter into or modify any material Contract, agreement, commitment or arrangement with respect to any of the matter described in the foregoing provisions of this Section 3.1(h);
- (i) other than as contemplated by Section 2.6 Sea Dragon shall not make any payment to any employee, officer or director outside of their ordinary and usual compensation for services provided unless required to do so by Applicable Laws;
  - (j) Sea Dragon shall not:
    - (i) grant any officer, director or employee or consultant an increase in compensation in any form;
    - (ii) grant any general salary increase;
    - (iii) employ or offer to employ any new officer without the approval of Madison in writing;
    - (iv) take any action with respect to the amendment or grant of any “change of control”, severance or termination pay policies or arrangements for any directors, officers or employees;
    - (v) amend any incentive plan or the terms of any outstanding rights thereunder; or
    - (vi) advance any loan to any officer, director or any other party not at arm’s length to Sea Dragon;
  - (k) except pursuant to the Sea Dragon Option Plan, Sea Dragon shall not adopt or amend or make any contribution to any bonus, employee benefit plan, profit sharing, option, common share, deferred compensation, insurance, incentive compensation, other compensation or other similar plan (or amend any outstanding rights thereunder), agreement, common share incentive or purchase plan, fund or arrangement for the benefit of directors, officers, employees or consultants, except as is necessary to comply with Applicable Laws or with respect to existing provisions of any such plans, programs, arrangements or agreements;
  - (l) Sea Dragon shall withhold from any payment made to any of its present or former employees, officers or directors in respect of any payments contemplated by this Agreement, all amounts required by law or administrative practice to be withheld by it on account of Taxes and other source deductions;
  - (m) Sea Dragon shall use its reasonable commercial efforts to cause its current insurance (or re-insurance) policies not to be cancelled or terminated or any of the coverage thereunder to lapse, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance or re-insurance companies of nationally recognized standing satisfactory to Madison, acting reasonably, providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies for substantially similar premiums are in full force and effect, and Sea Dragon will pay all premiums in respect of such insurance policies that become due after the date hereof;
  - (n) Sea Dragon shall not make any amendment to outstanding Sea Dragon Options without the prior written consent of Madison other than as may be required to accommodate the treatment of Sea Dragon Options as contemplated by Section 2.6;
  - (o) except as contemplated herein, Sea Dragon shall not take any action, refrain from taking any action, or permit any action to be taken that would render, or may reasonably be expected to render, any representation or warranty made by it in this Agreement untrue in any material

respect at any time prior to the Effective Date or termination of this Agreement, whichever first occurs;

- (p) Sea Dragon shall promptly notify Madison in writing of any Material Adverse Change with respect to Sea Dragon or of any change in any representation or warranty provided by Sea Dragon in this Agreement which change is or may be of such a nature as to render any representation or warranty misleading or untrue in any material respect and Sea Dragon shall in good faith discuss with Madison any such change in circumstances (actual, anticipated, contemplated, or to the knowledge of Sea Dragon, threatened) which is of such a nature that there may be a reasonable question as to whether notice need be given to Madison pursuant to this provision;
- (q) Sea Dragon shall promptly advise Madison in writing of any material breach by Sea Dragon of any covenant, obligation or agreement contained in this Agreement;
- (r) Sea Dragon shall use its reasonable commercial efforts to obtain and maintain the Third Party Approvals applicable to it and provide the same to Madison on or prior to the Effective Date;
- (s) Sea Dragon shall apply to the TSXV for conditional approval of the listing of the Sea Dragon Shares issuable pursuant to the Arrangement on the TSXV and shall use its reasonable commercial efforts to obtain such conditional approval, subject only to customary conditions for the listing of such Sea Dragon Shares, for the listing of the Sea Dragon Shares to be issued or to be made issuable pursuant to the Arrangement on the TSXV prior to the mailing of the Sea Dragon Information Circular and Madison Information Circular;
- (t) Sea Dragon will continue to maintain its status as a “reporting issuer” (or similarly designated entity) not in default under the Applicable Canadian Securities Laws where it is a reporting issuer at the date hereof;
- (u) Sea Dragon will maintain the listing of the Sea Dragon Shares on the TSX-V;
- (v) Sea Dragon will assist Madison in securing all consents of third parties that are required to permit the inclusion of any reference to their names in, or in relation to, any Sea Dragon Information included in the Madison Information Circular, including by reason of their name being included in a document incorporated by reference in the Madison Information Circular, or otherwise, and will provide copies of such consents to Madison as soon as reasonably practicable;
- (w) on or prior to the Effective Date, Sea Dragon shall provide the Depositary under the Plan of Arrangement, an irrevocable direction authorizing and directing such Depositary to deliver the Sea Dragon Shares issuable pursuant to the Arrangement to holders of the Madison Shares in accordance with the Plan of Arrangement;
- (x) Sea Dragon will cause to be taken all necessary corporate action to allot and reserve for issuance the Sea Dragon Shares to be issued in exchange for Madison Shares in connection with the Arrangement;
- (y) Sea Dragon shall advise Madison, as Madison may request, and on a daily basis on each of the last ten Business Days prior to the proxy cut-off date for the Sea Dragon Meeting, as to the aggregate tally of the proxies received by Sea Dragon in respect of the Sea Dragon Resolutions;
- (z) Sea Dragon shall take all commercially reasonable actions to give effect to the transactions contemplated by this Agreement and the Plan of Arrangement;
- (aa) Sea Dragon shall ensure that the Sea Dragon Information Circular (other than any Madison Information included in the Sea Dragon Information Circular that was provided to Sea Dragon by Madison expressly for inclusion in the Sea Dragon Information Circular) complies with Applicable Laws and, without limiting the generality of the foregoing, that the Sea Dragon Information Circular will not contain a Misrepresentation and provides Sea Dragon



Shareholders with information in sufficient detail to permit them to form a reasoned judgement concerning the matters before them, and, in that regard, the Sea Dragon Information Circular will set out any Madison Information in the form approved by Madison and shall include, without limitation, any information required to be included therein in accordance with Applicable Laws;

- (bb) Sea Dragon will assist with the preparation of the Madison Information Circular and will provide to Madison, in a timely manner, all information as may be reasonably requested by Madison with respect to Sea Dragon and its directors and officers for inclusion in the Madison Information Circular and any amendments or supplements thereto, in each case complying in all material respects with all applicable legal requirements on the date of issue thereof;
- (cc) Sea Dragon shall indemnify and save harmless Madison and its directors, officers, employees, advisors and agents from and against any and all liabilities, claims, demands, losses, costs, damages and expenses (excluding any loss of profits or consequential damages) to which Madison or its directors, officers, employees, advisors or agents may be subject or which Madison, its affiliates or subsidiaries or their respective directors, officers, employees, advisors or agents may suffer, whether under the provisions of any statute or otherwise, in any way caused by, or arising, directly or indirectly, from or in consequence of:
  - (i) any Misrepresentation or alleged Misrepresentation included in the Sea Dragon Information Circular or the Sea Dragon Information included in (x) the Madison Information Circular; or (y) the application for the Interim Order or the Final Order;
  - (ii) any order made or any inquiry, investigation or proceeding by any securities commission or other competent authority based upon any untrue statement or omission or alleged untrue statement or omission of a Material Fact or any Misrepresentation included in the Sea Dragon Information Circular or any alleged Misrepresentation in any material filed by or on behalf of Sea Dragon in compliance or intended compliance with Applicable Laws; and
  - (iii) Sea Dragon not complying with any requirement of Applicable Laws in connection with the transactions contemplated in this Agreement;

except that Sea Dragon shall not be liable in any such case to the extent that any such liabilities, claims, demands, losses, costs, damages and expenses arise out of or are based upon any Misrepresentation or alleged Misrepresentation in the Madison Information Circular (other than the Sea Dragon Information), the Madison Information included in the Sea Dragon Information Circular, the negligence of Madison or the non-compliance by Madison with any requirement of Applicable Laws in connection with the transactions contemplated by this Agreement;

- (dd) Sea Dragon shall provide notice to Madison of the Sea Dragon Shareholders' Meeting and allow Madison's representatives and legal counsel to attend such Sea Dragon Shareholders' Meeting;
- (ee) subject to Section 10.4, except for proxies and other non-substantive communications with securityholders, Sea Dragon will furnish promptly to Madison or Madison's counsel, a copy of each notice, report, schedule or other document delivered, filed or received by Sea Dragon in connection with: (i) the Arrangement; (ii) the Sea Dragon Shareholders' Meeting; (iii) any filings under Applicable Laws in connection with the Agreement; and (iv) any dealings with Governmental Authorities in connection with the transactions contemplated hereby;
- (ff) Sea Dragon will provide all necessary support, as is reasonably requested by Madison, to assist Madison in its efforts to obtain any approvals required by the TSXV;
- (gg) management of Sea Dragon shall solicit proxies to be voted at the Sea Dragon Shareholders' Meeting in favour of matters to be considered at the Sea Dragon Shareholders' Meeting, including the Sea Dragon Resolutions;

- (hh) Sea Dragon shall conduct the Sea Dragon Shareholders' Meeting in accordance with its constating documents and by-laws and any other instrument governing the Sea Dragon Shareholders' Meeting and as otherwise required by Applicable Laws;
- (ii) Sea Dragon shall:
- (i) duly and on a timely basis file all Tax Returns required to be filed by it on or after the date hereof and all such Tax Returns will be true, complete and correct in all material respects;
  - (ii) timely pay all Taxes shown on such Tax Returns;
  - (iii) not make or rescind any material express or deemed election relating to Taxes, or file any amended Tax Returns where the result of such action is inconsistent with past practice;
  - (iv) not make a request for a Tax ruling or enter into a closing agreement with any Governmental Authority;
  - (v) not settle any claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to a material amount of Taxes;
  - (vi) not make any changes in financial or Tax accounting methods, principles, policies or practices, except as required by IFRS or under Applicable Laws; and
  - (vii) properly reserve (and reflect such reserves in its books and records and financial statements) in accordance with IFRS, for all Taxes accruing in respect of Sea Dragon which are not due or payable prior to the Effective Date;
- (jj) Sea Dragon shall not make any Tax filings outside the ordinary course of business, including making, amending or rescinding any Tax Return, election or designation, without the consent of Madison, such consent not to be unreasonably withheld; and
- (kk) prior to Sea Dragon or the Sea Dragon Board or any committee of the Sea Dragon Board accepting, recommending, approving or entering into a definitive agreement to implement a Superior Proposal, Sea Dragon shall ensure that it will have available cash to permit the payment of the Madison Termination Fee.

### 3.2 Additional Covenants of Sea Dragon and Madison

Sea Dragon and Madison further covenant and agree that:

- (a) for a period of six years after the Effective Time, Sea Dragon shall or shall cause Madison or any successor to Madison to maintain Sea Dragon's and Madison's current directors' and officers' insurance policy or an equivalent policy on a six year "trailing" or "run-off" basis, subject in either case to terms and conditions no less advantageous to the directors and officers of Sea Dragon and former directors and officers of Madison, respectively, than those contained in the policy in effect prior to the Effective Time ("**Equivalent Insurance**"), for all present and former directors and officers of Sea Dragon and Madison, covering claims made prior to or within six years after the Effective Time; provided that, the cost of such policy does not exceed 200% of Sea Dragon's or Madison's, as applicable, annual premium for its current policy. Evidence of such Equivalent Insurance shall be provided at the closing of the Arrangement;
- (b) if the Arrangement is completed, Sea Dragon, Madison and any successor to Sea Dragon or Madison shall not take any action to terminate or materially adversely affect and will fulfill its obligations pursuant to, any indemnity agreements or right to indemnity in favour of past or present directors and officers of Sea Dragon or Madison pursuant to the provisions of the articles, bylaws or similar constating documents of Sea Dragon and its subsidiaries or Madison and its subsidiaries, as applicable, or written indemnity agreements between Sea

Dragon or Madison and its past and present directors and officers, as applicable, or any indemnity agreements in favour of current directors and officers of Sea Dragon or Madison that are in place as at the date hereof, and which have been disclosed in writing to Madison, in the case of current directors and officers of Sea Dragon, or Sea Dragon, in the case of current directors and officers of Madison; and

- (c) such covenants and agreements shall survive the completion of the Arrangement.

### **3.3 Covenants of Madison**

Madison covenants and agrees that, from the date of this Agreement until the Effective Date or termination of this Agreement, except with the prior written consent of Sea Dragon (such consent not to be unreasonably withheld or delayed), and except as otherwise expressly permitted or specifically contemplated by this Agreement (including the Plan of Arrangement) or required by Applicable Laws:

- (a) Madison will use its reasonable commercial efforts to satisfy or cause the satisfaction of the conditions set forth in Sections 5.1 and 5.2 as soon as reasonably practicable, to the extent the satisfaction of the same is within the control of Madison;
- (b) Madison will forthwith carry out the terms of the Interim Order and the Final Order to the extent applicable to it and will use its reasonable commercial efforts in obtaining such orders;
- (c) Madison will make all necessary filings and applications under Applicable Laws, including Applicable Securities Laws and U.S. Securities Laws, if applicable, required to be made on the part of Madison in connection with the transactions contemplated herein and shall take all commercially reasonable action necessary to be in compliance with such Applicable Laws;
- (d) Madison will not take any action, refrain from taking any action, or permit any action to be taken or not taken, inconsistent with this Agreement, which might directly or indirectly interfere with or affect the consummation of the Arrangement and the transactions contemplated hereby;
- (e) Madison will provide Sea Dragon with all information and documentation reasonably requested in connection with obtaining the Third Party Approvals;
- (f) the business of Madison shall be conducted only in, and Madison shall not take any action except in, the usual and ordinary course of business consistent with past practices (for greater certainty, where it is an operator of any property, it shall operate and maintain such property in a proper and prudent manner in accordance with good industry practice and the agreements governing the ownership and operation of such property) and it shall use all commercially reasonable efforts to maintain and preserve its business, assets and business relationships;
- (g) except as permitted by this Agreement or the Arrangement, Madison shall not, and shall not permit any of its subsidiaries to, directly or indirectly do, or permit to occur, any of the following:
- (i) amend its constating documents;
  - (ii) declare, set aside or pay any dividend or other distribution at any time before the time that is immediately before the Effective Time or make any other payment (whether in cash, shares or property) in respect of its outstanding securities;
  - (iii) issue, grant, sell or pledge or agree to issue, grant, sell or pledge any of its shares or other securities, including, without limitation, securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, its shares (other than the issuance of Madison Shares pursuant to the exercise of Madison Options or Madison Warrants outstanding on the date hereof in accordance with their terms);
  - (iv) split, combine or reclassify any of its shares;

- (v) redeem, purchase or otherwise acquire any of its outstanding shares or other securities;
  - (vi) amend the terms of any of its securities, including the Madison Options and Madison Warrants;
  - (vii) adopt a plan of liquidation or resolutions providing for the liquidation, dissolution, merger, consolidation or reorganization of Madison or any of its subsidiaries; or
  - (viii) enter into or modify any Contract, commitment or arrangement with respect to any of the foregoing provisions of this Section 3.3(g);
- (h) except as permitted by this Agreement or the Arrangement, Madison shall not, and shall not permit any of its subsidiaries to, directly or indirectly, do or permit to occur any of the following:
- (i) sell, pledge, lease, exclusively license, transfer, dispose of or encumber any assets other than in connection with production in the ordinary course of Madison's business;
  - (ii) expend or commit to expend any capital expenditures in excess of \$250,000 (or in the case of expenses required to maintain production (e.g. work-overs), \$500,000) individually or in the aggregate with the exception of the commitments contemplated by the Madison budget as set forth in the Madison Disclosure Letter (the "**Madison Budget**") and provided that in the case of capital expenditures expended to address emergencies or other urgent matters involving the potential loss or damage to property or personal safety, Sea Dragon's consent shall not be required where it cannot be received in a reasonably expedient manner;
  - (iii) with the exception of the commitments contemplated in the Madison Budget, expend or commit to expend any amounts more than \$250,000 in the aggregate with respect to any operating expenses; and provided that, any such expenses are in the ordinary course of Madison's business consistent with past practice;
  - (iv) except as contemplated by this Agreement, reorganize, amalgamate, merge or otherwise combine Madison with any other Person;
  - (v) acquire (by merger, amalgamation, consolidation or acquisition of shares or assets) any corporation, partnership or other business organization or division thereof, or make any investment therein either by purchase of shares or securities, contributions of capital or property transfer;
  - (vi) acquire any assets with the exception of the commitments contemplated by the Madison Budget;
  - (vii) enter into a credit facility, incur, extend, renew or replace any indebtedness for borrowed money or any other material liability or obligation, or issue any debt securities or assume, guarantee, endorse or otherwise become responsible for, the obligations of any other individual or Person, or make any loans or advances, or amounts in respect of fees payable to legal, financial and other advisors other than the Madison Transaction Costs, costs in the ordinary course of business consistent with past practice and costs or amounts otherwise permitted under this Section 3.3(h);
  - (viii) pay, settle, discharge or satisfy any material claims, liabilities, litigation, lawsuits, arbitrations, proceedings or obligations other than as reflected or reserved against in the Madison Financial Statements or otherwise in the ordinary course of business consistent with past practice;

- (ix) authorize, recommend or propose any release or relinquishment of any right under any material Contract;
  - (x) waive, release, grant or transfer any material rights of value or modify or change in any material respect any existing license, Madison Concession Documents, lease, material Contract, production sharing agreement, government land concession or other material document;
  - (xi) except as disclosed in the Madison Disclosure Letter, enter into any contract providing for abandonment or decommissioning of any of the Madison Projects without the prior written consent of Sea Dragon;
  - (xii) enter into or terminate any hedges, swaps or other financial instruments or like transactions;
  - (xiii) enter into any agreements for the sale of production having a term of more than thirty (30) days;
  - (xiv) enter into any material consulting Contract or operating agreement that: (a) cannot be terminated on 30 days' or less notice without penalty; or (b) alone, or in the aggregate with any other consulting Contract or operating agreements, would create an obligation in excess of \$100,000;
  - (xv) enter into any Contracts or transactions with any officer or director of Madison;
  - (xvi) enter into any new strategic alliances, partnerships, joint ventures or research studies; or
  - (xvii) authorize or propose any of the foregoing, or enter into or modify any material Contract, agreement, commitment or arrangement with respect to any matter described in the foregoing provisions of this Section 3.3(h);
- (i) other than as contemplated by Section 2.6, Madison shall not make any payment to any employee, officer or director outside of their ordinary and usual compensation for services provided unless required to do so by Applicable Laws;
- (j) Madison shall not:
- (i) grant any officer, director or employee or consultant an increase in compensation in any form;
  - (ii) grant any general salary increase;
  - (iii) employ or offer to employ any new officer without the approval of Sea Dragon in writing;
  - (iv) take any action with respect to the amendment or grant of any "change of control", severance or termination pay policies or arrangements for any directors, officers or employees;
  - (v) amend any incentive plan or the terms of any outstanding rights thereunder; or
  - (vi) advance any loan to any officer, director or any other party not at arm's length to Madison.
- (k) except pursuant to the Madison Option Plan, Madison shall not adopt or amend or make any contribution to any bonus, employee benefit plan, profit sharing, option, common share, deferred compensation, insurance, incentive compensation, other compensation or other similar plan (or amend any outstanding rights thereunder), agreement, common share

incentive or purchase plan, fund or arrangement for the benefit of directors, officers, employees or consultants, except as is necessary to comply with Applicable Laws or with respect to existing provisions of any such plans, programs, arrangements or agreements;

- (l) Madison shall withhold from any payment made to any of its present or former employees, officers or directors in respect of any payments contemplated by this Agreement, all amounts required by law or administrative practice to be withheld by it on account of Taxes and other source deductions;
- (m) Madison shall use its reasonable commercial efforts to cause its current insurance (or re-insurance) policies not to be cancelled or terminated or any of the coverage thereunder to lapse, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance or re-insurance companies of nationally recognized standing satisfactory to Sea Dragon, acting reasonably, providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies for substantially similar premiums are in full force and effect, and Madison will pay all premiums in respect of such insurance policies that become due after the date hereof;
- (n) Madison shall not make any amendment to outstanding Madison Options without prior written consent of Sea Dragon other than as may be required to accommodate the treatment of Madison Options as contemplated by Section 2.6;
- (o) Madison shall not make any amendment to outstanding Madison Warrants without prior written consent of Sea Dragon other than as may be required to accommodate the treatment of Madison Warrants as contemplated by Section 2.6;
- (p) except as contemplated herein, Madison shall not take any action, refrain from taking any action, or permit any action to be taken that would render, or may reasonably be expected to render, any representation or warranty made by it in this Agreement untrue in any material respect at any time prior to the Effective Date or termination of this Agreement, whichever first occurs;
- (q) Madison shall promptly notify Sea Dragon in writing of any Material Adverse Change with respect to Madison or of any change in any representation or warranty provided by Madison in this Agreement which change is or may be of such a nature as to render any representation or warranty misleading or untrue in any material respect and Madison shall in good faith discuss with Sea Dragon any such change in circumstances (actual, anticipated, contemplated, or to the knowledge of Madison, threatened) which is of such a nature that there may be a reasonable question as to whether notice need be given to Sea Dragon pursuant to this provision;
- (r) Madison shall promptly advise Sea Dragon in writing of any material breach by Madison of any covenant, obligation or agreement contained in this Agreement;
- (s) Madison shall advise Sea Dragon, as Sea Dragon may request, and on a daily basis on each of the last ten Business Days prior to the proxy cut-off date for the Madison Meeting, as to the aggregate tally of the proxies received by Madison in respect of the Arrangement Resolution;
- (t) Madison shall use its reasonable commercial efforts to obtain and maintain the Third Party Approvals applicable to it and provide the same to Sea Dragon on or prior to the Effective Date;
- (u) Madison will use its reasonable commercial efforts to assist Sea Dragon in its efforts to obtain conditional approval for the listing of the Sea Dragon Shares to be issued or made issuable pursuant to the Arrangement on the TSXV;
- (v) Madison shall take all commercially reasonable actions to give effect to the transactions contemplated by this Agreement and the Plan of Arrangement;

- (w) Madison shall ensure that the Madison Information Circular (other than any Sea Dragon Information included in the Madison Information Circular that was provided to Madison by Sea Dragon expressly for inclusion in the Madison Information Circular) complies with Applicable Laws and, without limiting the generality of the foregoing, that the Madison Information Circular will not contain a Misrepresentation and provides Madison Shareholders with information in sufficient detail to permit them to form a reasoned judgement concerning the matters before them, and, in that regard, the Madison Information Circular will set out Sea Dragon Information in the form approved by Sea Dragon and shall include, without limitation:
- (i) any financial statements required to be included therein in accordance with Applicable Laws;
  - (ii) based upon, among other things, the opinion of FirstEnergy, the determination of the Madison Board that the Arrangement is in the best interests of Madison and the Madison Shareholders, and the recommendation that Madison Shareholders vote in favour of the Arrangement; and
  - (iii) the fairness opinion of FirstEnergy that the consideration in respect of the Arrangement is fair, from a financial point of view, to Madison Shareholders;
- (x) Madison will assist with the preparation of the Sea Dragon Information Circular and will provide to Sea Dragon, in a timely manner, all information as may be reasonably requested by Sea Dragon with respect to Madison and its directors and officers for inclusion in the Sea Dragon Information Circular and any amendments or supplements thereto, in each case complying in all material respects with all applicable legal requirements on the date of issue thereof;
- (y) Madison shall indemnify and save harmless Sea Dragon and its directors, officers, employees, advisors and agents from and against any and all liabilities, claims, demands, losses, costs, damages and expenses (excluding any loss of profits or consequential damages) to which Sea Dragon or its directors, officers, employees, advisors or agents may be subject or which Sea Dragon, its affiliates or subsidiaries or their respective directors, officers, employees, advisors or agents may suffer, whether under the provisions of any statute or otherwise, in any way caused by, or arising, directly or indirectly, from or in consequence of:
- (i) any Misrepresentation or alleged Misrepresentation included in the Madison Information Circular or the Madison Information included in the Sea Dragon Information Circular or in any material prepared by or on behalf of Madison in connection with the application for the Interim Order or the Final Order;
  - (ii) any order made or any inquiry, investigation or proceeding by any securities commission or other competent authority based upon any untrue statement or omission or alleged untrue statement or omission of a Material Fact or any Misrepresentation or any alleged Misrepresentation included in the Madison Information Circular or in any material prepared by or on behalf of Madison in connection with the transactions contemplated by this Agreement; and
  - (iii) Madison not complying with any requirement of Applicable Laws in connection with the transactions contemplated in this Agreement;
- except that Madison shall not be liable in any such case to the extent that any such liabilities, claims, demands, losses, costs, damages and expenses arise out of or are based upon any Misrepresentation or alleged Misrepresentation in the Sea Dragon Information Circular (other than the Madison Information), the Sea Dragon Information included in the Madison Information Circular, the negligence of Sea Dragon or the non-compliance by Sea Dragon with any requirement of Applicable Laws in connection with the transactions contemplated by this Agreement;
- (z) Madison shall provide notice to Sea Dragon of the Madison Meeting and allow Sea Dragon's representatives and legal counsel to attend such Madison Meeting;

- (aa) subject to Section 10.4, except for proxies and other non-substantive communications with securityholders, Madison will furnish promptly to Sea Dragon or Sea Dragon's counsel, a copy of each notice, report, schedule or other document delivered, filed or received by Madison in connection with: (i) the Arrangement; (ii) the Madison Meeting; (iii) any filings under Applicable Laws in connection with the Agreement; and (iv) any dealings with Governmental Authorities in connection with the transactions contemplated hereby;
- (bb) management of Madison shall solicit proxies to be voted at the Madison Meeting in favour of matters to be considered at the Madison Meeting, including the Arrangement Resolution;
- (cc) Madison shall conduct the Madison Meeting in accordance with its constating documents and by-laws and any other instrument governing the Madison Meeting and as otherwise required by Applicable Laws;
- (dd) Madison shall promptly advise Sea Dragon of the number of Madison Shares for which Madison receives notices of dissent or written objections to the Arrangement and provide Sea Dragon with copies of such notices and written objections, and subject to Applicable Laws, shall provide Sea Dragon with an opportunity to review and comment upon any written communications proposed to be sent by or on behalf of Madison to any Madison Shareholder exercising or purporting to exercise Dissent Rights in relation to the Arrangement Resolution and reasonable consideration shall be given to any comments made by Sea Dragon and its counsel prior to sending any such written communications. Madison shall not settle any claims with respect to Dissent Rights without the prior written consent of Sea Dragon (which consent not to be unreasonably withheld, conditioned or delayed);
- (ee) Madison shall:
- (i) duly and on a timely basis file all Tax Returns required to be filed by it on or after the date hereof and all such Tax Returns will be true, complete and correct in all material respects;
  - (ii) timely pay all Taxes shown on such Tax Returns;
  - (iii) not make or rescind any material express or deemed election relating to Taxes, or file any amended Tax Returns where the result of such action is inconsistent with past practice;
  - (iv) not make a request for a Tax ruling or enter into a closing agreement with any Governmental Authority;
  - (v) not settle any claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to a material amount of Taxes;
  - (vi) not make any changes in financial or Tax accounting methods, principles, policies or practices, except as required by IFRS or under Applicable Laws; and
  - (vii) properly reserve (and reflect such reserves in its books and records and financial statements) in accordance with IFRS, for all Taxes accruing in respect of Madison which are not due or payable prior to the Effective Date;
- (ff) Madison shall not make any Tax filings outside the ordinary course of business, including making, amending or rescinding any Tax Return, election or designation, without the consent of Sea Dragon, such consent not to be unreasonably withheld; and
- (gg) prior to Madison or the Madison Board or any committee of the Madison Board accepting, recommending, approving or entering into a definitive agreement to implement a Superior Proposal, Madison shall ensure that it has available funds to permit the payment of the Sea Dragon Termination Fee.



### 3.4 Mutual Covenants Regarding the Arrangement

From the date of this Agreement until the Effective Date or termination of this Agreement, each of Sea Dragon and Madison will use its reasonable commercial efforts to: (i) satisfy (or cause the satisfaction of) the conditions precedent to its obligations hereunder; (ii) not take, or cause to be taken, any action or cause anything to be done that would cause such obligations not to be fulfilled in a timely manner; and (iii) take, or cause to be taken, all other action and to do, or cause to be done, all other things necessary, proper or advisable under Applicable Laws to complete the Arrangement, including using reasonable commercial efforts:

- (a) to obtain all necessary consents, assignments, waivers and amendments to or terminations of any agreements and take such measures as may be appropriate to fulfill its obligations hereunder and to carry out the transactions contemplated hereby;
- (b) to effect all necessary registrations and filings and submissions of information requested by Governmental Authorities or required to be effected by it in connection with the Arrangement, and to obtain all necessary waivers, consents and approvals required to be obtained by it in connection with the Arrangement; and
- (c) to oppose, lift or rescind any injunction or restraining or other order seeking to stop, or otherwise adversely affecting its ability to consummate, the Arrangement and to defend, or cause to be defended, any proceedings to which it is a party or brought against it or its directors or officers challenging this Agreement or the consummation of the transactions contemplated hereby.

Each of Sea Dragon and Madison will use its reasonable commercial efforts to cooperate with the other in connection with the performance by the other of their obligations under this Section 3.4 and this Agreement including, without limitation, continuing to provide reasonable access to information and to maintain ongoing communications as between officers of Sea Dragon and Madison, subject in all cases to the Confidentiality Agreements.

### 3.5 Covenants Regarding Non-Solicitation

- (a) Each Party shall immediately cease and cause to be terminated all existing discussions and negotiations (including, without limitation, through any advisors or other parties on its behalf), with any third parties conducted before the date of this Agreement with respect to any proposal that constitutes, or may reasonably be expected to constitute or lead to an Acquisition Proposal. Each Party represents and warrants that it has not waived any standstill provisions contained in a confidentiality agreement or otherwise for any Person. Each Party shall as soon as possible request, to the extent that it is entitled to do so, and exercise all rights it has to require the return or destruction of all information provided to any third parties who have entered into a confidentiality agreement with such Party relating to an Acquisition Proposal and shall use all reasonable commercial efforts to ensure that such requests are honoured;
- (b) Neither Party shall, directly or indirectly, do or authorize or permit any of its officers, directors or employees or any financial advisor, expert or other representative retained by it (each a “**Representative**”) to do, any of the following:
  - (i) solicit, assist, initiate, encourage or in any way facilitate (including by way of furnishing information, or entering into any form of written or oral agreement, arrangement or understanding) any Acquisition Proposal or inquiries, proposals or offers regarding an Acquisition Proposal;
  - (ii) enter into or participate in any discussions or negotiations regarding an Acquisition Proposal, or furnish to any other Person any information with respect to its businesses, properties, operations, prospects or conditions (financial or otherwise) in connection with an Acquisition Proposal or otherwise cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt of any other Person to do or seek to do any of the foregoing;

- (iii) waive, modify or release any third party from or otherwise forbear in the enforcement of, or enter into or participate in any discussions, negotiations or agreements to waive modify or release any third party from or otherwise forbear in respect of, any rights or other benefits under confidential information agreements, including, without limitation, any “standstill provisions” thereunder; or
- (iv) accept, recommend, approve, agree to, endorse, or propose publicly to accept, recommend, approve, agree to, or endorse any Acquisition Proposal or agreement in respect thereto;

provided, however, that notwithstanding any other provision hereof:

- (v) each Party and its officers, directors and advisers may enter into or participate in any discussions or negotiations with a third party who (without any solicitation, initiation or encouragement, directly or indirectly, after the date of this Agreement, by such Party or any of its Representatives) seeks to initiate such discussions or negotiations that does not result from a breach of this Section 3.5 and, subject to execution of a confidentiality and standstill agreement substantially similar to the Confidentiality Agreements (provided that such confidentiality agreement shall provide for disclosure thereof (along with all information provided thereunder) to the Other Party as set out below), may furnish to such third party information concerning such Party and its business, properties and assets, in each case if, and only to the extent that:
  - (A) the third party has first made a written *bona fide* Acquisition Proposal which is a Superior Proposal; and
  - (B) prior to furnishing such information to or entering into or participating in any such discussions or negotiations with such third party, such Party provides prompt notice to the Other Party to the effect that it is furnishing information to or entering into or participating in discussions or negotiations with such third party together with a copy of the confidentiality and standstill agreement referenced above and, if not previously provided to the Other Party, copies of all information provided to such third party concurrently with the provision of such information to such third party, and provided further that such Party shall notify the Other Party orally and in writing of any inquiries, offers or proposals with respect to a Superior Proposal (which written notice shall include, without limitation, a copy of any such proposal (and any amendments or supplements thereto), the identity of the Person making it, if not previously provided to the Other Party, copies of all information provided to such Party and all other information reasonably requested by the Other Party), within 24 hours of the receipt thereof, shall keep the Other Party informed of the status and details of any such inquiry, offer or proposal and answer the Other Party’s questions with respect thereto; and
- (vi) each Party and its officers, directors and advisers may accept, recommend, approve or enter into an agreement to implement a Superior Proposal from a third party, but only if prior to such acceptance, recommendation, approval or implementation, the board of directors of such Party shall have concluded in good faith, after considering all proposals to adjust the terms and conditions of this Agreement as contemplated by Section 3.5(d) and after receiving the advice of outside counsel as reflected in minutes of the board of directors of such Party, that the taking of such action is necessary for the board of directors of such Party in discharge of its fiduciary duties under Applicable Laws and such Party complies with its obligations set forth in Section 3.5(d) and, in the case of Madison, terminates this Agreement in accordance with Section 8.1(a)(iv) and concurrently therewith pays the Sea Dragon Termination Fee to Sea Dragon and, in the case of Sea Dragon, terminates this Agreement in accordance with Section 8.1(a)(vi) and concurrently therewith pays the Madison Termination Fee to Madison.

- (c) Each Party shall promptly (and in any event within 24 hours) notify the Other Party (at first orally and then in writing) of any Acquisition Proposal (or any amendment thereto) or any request for non-public information relating to such Party or its assets, or any amendments to the foregoing. Such notice shall include a copy of any written Acquisition Proposal (and any amendment thereto) which has been received or, if no written Acquisition Proposal has been received, a description of the material terms and conditions of, and the identity of the Person making any inquiry, proposal, offer or request. Such Party shall also provide such further and other details of the Acquisition Proposal or any amendment thereto as the Other Party may reasonably request. Such Party shall keep the Other Party promptly and fully informed of the status, including any change to material terms, of any Acquisition Proposal or any amendment thereto, shall respond promptly to all inquiries by the Other Party with respect thereto, and shall provide the Other Party with copies of all correspondence and other written material sent to or provided to such Party by any Person in connection with such inquiry, proposal, offer or request or sent or provided by such Party to any Person in connection with such inquiry, proposal, offer or request;
- (d) Each Party shall give the Other Party, orally and in writing, at least three Business Days advance notice of any decision by the board of directors of such Party to accept, recommend, approve or enter into an agreement to implement a Superior Proposal, shall set out the reasonable determination of such board of directors, in consultation with its financial advisors, of the financial value of the consideration offered by such third party to the shareholders of such Party under such Superior Proposal, which notice shall confirm that such board of directors has determined that such Acquisition Proposal constitutes a Superior Proposal, shall identify the third party making the Superior Proposal and provide a copy thereof and any amendments thereto. During the three Business Days period commencing on the day following delivery of such notice, the Party delivering such notice agrees not to accept, recommend, approve or enter into any agreement to implement such Superior Proposal and shall not withdraw, redefine, modify or change its recommendation in respect of the Arrangement. In addition, during the three Business Days period such Party shall, and shall cause its financial and legal advisors to, negotiate in good faith with the Other Party and its financial and legal advisors to make such adjustments in the terms and conditions of this Agreement and the Arrangement as would enable the Other Party to proceed with the Arrangement as amended rather than the Superior Proposal. In the event the Other Party proposes to amend this Agreement and the Arrangement such that the Superior Proposal ceases to be a Superior Proposal and so advises the board of the Party receiving the Acquisition Proposal prior to the expiry of such two Business Days period, the board of directors of the Party receiving the Acquisition Proposal shall not accept, recommend, approve or enter into any agreement to implement such Superior Proposal and shall not withdraw, redefine, modify or change its recommendation in respect of the Arrangement and the Parties shall enter into an amended version of this Agreement reflecting such proposed amendments;
- (e) If required by the Other Party, the Party receiving the Acquisition Proposal shall, subsequent to the three Business Days period contemplated by Section 3.5(d) (and in no case during such period) reaffirm its recommendation of the Arrangement by press release promptly (and in any event within two Business Days of being requested to do so by the Other Party) in the event that: (i) any Acquisition Proposal which is publicly announced is determined not to be a Superior Proposal; or (ii) the Parties have entered into an amended agreement pursuant to Section 3.5(d) which results in any Acquisition Proposal made to such Party not being a Superior Proposal;
- (f) Each Party agrees that all information that may be provided to it by the Other Party with respect to any Acquisition Proposal pursuant to this Section 3.5 shall be treated as if it were "Disclosed Information" as that term is defined in the Confidentiality Agreements and shall not be disclosed or used except in accordance with the provisions of the Confidentiality Agreements or in order to enforce its rights under this Agreement in legal proceedings;
- (g) Each Party shall ensure that its Representatives are aware of the provisions of this Section 3.5 and shall be responsible for any breach of this Section 3.5 by any of them; and

- (h) Nothing in this Agreement shall prevent the boards of directors of either Party from complying with section 2.17 of MI 62-104 and similar provisions under Applicable Securities Laws relating to the provision of directors' circulars in respect of an Acquisition Proposal.

### 3.6 Provision of Information and Integration of Operations

Until the Effective Date or termination of this Agreement, each Party shall provide the Other Party and its representatives access, during normal business hours, to its premises (including field offices and sites), books, contracts, records, computer systems, properties, employees and management personnel and shall furnish to Sea Dragon or Madison, as the case may be, all information concerning its business, properties and personnel as Sea Dragon or Madison may reasonably request, which information shall remain subject to the Confidentiality Agreements, in order to permit Sea Dragon to be in a position to expeditiously and efficiently integrate the business and operations of Madison immediately upon but not prior to the Effective Date. Without limitation, each Party agrees to keep the Other Party fully apprised in a timely manner of every circumstance, action, occurrence or event occurring or arising after the date hereof that would be relevant and material to a prudent operator of the business and operations of Sea Dragon or Madison.

## ARTICLE 4 REPRESENTATIONS AND WARRANTIES

### 4.1 Representations and Warranties of Sea Dragon

Sea Dragon represents and warrants to and in favour of Madison and acknowledges that Madison is relying upon such representations and warranties in connection with the matters contemplated by this Agreement and the consummation of the Arrangement:

- (a) Organization and Qualification. Each member of the Sea Dragon Group has been duly incorporated, amalgamated or created, as the case may be, and is validly subsisting under the Applicable Laws of its jurisdiction of formation and has the requisite power and authority to own its assets and properties as now owned and to carry on its business as now conducted. Each member of the Sea Dragon Group is duly registered or authorized to conduct its affairs or do business, as applicable, and is in good standing in each jurisdiction in which the character of its assets and properties, owned, leased, licensed or otherwise held, or the nature of its activities makes such registration or authorization necessary, except where the failure to be so registered or authorized would not, individually or in the aggregate, have a Material Adverse Effect on Sea Dragon. Copies of the constating documents of each member of the Sea Dragon Group provided to Madison, together with all amendments to date, are accurate and complete as of the date hereof and have not been amended or superseded.
- (b) Authority Relative to this Agreement. Sea Dragon has the requisite corporate power and authority to execute this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement and the consummation by Sea Dragon of the transactions contemplated by the Arrangement have been duly authorized by the Sea Dragon Board and no other proceedings on the part of Sea Dragon are necessary to authorize this Agreement, the Arrangement or the other transactions contemplated herein other than the approval by the Sea Dragon Shareholders of the Sea Dragon Resolutions. This Agreement has been duly executed and delivered by Sea Dragon and constitutes a legal, valid and binding obligation of Sea Dragon enforceable against it in accordance with its terms, subject to the qualification that such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other Applicable Laws of general application relating to or affecting rights of creditors and that equitable remedies, including specific performance, are discretionary and may not be ordered.
- (c) Subsidiaries. Sea Dragon has no subsidiaries, other than the subsidiaries set out in the Sea Dragon Disclosure Letter (collectively, with Sea Dragon, the "**Sea Dragon Group**") and Sea Dragon owns, directly or indirectly, all of the outstanding voting and equity securities of such subsidiaries. All of the outstanding shares and all other ownership interests in the subsidiaries of Sea Dragon are duly authorized, validly issued and fully paid and non-assessable, and all such shares and other ownership interests held directly or indirectly by Sea Dragon, are owned by Sea Dragon free and clear of all Encumbrances (other than Permitted Encumbrances),

except pursuant to restrictions on transfer contained in the articles of such subsidiary. There are no rights of first refusal or similar rights restricting the transfer of Sea Dragon Shares contained in shareholders, partnership, joint venture or similar agreements or pursuant to existing financing arrangements and there are no outstanding contractual or other obligations of any member of the Sea Dragon Group to repurchase, redeem or otherwise acquire any of their respective securities or with respect to the voting or disposition of any outstanding securities of any of them.

(d) No Violations. Except as contemplated by this Agreement:

(i) neither the execution and delivery of this Agreement by Sea Dragon nor the consummation of the transactions contemplated by the Arrangement nor compliance by Sea Dragon with any of the provisions hereof will:

(A) violate, conflict with, or result in a breach of any provision of, require any consent, approval or notice under, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) or result in a right of termination or acceleration under, or result in the creation of any Encumbrance (other than Permitted Encumbrances) upon any of the properties or assets of the Sea Dragon Group or cause any indebtedness to come due before its stated maturity or cause any credit to cease to be available, under any of the terms, conditions or provisions of: (1) articles or by-laws of any member of the Sea Dragon Group; or (2) any note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other instrument or obligation to which any member of the Sea Dragon Group is a party or to which it, or any of its properties or assets, may be subject or by which any member of the Sea Dragon Group is bound (subject to compliance with the provisions of the Sea Dragon Credit Facility); or

(B) subject to compliance with applicable statutes and regulations, violate any judgment, ruling, order, writ, injunction, determination, award, decree, statute, ordinance, rule or regulation applicable to a member of the Sea Dragon Group or any of its properties or assets,

(except, in the case of each of clauses (A) and (B) above, for such violations, conflicts, breaches, defaults, terminations, accelerations or creations of Encumbrances (other than Permitted Encumbrances) which, or any consents, approvals or notices which if not given or received, would not, individually or in the aggregate, have any Material Adverse Effect on Sea Dragon, or affect the ability of Sea Dragon to consummate the transactions contemplated by the Arrangement); or

(C) cause the suspension or revocation of any authorization, consent, approval or license currently in effect which would, individually or in the aggregate, have a Material Adverse Effect on Sea Dragon; and

(ii) other than in connection with or in compliance with the provisions of Applicable Laws in relation to the completion of the Arrangement or which are required to be fulfilled post Arrangement, and except for the requisite approvals of the Sea Dragon Shareholders of the Sea Dragon Resolutions and of the TSXV to the issue of Sea Dragon Shares under the Arrangement and approval required under the Sea Dragon Credit Facility:

(A) there are no legal impediments to Sea Dragon's consummation of the Arrangement; and

(B) no filing or registration with, or authorization, consent or approval of, any domestic or foreign public body or authority is required of Sea Dragon in connection with the consummation of the Arrangement, except for such filings or registrations which, if not made, or for such authorizations, consents or approvals which, if not received, would not, individually or in

the aggregate, have a Material Adverse Effect on Sea Dragon, or affect the ability of Sea Dragon to consummate the Arrangement.

- (e) Sea Dragon Shares. Sea Dragon has reserved and allotted a sufficient number of Sea Dragon Shares as are issuable pursuant to the Arrangement and payment therefor, and, subject to the terms and conditions of the Arrangement, such Sea Dragon Shares will be validly issued as fully paid and non-assessable to previous holders of Madison Shares pursuant to the Arrangement and payment therefor, will be free from Encumbrances created by or through Sea Dragon, will not have been issued in violation of any pre-emptive rights or other contractual rights to purchase securities issued by Sea Dragon, and upon compliance with the listing conditions imposed by the TSXV in connection with the Arrangement, will be listed and posted for trading on the TSXV.
- (f) Litigation. There are no claims, actions, suits, proceedings, investigations, arbitrations, audits, grievances, assessments or reassessments in existence or pending or, to the knowledge of Sea Dragon, threatened, affecting or that would reasonably be expected to affect the Sea Dragon Group or affecting or that would reasonably be expected to affect any of their respective properties or assets at law or in equity or before or by any court or Governmental Authority which claim, action, suit, proceeding, investigation, arbitration, audit, grievance, assessment or reassessment involves a possibility of any judgment against or liability of any member of the Sea Dragon Group which would reasonably be expected to cause, individually or in the aggregate, a Material Adverse Change to Sea Dragon, or would affect the ability of Sea Dragon to consummate the Arrangement.
- (g) Taxes, etc.
- (i) Except to the extent that any matter referred to in this Section 4.1(g)(i) does not, and would not reasonably be expected to, have a Material Adverse Effect on Sea Dragon or as disclosed in the Sea Dragon Disclosure Letter:
- (A) all Tax Returns required to be filed by or on behalf of any member of the Sea Dragon Group for periods ended on and prior to the date of this Agreement have been duly filed on a timely basis and such Tax Returns are complete and correct in all material respects. All material Taxes shown to be payable on such Tax Returns or on subsequent assessments or reassessments with respect thereto have been paid in full on a timely basis, and no other material Taxes are payable by any member of the Sea Dragon Group with respect to items or periods covered by such Tax Returns;
- (B) each member of the Sea Dragon Group has duly and timely paid or charged, collected or withheld and remitted to the appropriate Taxing Authority all Taxes, including any instalments or prepayments of Taxes, that are due and payable whether or not shown as being due on any Tax Return, or, where payment is not yet due, Sea Dragon has established adequate accruals in conformity with IFRS in the Sea Dragon Financial Statements for the period covered by such financial statements for any Taxes, including income taxes and related future taxes, if applicable, that have not been paid, whether or not shown as being due on any Tax Return. Sea Dragon has, in all material respects, made adequate provision or disclosure in its books and records for any Taxes accruing in respect of any period subsequent to the period covered by such financial statements, whether or not shown as being due on any Tax Return;
- (C) no material deficiencies have been asserted in writing by any Governmental Authority with respect to Taxes of any member of the Sea Dragon Group that have not yet been settled;
- (D) no member of the Sea Dragon Group is a party to any tax sharing, tax indemnity or tax allocation agreement or arrangement or, in the alternative, no member of the Sea Dragon Group has nor could have any material

liabilities or obligations in respect of Taxes under any such tax sharing, tax indemnity or tax allocation agreement;

- (E) no member of the Sea Dragon Group is a party to any action or proceeding for assessment or collection of a material amount of Taxes, nor, to the knowledge of Sea Dragon, has such an event been asserted in writing by any Governmental Authority or threatened against any member of the Sea Dragon Group or any of their respective assets. No waiver or extension of any statute of limitations is in effect with respect to material Taxes or material Tax Returns of any member of the Sea Dragon Group. No audit by Taxing Authorities of any member of the Sea Dragon Group is in process or to the knowledge of Sea Dragon, pending;
- (ii) for all periods ended on and after 31 December 2013, Sea Dragon has made available to Madison true and complete copies of: (A) income tax audit reports, statement of deficiencies, closing or other agreements received by any member of the Sea Dragon Group or on behalf of any member of the Sea Dragon Group relating to the Taxes; and (B) any Tax Returns for any member of the Sea Dragon Group; and
- (iii) Sea Dragon is resident in Canada and a “Canadian corporation” for the purposes of the ITA.
- (h) Reporting Issuer Status. Sea Dragon is a “reporting issuer” in each of the Provinces of Canada other than Quebec and is in material compliance with all Applicable Securities Laws therein and the Sea Dragon Shares are listed and posted for trading on the TSXV. Sea Dragon is not in default of any material requirements of Applicable Securities Laws in such jurisdictions or any rules or regulations of, or agreement with, the TSXV. No delisting, suspension of trading in or cease trading order with respect to the Sea Dragon Shares is pending or, to the knowledge of Sea Dragon, threatened. The documents and information comprising the Sea Dragon Public Record did not at the respective times they were filed with the relevant Securities Authorities, contain any Misrepresentation, and with respect to forward-looking information contained in the Sea Dragon Public Record, Sea Dragon had a reasonable basis for the forward-looking information or statements, unless such document or information was subsequently corrected or superseded in the Sea Dragon Public Record prior to the date hereof. Sea Dragon has timely filed with the Securities Authorities all material forms, reports, schedules, statements and other documents required to be filed by Sea Dragon with the Securities Authorities since becoming a “reporting issuer”. Sea Dragon has not filed any confidential material change report that, at the date hereof, remains confidential.
- (i) Capitalization. As of the date hereof, the authorized capital of Sea Dragon consists of an unlimited number of Sea Dragon Shares and an unlimited number of preference shares, issuable in one or more series. As of the date hereof, there are issued and outstanding 376,459,358 Sea Dragon Shares and no other shares are issued and outstanding. Other than Sea Dragon Options to acquire up to 29,200,000 Sea Dragon Shares having the terms set out in the Sea Dragon Disclosure Letter, there are no options, warrants or other rights, plans, agreements or commitments of any nature whatsoever requiring the issuance, sale or transfer by Sea Dragon of any securities of Sea Dragon (including Sea Dragon Shares) or any securities convertible into, or exchangeable or exercisable for, or otherwise evidencing a right to acquire, any securities of Sea Dragon (including Sea Dragon Shares). All outstanding Sea Dragon Shares have been duly authorized and validly issued, are fully paid and non-assessable and are not subject to, nor were they issued in violation of, any pre-emptive rights and all Sea Dragon Shares issuable upon the exercise of Sea Dragon Options and rights in accordance with the terms of such options and rights will be duly authorized and validly issued as fully paid and non-assessable and will not be subject to any pre-emptive rights. Other than the Sea Dragon Shares, there are no securities of Sea Dragon outstanding which have the right to vote generally (except for the Sea Dragon Options which are exercisable or convertible into or exchangeable for securities having the right to vote generally) on any matter.
- (j) Equity Monetization Plans. Other than the Sea Dragon Options, there are no outstanding stock appreciation rights, phantom equity, profit sharing plan or similar rights, agreements,

arrangements or commitments payable to any employee of Sea Dragon and which are based upon the revenue, value, income or any other attribute of Sea Dragon.

- (k) No Orders. No order, ruling or determination having the effect of suspending the sale of, or ceasing the trading of, the Sea Dragon Shares or any other securities of Sea Dragon has been issued by any Governmental Authority and is continuing in effect and no proceedings for that purpose have been instituted, are pending or, to the knowledge of Sea Dragon, are contemplated or threatened under any Applicable Laws or by any Governmental Authority.
- (l) Reports. Sea Dragon has not withheld from Madison any material information or documents concerning Sea Dragon or its assets or liabilities during the course of Madison's review of Sea Dragon and its assets. All representations or warranties contained herein and statements contained in the Sea Dragon Public Record and in any schedule or other disclosure document provided or to be provided to Madison by Sea Dragon pursuant hereto (including without limitation, any matter disclosed in writing by Sea Dragon to Madison on or prior to the date hereof) did not contain any untrue statement of a Material Fact or omit to state a Material Fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading in any material respect and complied in all material respects with all Applicable Laws. The Sea Dragon Financial Statements, and any interim or annual financial statements filed by or on behalf of Sea Dragon on and after the date hereof with the Securities Authorities, in compliance, or intended compliance, with any Applicable Laws, were or, when so filed, will have been prepared in accordance with IFRS (except in the case of unaudited interim statements, to the extent they may not include footnotes, are subject to normal year-end adjustments or may be condensed or summary statements), and present or, when so filed, will present fairly in accordance with IFRS the financial position, results of operations and changes in financial position of Sea Dragon as of the dates thereof and for the periods indicated therein (subject, in the case of any unaudited interim financial statements, to normal year-end audit adjustments). There has been no material change in Sea Dragon's accounting policies, except as described in the notes to the Sea Dragon Financial Statements, since 1 January 2014.
- (m) Disclosure Controls. Sea Dragon has established and maintains controls and procedures to ensure that material information required to be disclosed by Sea Dragon, including its subsidiaries, under Applicable Securities Laws is accumulated and communicated to management of Sea Dragon, including Sea Dragon's Chief Executive Officer and Chief Financial Officer, by others within those entities, as appropriate to allow timely decisions regarding required disclosure.
- (n) Books and Records. The financial books, records and accounts of each member of the Sea Dragon Group, in all material respects: (i) have been maintained in accordance with good business practices on a basis consistent with prior years; (ii) are stated in reasonable detail and accurately and fairly reflect the material transactions and dispositions of the assets of the Sea Dragon Group; and (iii) accurately and fairly reflect the basis for the Sea Dragon Financial Statements. The corporate records and minute books of each member of the Sea Dragon Group have been maintained substantially in compliance with Applicable Laws and are complete and accurate in all material respects, and full access thereto has been provided to Madison.
- (o) Absence of Certain Changes or Events. Except for the Arrangement or any action taken in accordance with this Agreement, since 31 December 2014:
- (i) each member of the Sea Dragon Group has conducted its business only in the ordinary course of business substantially consistent with past practice; other than as disclosed in the Sea Dragon Public Record;
  - (ii) no liability or obligation of any nature (whether absolute, accrued, contingent or otherwise) material to Sea Dragon has been incurred other than in the ordinary course of business;
  - (iii) there has been no Material Adverse Change in respect of Sea Dragon; and



- (iv) Sea Dragon has not, and to the knowledge of Sea Dragon, no director, officer, employee or auditor of any member of the Sea Dragon Group, has received or otherwise had or obtained knowledge of any fraud, material complaint, allegation, assertion or claim, whether written or oral, regarding fraud or the accounting or auditing practices, procedures, methodologies or methods of any member of the Sea Dragon Group or its internal accounting controls.
- (p) Registration, Exemption Orders, Licenses, etc. To the knowledge of Sea Dragon, each member of the Sea Dragon Group has obtained and is in compliance with all Governmental Authorizations necessary in connection with its business as it is now, individually or in the aggregate, being or proposed to be conducted, except where the failure to obtain or be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Sea Dragon. Such Governmental Authorizations are in full force and effect in accordance with their terms, and no event has occurred or circumstance exists that (with or without notice or lapse of time) may constitute or result in a violation of any such Governmental Authorization, except where the violation would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Sea Dragon. No proceedings are pending or, to the knowledge of Sea Dragon, threatened, which could result in the revocation or limitation of any Governmental Authorization, and all steps have been taken and filings made on a timely basis with respect to each Governmental Authorization and its renewal, except where the failure to take such steps and make such filings would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Sea Dragon. No Governmental Authorization will, to the knowledge of Sea Dragon, be impaired or adversely affected by the entering into of this Agreement or the completion of the Arrangement.
- (q) Compliance with Laws. The operations and business of the Sea Dragon Group is and has been carried out in compliance with and not in violation of any Applicable Laws, other than non-compliance or violation which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Sea Dragon or would affect the ability of Sea Dragon to consummate the Arrangement, and no member of the Sea Dragon Group has received any notice of any alleged violation of any such Applicable Laws other than where such notice would not reasonably be expected to have a Material Adverse Effect on Sea Dragon or would affect the ability of Sea Dragon to consummate the Arrangement.
- (r) Restrictions on Business Activities. There is no judgment, injunction or order binding upon any member of the Sea Dragon Group that has or could reasonably be expected to have the effect of prohibiting, restricting or impairing its business or, individually or in the aggregate, have a Material Adverse Effect on Sea Dragon.
- (s) Non-Arm's Length Transactions. Except for amounts due as normal salaries and bonuses and in reimbursement of ordinary expenses, existing employment agreements and existing agreements respecting Sea Dragon Options and share rights entitling the holders thereof to receive Sea Dragon Shares, there are no Contracts or other transactions (including with respect to loans or other indebtedness) currently in place between any member of the Sea Dragon Group, on the one hand, and: (i) any officer, director or employee of, or consultant of any member of the Sea Dragon Group; (ii) any holder of record or beneficial owner of 10% or more of the voting securities of Sea Dragon; or (iii) any associate or affiliate of any such Person (collectively, "**Sea Dragon Related Parties**"). No Sea Dragon Related Party, owns, has or is entitled to any royalty, net profits interest, carried interest or any other Encumbrances or claims of any nature whatsoever which are based on production from the properties or assets of any member of the Sea Dragon Group or any revenue or rights attributed thereto.
- (t) Sea Dragon Projects. The Sea Dragon Projects are accurately described in the Sea Dragon Public Record in all material respects.
- (u) Title. Sea Dragon does not have reason to believe that any member of the Sea Dragon Group does not have title to or the irrevocable right to produce and sell its share of PNGs and represents and warrants that the PNGs are free and clear of all Encumbrances (other than Permitted Encumbrances) and other adverse claims created by, through or under Sea Dragon

and, to its knowledge, each member of the Sea Dragon Group holds its share of PNGs under valid and subsisting leases, licenses, permits, concessions, concession agreements, contracts, subleases, reservations or other agreements. To the knowledge of Sea Dragon, there are no defects, failures or impairments in the title of Sea Dragon to its assets, whether or not an action, suit, proceeding or inquiry is pending or threatened in writing or whether or not discovered by any third party, which in the aggregate, could have a Material Adverse Effect on: (i) the quantity and pre-tax present worth values of such assets; (ii) the current production volumes of Sea Dragon; or (iii) the current cash flow of Sea Dragon.

- (v) Sea Dragon Reserve Report. Sea Dragon has made available to Ryder Scott, prior to the issuance of the report prepared by Ryder Scott dated 19 February 2015 (the “**Sea Dragon Reserve Report**”) evaluating certain of the crude oil, natural gas liquids and natural gas reserves of Sea Dragon as at 31 December 2014, for the purpose of preparing the Sea Dragon Reserve Report, all information requested by Ryder Scott, which information did not contain any Misrepresentation at the time such information was provided. To the knowledge of Sea Dragon, the Sea Dragon Reserve Report complies with the requirements of Applicable Laws (including the requirements of the Canadian Oil and Gas Evaluation Handbook) and has been prepared or audited by a qualified reserves evaluator (determined in accordance with Applicable Laws) and the results thereof have been disclosed in accordance with Applicable Laws.
- (w) Work Commitments and Abandonment and De-commissioning Obligations. The Sea Dragon Disclosure Letter sets out full details of all work commitments, obligations and liabilities (including, without limitation, obligations in relation to abandonment and de-commissioning) in relation to the Sea Dragon Projects and, to the knowledge of Sea Dragon, any oil and gas properties or interests previously owned by Sea Dragon or its current or former subsidiaries to the extent the Sea Dragon Group is liable for such commitments or obligations.
- (x) Sea Dragon Credit Facility. Sea Dragon is not in default under the Sea Dragon Credit Facility and the Sea Dragon Disclosure Letter provides details with respect to the aggregate amount outstanding.
- (y) Absence of Undisclosed Liabilities. The Sea Dragon Group has no material liabilities of any nature (matured or unmatured, fixed or contingent), other than:
- (i) those set forth or adequately provided for in the most recent balance sheet and associated notes thereto included in the Sea Dragon Financial Statements (the “**Sea Dragon Balance Sheet**”);
  - (ii) those incurred in the ordinary course of business and not required to be set forth in the Sea Dragon Balance Sheet under IFRS;
  - (iii) those incurred in the ordinary course of business since the date of the Sea Dragon Balance Sheet and consistent with past practice; and
  - (iv) those incurred in connection with the execution of this Agreement.
- (z) Absence of Undisclosed Changes. There has not been any Material Change in the capital, assets, liabilities or obligations (absolute, accrued, contingent or otherwise) of Sea Dragon on a consolidated basis from the position set forth in the Sea Dragon Financial Statements (other than as have been disclosed in the Sea Dragon Public Record) and Sea Dragon has not incurred or suffered a Material Adverse Change since 31 December 2014 and since that date there have been no material facts, transactions, events or occurrences which would have a Material Adverse Effect on the capital, assets, liabilities or obligations (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of the operations of Sea Dragon (taken as a whole) which have not been disclosed in the Sea Dragon Public Record.
- (aa) No Defaults. No member of the Sea Dragon Group is in default under, and there exists no event, condition or occurrence which, after notice or lapse of time or both, would constitute such a default under, any contract, agreement or licence to which it is a party or by which it is

bound which would, if terminated or upon exercise of a right made available to a third party solely by reason of such a default, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Sea Dragon. No member of the Sea Dragon Group is in violation of any Applicable Laws which violation could reasonably be expected to have a Material Adverse Effect on Sea Dragon.

- (bb) Pre-emptive Rights. Sea Dragon does not have any knowledge of any outstanding rights of first refusal or other pre-emptive rights of purchase which entitle any Person to acquire any of the rights, title, interests, property, licenses or assets of the Sea Dragon Group that will be triggered or accelerated by the Arrangement.
- (cc) Environmental. In respect of the properties which a member of the Sea Dragon Group operates and, to the knowledge of Sea Dragon in respect of (A) current properties for which a member of the Sea Dragon Group is not the operator, (B) former properties which a member of the Sea Dragon Group has operated to the extent the Sea Dragon Group may be liable for obligations relating to such former properties, and (C) former properties for which a member of the Sea Dragon Group was not the operator to the extent the Sea Dragon Group may be liable for obligations relating to such former properties, except to the extent that any violation or other matter referred to in this Section 4.1(cc) does not, and would not reasonably be expected to, have a Material Adverse Effect on Sea Dragon:
- (i) no member of the Sea Dragon Group is or has been in violation of any applicable Environmental Laws;
  - (ii) each member of the Sea Dragon Group has operated its business at all times and has received, handled, used, stored, treated, shipped and disposed of all Hazardous Substances in compliance with Environmental Laws;
  - (iii) there have been no spills, releases, deposits or discharges of Hazardous Substances, or wastes into the earth, subsoil, underground waters, air or into any body of water or any municipal or other sewer or drain water systems, or on or underneath any location which is or was currently or formerly owned, leased, sub-leased, licensed to, farmed-out to or otherwise operated by a member of the Sea Dragon Group, that have not been remediated in accordance with all Applicable Laws;
  - (iv) no orders, directions or notices have been issued and remain outstanding pursuant to any Environmental Laws relating to the business or assets of a member of the Sea Dragon Group of which such member has notice;
  - (v) there has been no failure to report to the proper Governmental Authority the occurrence of any event which is required to be so reported by any Environmental Law;
  - (vi) each member of the Sea Dragon Group holds all Environmental Approvals required in connection with the operation of its business and the ownership and use of such assets, all Environmental Approvals are in full force and effect, and no member of the Sea Dragon Group has received any notification pursuant to any Environmental Laws that any work, repairs, constructions or capital expenditures are required to be made by it as a condition of continued compliance with any Environmental Laws or Environmental Approvals, or that any Environmental Approval referred to above is about to be reviewed, made subject to limitation or conditions, revoked, withdrawn or terminated;
  - (vii) there are no pending or, to the knowledge of Sea Dragon, threatened claims, liens or Encumbrances (other than Permitted Encumbrances) resulting from Environmental Laws with respect to any of the properties of a member of the Sea Dragon Group currently or formerly owned, leased, operated or otherwise used; and

(viii) no member of the Sea Dragon Group has assumed or retained by contract or operation of law any losses, expenses, claims, damages or liabilities of any third-party pursuant to applicable Environmental Laws.

(dd) Material Contracts. The Sea Dragon Disclosure Letter lists all of the following Contracts, correct, current and complete copies of which have been made available to Madison (the “**Sea Dragon Material Contracts**”): (i) all Contracts containing any rights on the part of any Person, including joint venture partners or entities, to acquire oil and gas or other property rights from a member of the Sea Dragon Group (including, without limitation, any offtake or sales agreements); (ii) all Contracts containing any rights on the part of a member of the Sea Dragon Group to acquire oil and gas or other property rights from any Person (including, without limitation, any offtake or sales agreements); (iii) any Contract that purports to limit the right of any of Sea Dragon or its affiliates to (A) engage in any line of business, or (B) compete with any Person or operate in any location; (iv) any Contract in respect of which the applicable transaction has not yet been consummated for the acquisition or disposition of assets or securities or other equity interests of another Person or which contain any indemnification or other obligations which survive; (v) any standstill or similar Contract currently restricting the ability of a member of the Sea Dragon Group to offer to purchase or purchase the assets or equity securities of another Person; (vi) all Contracts which entitle a party to rights of termination, the terms or conditions of which may or will be altered, or which entitle a party to any fee, payment, penalty or increased consideration, in each case as a result of the execution of this Agreement, the consummation of the transactions contemplated hereby or a “change in control” of a member of the Sea Dragon Group including, without limitation, any seismic license or similar agreements; and (vii) all Contracts pursuant to which a member of the Sea Dragon Group will, or may reasonably be expected to, result in a requirement of such member of the Sea Dragon Group to expend more than an aggregate of \$100,000 or receive or be entitled to receive revenue of more than \$100,000 in either case in the next 12 months, or is out of the ordinary course of business of Sea Dragon. Each of such Material Contracts constitutes a legally valid and binding agreement of such member of the Sea Dragon Group, enforceable in accordance with their respective terms and, to the knowledge of Sea Dragon, no party thereto is in default in the observance or performance of any term or obligation to be performed by it under any such contract or agreement which is material to the business of Sea Dragon (taken as a whole) and no event has occurred which with notice or lapse of time or both would directly or indirectly constitute such a default, in any such case which default or event would reasonably be expected to have a Material Adverse Effect on Sea Dragon.

(ee) Employee Benefit Plans. Sea Dragon has made available to Madison true, complete and correct copies of each employee benefits plan (collectively, the “**Sea Dragon Plans**”) covering active, former or retired employees of the Sea Dragon Group, any related trust agreement, annuity or insurance contract or other funding vehicle, and:

- (i) each Sea Dragon Plan has been maintained and administered in material compliance with its terms and is, to the extent required by Applicable Laws or contract, fully funded without having any deficit or unfunded actuarial liability or adequate provision has been made therefor;
- (ii) all required employer contributions under any such plans have been made and the applicable funds have been funded in accordance with the terms thereof;
- (iii) each Sea Dragon Plan that is required or intended to be qualified under Applicable Laws or registered or approved by a Governmental Authority has been so qualified, registered or approved by the appropriate Governmental Authority, and to the knowledge of Sea Dragon, nothing has occurred since the date of the last qualification, registration or approval that would reasonably be expected to adversely affect, or cause, the appropriate Governmental Authority to revoke such qualification, registration or approval;
- (iv) to the knowledge of Sea Dragon, there are no pending or anticipated material claims against or otherwise involving any of the Sea Dragon Plans and no suit, action or

other litigation (excluding claims for benefits incurred in the ordinary course of Sea Dragon Plan activities) has been brought against or with respect to any Sea Dragon Plan;

- (v) all material contributions, reserves or premium payments required to be made to the Sea Dragon Plans have been made or provided for; and
- (vi) Sea Dragon has no obligations for retiree health and life benefits under any Sea Dragon Plan.

(ff) Employees.

- (i) The Sea Dragon Disclosure Letter contains a complete list of all employees of the Sea Dragon Group, including the current salary and start date of each employee.
- (ii) No trade union, council of trade unions, employee bargaining agency or affiliated bargaining agent holds bargaining rights with respect to any employees of the Sea Dragon Group by way of certification, interim certification, voluntary recognition, designation or successor rights or has applied to have the Sea Dragon Group declared a related employer or successor employer pursuant to applicable labour legislation. To the knowledge of Sea Dragon, no member of the Sea Dragon Group has engaged in any unfair labour practices and, no strike, lock-out, work stoppage, or other material labour dispute is occurring. To the knowledge of Sea Dragon, there are no threatened or pending strikes, work stoppages, picketing, lock-outs, hand-billings, boycotts, slowdowns or similar labour related disputes pertaining to the Sea Dragon Group that could reasonably be expected to have a Material Adverse Effect on Sea Dragon or lead to a material and continuing interruption of operations of the Sea Dragon Group at any location. No member of the Sea Dragon Group has engaged in any closing or lay-off activities within the past two years that would violate or in any way subject the Sea Dragon Group to group termination or lay-off requirements of Applicable Laws.
- (iii) No member of the Sea Dragon Group has recognized any trade union or has any staff association, staff council, works council or other organization formed for or arrangements having a similar purpose and no notification to any trade union, staff association, staff council, works council or other organization formed for or in respect of any arrangements having a similar purpose is required by the Sea Dragon Group for the purpose of consummating the transactions contemplated by this Agreement.

(gg) Employment Agreements. Except as set forth in the Sea Dragon Disclosure Letter:

- (i) no member of the Sea Dragon Group is a party to any written contracts of employment which may not be terminated on one month's notice which provide for payments occurring on a change of control of Sea Dragon; and
- (ii) except as otherwise permitted by this Agreement, no member of the Sea Dragon Group will become a party to any employment agreement or to any written or oral policy, agreement, obligation or understanding (and for greater certainty, to any amendment to any of the foregoing) which contains any specific agreement as to notice of termination or severance pay in lieu thereof or which cannot be terminated without cause upon giving reasonable notice as may be implied by Applicable Laws, or which creates rights in respect of loss or termination of office or employment in relation to the Arrangement or which contains any specific agreement as to obligations arising on a change of control or as to notice of termination or severance pay in lieu thereof.

(hh) Brokers and Finders. Sea Dragon has not retained nor will it retain any financial advisor, broker, agent or finder or paid or agreed to pay any financial advisor, broker, agent or finder on account of this Agreement, except that BDO has been retained to provide a fairness opinion

in connection with the Arrangement. Sea Dragon has made available to Madison a true and complete copy of its agreement with BDO.

- (ii) Employment and Officer Obligations. Other than as provided to Madison, there are no existing health plans or pension obligations or other employment or consulting services agreements, termination, severance and retention plans or policies of any member of the Sea Dragon Group and there are no accrued bonuses payable to any present or former employee, director, officer or consultant of any member of the Sea Dragon Group.
- (jj) Fairness Opinion. The Sea Dragon Board has received a written opinion as of 18 August 2015 from BDO that the consideration to be paid pursuant to the Arrangement is fair, from a financial point of view, to the Sea Dragon Shareholders.
- (kk) Long Term and Derivative Transactions. No member of the Sea Dragon Group has any obligations or liabilities, direct or indirect, vested or contingent in respect of any rate swap transactions, basis swaps, forward rate transactions, commodity swaps, commodity options, equity or equity index swaps, equity or equity index options, bond options, interest rate options, foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross currency rate swap transactions, currency options, production sales transactions having terms greater than 90 days or any other similar transactions (including any option with respect to any of such transactions) or any combination of such transactions.
- (ll) Insurance. Policies of insurance that are in force as of the date hereof naming the applicable members of the Sea Dragon Group as an insured adequately and reasonably cover all risks as are customarily covered by oil and gas producers in the industry in which the Sea Dragon Group operates and having regard to the nature of the risk insured and the relative cost of obtaining insurance protect the Sea Dragon Group's interests. All such policies shall remain in force and effect and shall not be cancelled or otherwise terminated as a result of the transactions contemplated by this Agreement.
- (mm) No Limitation. There is no non-competition, exclusivity or other similar agreement, commitment or understanding in place to which any member of the Sea Dragon Group is a party or by which it is otherwise bound that would now or hereafter in any way limit the business or operations of the Sea Dragon Group in a particular manner or to a particular locality or geographic region or for a limited period of time, and the execution, delivery and performance of this Agreement does not and will not result in the restriction of any member of the Sea Dragon Group from engaging in its business or from competing with any Person or in any geographic area.
- (nn) Board Approval. Based upon, among other things, the opinion of BDO, the Sea Dragon Board has determined that the Arrangement is in the best interests of Sea Dragon and the Sea Dragon Shareholders.
- (oo) Proceeds of Crime. Neither the Sea Dragon Group nor, to the knowledge of Sea Dragon, any officer, director, employee or agent of the Sea Dragon Group has, directly or indirectly: (a) made or authorized any contribution, payment or gift of funds or property to any official, employee or agent of any governmental agency, authority or instrumentality of any jurisdiction; or (b) made any contribution to any candidate for public office, in either case, where any officer, director, employee or agent of the Sea Dragon Group knew or had reason to believe, or ought to have known that either the payment or the purpose of such contribution, payment or gift was, is, or would be prohibited under the *Canada Corruption of Foreign Public Officials Act* (Canada) or any applicable law implementing the provisions of the *OFCD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*, the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada) or the *UK Bribery Act 2010* or the rules and regulations promulgated thereunder or under any other legislation of any relevant jurisdiction covering a similar subject matter applicable to the Sea Dragon Group and its operations and the Sea Dragon Group has instituted and maintained policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance with such legislation.

- (pp) No Guarantees. Other than an indemnification of directors and officers in accordance with existing indemnification agreements (which have been made available to Madison's legal counsel), the by-laws of Sea Dragon or Applicable Laws and other than standard indemnity agreements in underwriting and agency agreements, credit facilities, transfer agent and registrar agreements, and in the ordinary course provided to service providers or pursuant to the joint operating agreements, farm-out agreements, carried working interest agreements, overriding royalty agreements and similar agreements, no member of the Sea Dragon Group has guaranteed, endorsed, assumed, indemnified or accepted any responsibility for, and does not and will not guarantee, endorse, assume, indemnify or accept any responsibility for, contingently or otherwise, any indebtedness or the performance of any obligation of any Person except under the Sea Dragon Credit Facility.
- (qq) Payments to Employees, Etc. Each member of the Sea Dragon Group has withheld from each payment made to any of its present or former employees, officers or directors, or to other persons, all amounts required by law or administrative practice to be withheld by it on account of income taxes, pension plan contributions, employment insurance premiums, employer health taxes and similar taxes, and levies, and has remitted such withheld amounts within the required time to the appropriate governmental entity.
- (rr) No Encumbrances. Except for security granted under the Sea Dragon Credit Facility, no member of the Sea Dragon Group has encumbered or alienated its interest in its oil and gas assets or agreed to do so and such assets are free and clear of all Encumbrances (other than Permitted Encumbrances), created by, through or under such member of the Sea Dragon Group, except for those arising in the ordinary course of business, which would in the aggregate have a Material Adverse Effect on Sea Dragon.
- (ss) No Reduction of Interests. Except as is reflected in the Sea Dragon Reserve Report, none of the Sea Dragon Group's oil and gas assets are subject to reduction by reference to payout of or production penalty on any well or otherwise or to change to an interest of any other size or nature by virtue of or through any right or interest granted by, through or under the Sea Dragon Group, which would in the aggregate have a Material Adverse Effect on Sea Dragon.
- (tt) Royalties, Rentals and Taxes Paid. To the knowledge of Sea Dragon, all royalties, and all *ad valorem*, property, production, severance, income, corporation, petroleum and similar taxes, levies, imposts, assessment and rentals payable on or before the date hereof and based on, or measured by, the Sea Dragon Group's ownership of its oil and gas assets, the production of petroleum substances from its oil and gas assets or the receipt of proceeds therefrom under the leases and concession agreements and other title and operating documents pertaining to Sea Dragon Group's oil and gas assets and all *ad valorem*, property, production, severance, income, corporate, petroleum and similar taxes, levies, imposts and assessments based upon or measured by the ownership of such assets or the production of petroleum substances derived therefrom or allocated thereto or the proceeds of sales thereof payable on or before the date hereof have been properly paid in full and in a timely manner except to the extent that such non-payment would not in the aggregate have a Material Adverse Effect on Sea Dragon.
- (uu) Production Allowables and Production Penalties.
- (i) To the knowledge of Sea Dragon, none of the wells in which a member of the Sea Dragon Group holds an interest have been produced in excess of applicable production allowables imposed by any Applicable Laws or any Governmental Authority and Sea Dragon has no knowledge of any impending change in production allowables imposed by any Applicable Laws or any Governmental Authority that may be applicable to any of the wells in which it holds an interest, other than changes of general application in the jurisdiction in which such wells are situate; and
  - (ii) No member of the Sea Dragon Group has received notice of any production penalty or similar production restriction of any nature imposed or to be imposed by any Governmental Authority, including gas oil ratio, off target and overproduction penalties imposed by any Governmental Authority that may be applicable, and, to its

knowledge, none of the wells in which it holds an interest is subject to any such penalty or restriction;

except, in either case, to the extent that such events would not in the aggregate have a Material Adverse Effect on Sea Dragon.

(vv) Operation and Condition of Wells. All wells in which the Sea Dragon Group holds an interest:

- (i) for which a member of the Sea Dragon Group was or is operator, were or have been drilled and, if and as applicable, completed, operated and abandoned (and if abandoned, plugged and abandoned and the wellsite therefor properly restored) in accordance with good and prudent international oil and gas industry practices and all Applicable Laws; and
- (ii) for which a member of the Sea Dragon Group was not or is not operator, to its knowledge, were or have been drilled and, if and as applicable, completed, operated and abandoned (and if abandoned, plugged and abandoned and the wellsite therefor properly restored) in accordance with good and prudent international oil and gas industry practices and all Applicable Laws;

except, in either case, to the extent that such non-compliance with prudent oil and gas industry practices or Applicable Laws would not in the aggregate have a Material Adverse Effect on Sea Dragon.

(ww) Operation and Condition of Tangibles. The Sea Dragon Group's tangible depreciable property used or intended for use in connection with its oil and gas assets:

- (i) for which a member of the Sea Dragon Group was or is operator, was or has been constructed, operated and maintained in accordance with good and prudent international oil and gas industry practices and all Applicable Laws during all periods in which such member of the Sea Dragon Group was operator thereof and is in good condition and repair, ordinary wear and tear excepted, and is useable in the ordinary course of business; and
- (ii) for which a member of Sea Dragon Group was not or is not operator, to its knowledge, was or has been constructed, operated and maintained in accordance with good and prudent international oil and gas industry practices and all Applicable Laws during all periods in which a member of the Sea Dragon Group was not operator thereof and is in good condition and repair, ordinary wear and tear excepted, and is useable in the ordinary course of business;

except to the extent that such non-compliance with prudent oil and gas industry practices or Applicable Laws or failure to be in good condition and repair would not in the aggregate have a Material Adverse Effect on Sea Dragon.

(xx) Outstanding AFEs. Other than as set forth in the Sea Dragon Disclosure Letter, there are no outstanding authorizations for expenditure pertaining to any of the Sea Dragon Group's oil and gas assets or any other commitments, approvals or authorizations pursuant to which an expenditure may be required to be made in respect of such assets.

(yy) Confidentiality Agreements. The Sea Dragon Disclosure Letter contains a list of confidentiality agreements entered into by a member of the Sea Dragon Group with Persons other than Madison with respect to the sale of any member of the Sea Dragon Group or the sale of a substantial portion of Sea Dragon's assets or any other business combination or similar transaction involving a member of the Sea Dragon Group, and Sea Dragon has not waived any standstill rights where provided under such agreements.

(zz) Off-Balance Sheet Arrangements. No member of the Sea Dragon Group has any "off-balance sheet arrangements" as such term is defined under IFRS.



- (aaa) Investment Canada Act. Sea Dragon is not a “non-Canadian” within the meaning of the Investment Canada Act.
- (bbb) No Withholding. To the knowledge of Sea Dragon, Sea Dragon has not withheld from Madison any material information or documents concerning the Sea Dragon Group or its assets or liabilities during the course of Madison’s review of the Sea Dragon Group and their assets. When all of the following are considered as a whole, no representation or warranty contained herein and no statement contained in any schedule or other disclosure document, including the Sea Dragon Disclosure Letter, provided or to be provided to Madison by Sea Dragon pursuant hereto contains or will contain any untrue statement or a Material Fact which is necessary in order to make the statements herein or therein not misleading.
- (ccc) No Shareholder Rights Plan. Sea Dragon is not a party to any shareholder rights plan or any other form of plan, agreement, contract or instrument that shall trigger any rights to acquire Sea Dragon Shares or other securities of Sea Dragon.
- (ddd) No Unanimous Shareholder Agreement. Neither Sea Dragon nor, to its knowledge, any of its shareholders is a party to any unanimous shareholders agreement, pooling agreement, voting trust or other similar type of arrangements in respect of outstanding securities of Sea Dragon.
- (eee) Sea Dragon Transaction Costs. The Sea Dragon Disclosure Letter sets out Sea Dragon’s *bona fide* good faith estimate of each component of the Sea Dragon Transaction Costs.
- (fff) Working Capital. As of 11 August 2015, Sea Dragon’s Working Capital was \$4.2 million. A detailed break-down of the calculation of such Working Capital is set out in the Sea Dragon Disclosure Letter.
- (ggg) U.S. Issues.
- (i) The Sea Dragon Shares are not registered and are not required to be registered pursuant to Section 12 of the *United States Securities Exchange Act* of 1934, as amended, nor does Sea Dragon have a reporting obligation pursuant to Section 15(d) of the U.S. Securities Act, as amended.
  - (ii) Sea Dragon is not registered or required to be registered as an “investment company” pursuant to the United States Investment Company Act of 1940, as amended.

## 4.2 Representations and Warranties of Madison

Madison represents and warrants to and in favour of Sea Dragon and acknowledges that Sea Dragon is relying upon such representations and warranties in connection with the matters contemplated by this Agreement and the consummation of the Arrangement:

- (a) Organization and Qualification. Each member of the Madison Group has been duly incorporated, amalgamated or created, as the case may be, and is validly subsisting under the Applicable Laws of its jurisdiction of formation and has the requisite power and authority to own its assets and properties as now owned and to carry on its business as now conducted. Each member of the Madison Group is duly registered or authorized to conduct its affairs or do business, as applicable, and is in good standing in each jurisdiction in which the character of its assets and properties, owned, leased, licensed or otherwise held, or the nature of its activities makes such registration or authorization necessary, except where the failure to be so registered or authorized would not, individually or in the aggregate, have a Material Adverse Effect on Madison. Copies of the constating documents of each member of the Madison Group provided to Sea Dragon, together with all amendments to date, are accurate and complete as of the date hereof and have not been amended or superseded.
- (b) Authority Relative to this Agreement. Madison has the requisite corporate power and authority to execute this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement and the consummation by Madison of the transactions contemplated by the Arrangement have been duly authorized by the Madison Board and,

subject to the requisite approval of the Madison Shareholders and the obtaining of the Final Order, no other proceedings on the part of Madison are necessary to authorize this Agreement, or the Arrangement or the other transactions contemplated herein, other than the approval of the Madison Information Circular by the Madison Board. This Agreement has been duly executed and delivered by Madison and constitutes a legal, valid and binding obligation of Madison enforceable against it in accordance with its terms, subject to the qualification that such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other Applicable Laws of general application relating to or affecting rights of creditors and that equitable remedies, including specific performance, are discretionary and may not be ordered.

- (c) Subsidiaries. Madison has no subsidiaries, other than the subsidiaries set out in the Madison Disclosure Letter (collectively, with Madison, the “**Madison Group**”) and Madison owns, directly or indirectly, all of the outstanding voting and equity securities of such subsidiaries. All of the outstanding shares and all other ownership interests in the subsidiaries of Madison are duly authorized, validly issued and fully paid and non-assessable, and all such shares and other ownership interests held directly or indirectly by Madison, are owned by Madison free and clear of all Encumbrances (other than Permitted Encumbrances), except pursuant to restrictions on transfer contained in the articles of such subsidiary. There are no rights of first refusal or similar rights restricting the transfer of Madison Shares contained in shareholders, partnership, joint venture or similar agreements or pursuant to existing financing arrangements and there are no outstanding contractual or other obligations of any member of the Madison Group to repurchase, redeem or otherwise acquire any of their respective securities or with respect to the voting or disposition of any outstanding securities of any of them.

- (d) No Violations. Except as contemplated by this Agreement:

- (i) neither the execution and delivery of this Agreement by Madison nor the consummation of the transactions contemplated by the Arrangement nor compliance by Madison with any of the provisions hereof will:

- (A) violate, conflict with, or result in a breach of any provision of, require any consent, approval or notice under, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) or result in a right of termination or acceleration under, or result in the creation of any Encumbrance (other than Permitted Encumbrances) upon any of the properties or assets of the Madison Group or cause any indebtedness to come due before its stated maturity or cause any credit to cease to be available, under any of the terms, conditions or provisions of: (1) articles or by-laws of any member of the Madison Group; or (2) any note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other instrument or obligation to which any member of the Madison Group is a party or to which it, or any of its properties or assets, may be subject or by which a member of the Madison Group is bound; or
- (B) subject to compliance with applicable statutes and regulations, violate any judgment, ruling, order, writ, injunction, determination, award, decree, statute, ordinance, rule or regulation applicable to a member of the Madison Group or any of its properties or assets;

(except, in the case of each of clauses (A) and (B) above, for such violations, conflicts, breaches, defaults, terminations, accelerations or creations of Encumbrances (other than Permitted Encumbrances) which, or any consents, approvals or notices which if not given or received, would not, individually or in the aggregate, have any Material Adverse Effect on Madison, or affect the ability of Madison to consummate the transactions contemplated by the Arrangement); or

- (C) cause the suspension or revocation of any authorization, consent, approval or license currently in effect which would, individually or in the aggregate, have a Material Adverse Effect on Madison.

- (ii) other than in connection with or in compliance with the provisions of Applicable Laws in relation to the completion of the Arrangement or which are required to be fulfilled post Arrangement, and except for the requisite approvals of the Madison Shareholders, the Court and any Governmental Authorities and the obtaining of the Interim Order and the Final Order:
  - (A) there are no legal impediments to Madison's consummation of the Arrangement; and
  - (B) no filing or registration with, or authorization, consent or approval of, any domestic or foreign public body or authority is required of Madison in connection with the consummation of the Arrangement and other such filings or registrations which, if not made, or for such authorizations, consents or approvals which, if not received, would not, individually or in the aggregate, have a Material Adverse Effect on Madison, or affect the ability of Madison to consummate the Arrangement.
- (e) Litigation. There are no claims, actions, suits, proceedings, investigations, arbitrations, audits, grievances, assessments or reassessments in existence or pending or, to the knowledge of Madison, threatened, affecting or that would reasonably be expected to affect the Madison Group or affecting or that would reasonably be expected to affect any of their respective properties or assets at law or in equity or before or by any court or Governmental Authority which claim, action, suit, proceeding, investigation, arbitration, audit, grievance, assessment or reassessment involves a possibility of any judgment against or liability of any member of the Madison Group which would reasonably be expected to cause, individually or in the aggregate, a Material Adverse Change to Madison, or would affect the ability of Madison to consummate the Arrangement.
- (f) Taxes, etc.
  - (i) Except to the extent that any matter referred to in this Section 4.2(f)(i) does not, and would not reasonably be expected to, have a Material Adverse Effect on Madison or as disclosed in the Madison Disclosure Letter
    - (A) all Tax Returns required to be filed by or on behalf of any member of the Madison Group for periods ended on and prior to the date of this Agreement have been duly filed on a timely basis and such Tax Returns are complete and correct in all material respects. All material Taxes shown to be payable on such Tax Returns or on subsequent assessments or reassessments with respect thereto have been paid in full on a timely basis, and no other material Taxes are payable by any member of the Madison Group with respect to items or periods covered by such Tax Returns;
    - (B) each member of the Madison Group has duly and timely paid or charged, collected or withheld and remitted to the appropriate Taxing Authority all Taxes, including any instalments or prepayments of Taxes, that are due and payable whether or not shown as being due on any Tax Return, or, where payment is not yet due, Madison has established adequate accruals in conformity with IFRS in the Madison Financial Statements for the period covered by such financial statements for any Taxes, including income taxes and related future taxes, if applicable, that have not been paid, whether or not shown as being due on any Tax Return. Madison has, in all material respects, made adequate provision or disclosure in its books and records for any Taxes of the Madison Group accruing in respect of any period subsequent to the period covered by such financial statements, whether or not shown as being due on any Tax Return;
    - (C) no material deficiencies have been asserted in writing by any Governmental Authority with respect to Taxes of any member of the Madison Group that have not yet been settled;

- (D) no member of the Madison Group is a party to any tax sharing, tax indemnity or tax allocation agreement or arrangement or, in the alternative, no member of the Madison Group has nor could have any material liabilities or obligations in respect of Taxes under any such tax sharing, tax indemnity or tax allocation agreement;
  - (E) no member of the Madison Group is a party to any action or proceeding for assessment or collection of a material amount of Taxes, nor, to the knowledge of Madison, has such an event been asserted in writing by any Governmental Authority or threatened against any member of the Madison Group or any of their respective assets. No waiver or extension of any statute of limitations is in effect with respect to material Taxes or material Tax Returns of any member of the Madison Group. No audit by Taxing Authorities of any member of the Madison Group is in process or to the knowledge of Madison, pending;
  - (F) the terms and conditions made or imposed in respect of every transaction (or series of transactions) between Madison, or any subsidiary, and any Person that is (x) a non-resident of Canada for purposes of the ITA and (y) not dealing at arm's length with Madison or such subsidiary, as the case may be, for purposes of the ITA, do not differ from those that would have been made between persons dealing at arm's length for purposes of the ITA;
  - (G) each member of the Madison Group has made or obtained records or documents that meet the requirements of paragraphs 247(a) to (c) of the ITA with respect to all material transactions between it and any non-resident of Canada with whom it was not dealing at arm's length for purposes of the ITA;
  - (H) no member of the Madison Group will be required to include in a taxable period ending after the Effective Time any amount of net taxable income (after taking into account deductions claimed for such a period that related to a prior period) attributable to income that accrued, or that was required to be reported for financial reporting purposes, in a prior taxable period but that was not included in taxable income for that or another prior taxable period;
  - (I) there are no transactions or events that have resulted, and no circumstances existing which could result in the application to any member of the Madison Group of paragraph 78(1)(a), sections 80, 80.01, 80.02, 80.03, .80.04 or subsections or 90(6) or 160(1) of the ITA or any analogous provision of any comparable Applicable Law of any province or territory of Canada;
  - (J) immediately after the Effective Time, the balance of the "low rate income pool", as defined in the ITA, of Madison shall be nil;
  - (K) Madison has not been controlled, within the meaning of the ITA, by a corporation that is a non-resident of Canada for purposes of the ITA at any time after 28 March 2012.
- (ii) for all periods ended on and after 31 December 2013, Madison has made available to Sea Dragon true and complete copies of: (A) income tax audit reports, statement of deficiencies, closing or other agreements received by any member of the Madison Group or on behalf of any member of the Madison Group relating to the Taxes; and (B) any Tax Returns for any member of the Madison Group; and
  - (iii) Madison is resident in Canada and a taxable Canadian corporation for the purposes of the ITA.

- (g) Public Record. The documents and information comprising the Madison Public Record did not at the respective times they were posted, contain any Misrepresentation, and with respect to forward-looking information contained in the Madison Public Record, Madison had a reasonable basis for the forward-looking information or statements, unless such document or information was subsequently corrected or superseded in the Madison Public Record prior to the date hereof.
- (h) Capitalization. As of the date hereof, the authorized capital of Madison consists of an unlimited number of Madison Shares and an unlimited number of preferred shares, issuable in series. As of the date hereof, there are issued and outstanding 56,348,080 Madison Shares and no other shares are issued and outstanding. Other than Madison Options to acquire up to 5,630,000 Madison Shares and Madison Warrants to acquire up to 1,280,000 Madison Shares having the terms set out in the Madison Disclosure Letter, there are no options, warrants or other rights, plans agreements or commitments of any nature whatsoever requiring the issuance, sale or transfer by Madison of any securities of Madison (including Madison Shares) or any securities convertible into, or exchangeable or exercisable for, or otherwise evidencing a right to acquire, any securities of Madison (including Madison Shares). All outstanding Madison Shares have been duly authorized and validly issued, are fully paid and non-assessable and are not subject to, nor were they issued in violation of, any pre-emptive rights and all Madison Shares issuable upon the exercise of Madison Options in accordance with the terms of such options, will be duly authorized and validly issued as fully paid and non-assessable and will not be subject to any pre-emptive rights. Other than the Madison Shares, there are no securities of Madison outstanding which have the right to vote generally (except for the Madison Options which are exercisable or convertible into or exchangeable for securities having the right to vote generally) with the Madison Shareholders on any matter.
- (i) Equity Monetization Plans. Other than the Madison Options, there are no outstanding stock appreciation rights, phantom equity, profit sharing plan or similar rights, agreements, arrangements or commitments payable to any employee of Madison and which are based upon the revenue, value, income or any other attribute of Madison.
- (j) No Orders. No order, ruling or determination having the effect of suspending the sale of, or ceasing the trading of, the Madison Shares or any other securities of Madison has been issued by any Governmental Authority and is continuing in effect and no proceedings for that purpose have been instituted, are pending or, to the knowledge of Madison, are contemplated or threatened under any Applicable Laws or by any Governmental Authority.
- (k) Reports. Madison has not withheld from Sea Dragon any material information or documents concerning Madison or its assets or liabilities during the course of Sea Dragon's review of Madison and its assets. All representations or warranties contained herein and statements contained in the Madison Public Record and in any schedule or other disclosure document provided or to be provided to Sea Dragon by Madison pursuant hereto (including without limitation, any matter disclosed in writing by Madison to Sea Dragon on or prior to the date hereof); did not contain any untrue statement of a Material Fact or omit to state a Material Fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading in any material respect and complied in all material respects with all Applicable Laws. The Madison Financial Statements, and any interim or annual financial statements prepared by or on behalf of Madison on and after the date hereof, in compliance, or intended compliance, with any Applicable Laws, were or, when so filed, will have been prepared in accordance with IFRS (except in the case of unaudited interim statements, to the extent they may not include footnotes, are subject to normal year-end adjustments or may be condensed or summary statements), and present or, when so filed, will present fairly in accordance with IFRS the financial position, results of operations and changes in financial position of Madison as of the dates thereof and for the periods indicated therein (subject, in the case of any unaudited interim financial statements, to normal year-end audit adjustments). There has been no material change in Madison's accounting policies, except as described in the notes to the Madison Financial Statements, since 1 January 2014.
- (l) Books and Records. The financial books, records and accounts of each member of the Madison Group, in all material respects: (i) have been maintained in accordance with good

business practices on a basis consistent with prior years; (ii) are stated in reasonable detail and accurately and fairly reflect the material transactions and dispositions of the assets of the Madison Group; and (iii) accurately and fairly reflect the basis for the Madison Financial Statements. Except as set forth in the Madison Disclosure Letter, the corporate records and minute books of each member of the Madison Group have been maintained substantially in compliance with Applicable Laws and are complete and accurate in all material respects, and full access thereto has been provided to Sea Dragon.

- (m) Absence of Certain Changes or Events. Except for the Arrangement or any action taken in accordance with this Agreement, since 31 December 2014:
- (i) each member of the Madison Group has conducted its business only in the ordinary course of business substantially consistent with past practice, other than as disclosed in the Madison Public Record;
  - (ii) no liability or obligation of any nature (whether absolute, accrued, contingent or otherwise) material to Madison has been incurred other than in the ordinary course of business;
  - (iii) there has been no Material Adverse Change in respect of Madison; and
  - (iv) Madison has not, and to the knowledge of Madison, no director, officer, employee or auditor of any member of the Madison Group, has received or otherwise had or obtained knowledge of any fraud, material complaint, allegation, assertion or claim, whether written or oral, regarding fraud or the accounting or auditing practices, procedures, methodologies or methods of any member of the Madison Group or its internal accounting controls.
- (n) Registration, Exemption Orders, Licenses, etc. To the knowledge of Madison, each member of the Madison Group has obtained and is in compliance with all Governmental Authorizations necessary in connection with its business as it is now, individually or in the aggregate, being or proposed to be conducted, except where the failure to obtain or be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Madison. Such Governmental Authorizations are in full force and effect in accordance with their terms, and no event has occurred or circumstance exists that (with or without notice or lapse of time) may constitute or result in a violation of any such Governmental Authorization, except where the violation would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Madison. No proceedings are pending or, to the knowledge of Madison, threatened, which could result in the revocation or limitation of any Governmental Authorization, and all steps have been taken and filings made on a timely basis with respect to each Governmental Authorization and its renewal, except where the failure to take such steps and make such filings would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Madison. No Governmental Authorization will, to the knowledge of Madison, be impaired or adversely affected by the entering into of this Agreement or the completion of the Arrangement.
- (o) Compliance with Laws. The operations and business of the Madison Group is and has been carried out in compliance with and not in violation of any Applicable Laws, other than non-compliance or violation which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Madison or would affect the ability of Madison to consummate the Arrangement, and no member of the Madison Group has received any notice of any alleged violation of any such Applicable Laws other than where such notice would not reasonably be expected to have a Material Adverse Effect on Madison or would affect the ability of Madison to consummate the Arrangement.
- (p) Restrictions on Business Activities. There is no judgment, injunction or order binding upon any member of the Madison Group that has or could reasonably be expected to have the effect of prohibiting, restricting or impairing its business or, individually or in the aggregate, have a Material Adverse Effect on Madison.

- (q) Non-Arm's Length Transactions. Except for amounts due as normal salaries and bonuses and in reimbursement of ordinary expenses, existing employment agreements and existing agreements respecting Madison Options, there are no Contracts or other transactions (including with respect to loans or other indebtedness) currently in place between any member of the Madison Group, on the one hand, and: (i) any officer, director or employee of, or consultant of any member of the Madison Group; (ii) any holder of record or beneficial owner of 10% or more of the voting securities of Madison; or (iii) any associate or affiliate of any such Person (collectively, "**Madison Related Parties**"). No Madison Related Party, owns, has or is entitled to any royalty, net profits interest, carried interest or any other Encumbrances or claims of any nature whatsoever which are based on production from the properties or assets of any member of the Madison Group or any revenue or rights attributed thereto.
- (r) Madison Projects. The Madison Projects are accurately described in the Madison Public Record in all material respects.
- (s) Title. Madison does not have reason to believe that any member of the Madison Group does not have title to or the irrevocable right to produce and sell its share of PNGs from the Madison Projects and represents and warrants that any such PNGs will be free and clear of all Encumbrances (other than Permitted Encumbrances) and other adverse claims created by, through or under Madison and, to its knowledge, each member of the Madison Group holds its PNGs under valid and subsisting leases, licenses, permits, concessions, concession agreements, contracts, subleases, reservations or other agreements. To the knowledge of Madison, there are no defects, failures or impairments in the title of Madison to its oil and gas assets, whether or not an action, suit, proceeding or inquiry is pending or threatened in writing or whether or not discovered by any third party, which in the aggregate, could have a Material Adverse Effect on: (i) the quantity and pre-tax present worth values of such assets; (ii) the current production volumes of Madison; or (iii) the current cash flow of Madison.
- (t) Madison Reserve Report. Madison has made available to Sproule, prior to the issuance of the report prepared by Sproule dated effective 31 December 2014 (the "**Madison Reserve Report**") evaluating Madison's crude oil, natural gas liquids and natural gas prospective resources between October 2014 and January 2015, for the purpose of preparing the Madison Reserve Report, all information requested by Sproule, which information did not contain any Misrepresentation at the time such information was provided. To the knowledge of Madison, the Madison Reserve Report complies with the requirements of Applicable Laws (including the requirements of the Canadian Oil and Gas Evaluation Handbook) and the results thereof have been disclosed in accordance with Applicable Laws.
- (u) Work Commitments and Abandonment and De-commissioning Obligations. The Madison Disclosure Letter sets out full details of all work commitments, obligations and liabilities (including, without limitation, obligations in relation to abandonment and de-commissioning) in relation to the Madison Projects and, to the knowledge of Madison, any oil and gas properties or interests previously owned by Madison or its current or former subsidiaries to the extent the Madison Group is liable for such commitments or obligations.
- (v) Absence of Undisclosed Liabilities. The Madison Group has no material liabilities of any nature (matured or unmatured, fixed or contingent), other than:
- (i) those set forth or adequately provided for in the most recent balance sheet and associated notes thereto included in the Madison Financial Statements (the "**Madison Balance Sheet**");
  - (ii) those incurred in the ordinary course of business and not required to be set forth in the Madison Balance Sheet under IFRS;
  - (iii) those incurred in the ordinary course of business since the date of the Madison Balance Sheet and consistent with past practice; and
  - (iv) those incurred in connection with the execution of this Agreement.

- (w) Absence of Undisclosed Changes. There has not been any Material Change in the capital, assets, liabilities or obligations (absolute, accrued, contingent or otherwise) of Madison on a consolidated basis from the position set forth in the Madison Financial Statements (other than as have been disclosed in the Madison Public Record) and Madison has not incurred or suffered a Material Adverse Change since 31 December 2014 and since that date there have been no material facts, transactions, events or occurrences which would have a Material Adverse Effect on the capital, assets, liabilities or obligations (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or results of the operations of Madison (taken as a whole) which have not been disclosed in the Madison Public Record.
- (x) No Defaults. No member of the Madison Group is in default under, and there exists no event, condition or occurrence which, after notice or lapse of time or both, would constitute such a default under any contract, agreement or licence to which it is a party or by which it is bound which would, if terminated or upon exercise of a right made available to a third party solely by a reason of such a default, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Madison. No member of the Madison Group is in violation of any Applicable Laws which violation could reasonably be expected to have a Material Adverse Effect on Madison.
- (y) Pre-emptive Rights. Madison does not have any knowledge of any outstanding rights of first refusal or other pre-emptive rights of purchase which entitle any Person to acquire any of the rights, title, interests, property, licenses or assets of the Madison Group that will be triggered or accelerated by the Arrangement.
- (z) Environmental. In respect of the properties which a member of the Madison Group operates and, to the knowledge of Madison, in respect of (A) current properties for which a member of the Madison Group is not the operator, (B) former properties which a member of the Madison Group has operated to the extent the Madison Group may be liable for obligations relating to such former properties, and (C) former properties for which a member of the Madison Group was not the operator to the extent the Madison Group may be liable for obligations relating to such former properties, except to the extent that any violation or other matter referred to in this Section 4.2(z) does not, and would not reasonably be expected to, have a Material Adverse Effect on Madison:
- (i) no member of the Madison Group is or has been in violation of any applicable Environmental Laws;
  - (ii) each member of the Madison Group has operated its business at all times and has received, handled, used, stored, treated, shipped and disposed of all Hazardous Substances in compliance with Environmental Laws;
  - (iii) there have been no spills, releases, deposits or discharges of Hazardous Substances, or wastes into the earth, subsoil, underground waters, air or into any body of water or any municipal or other sewer or drain water systems, or on or underneath any location which is or was currently or formerly owned, leased, sub-leased, licenced to, farmed-out to or otherwise operated by a member of the Madison Group, that have not been remediated in accordance with all Applicable Laws;
  - (iv) no orders, directions or notices have been issued and remain outstanding pursuant to any Environmental Laws relating to the business or assets of a member of the Madison Group of which such member has notice;
  - (v) there has been no failure to report to the proper Governmental Authority the occurrence of any event which is required to be so reported by any Environmental Law;
  - (vi) each member of the Madison Group holds all Environmental Approvals required in connection with the operation of its business and the ownership and use of such assets, all Environmental Approvals are in full force and effect, and no member of the Madison Group has received any notification pursuant to any Environmental



Laws that any work, repairs, constructions or capital expenditures are required to be made by it as a condition of continued compliance with any Environmental Laws or Environmental Approvals, or that any Environmental Approval referred to above is about to be reviewed, made subject to limitation or conditions, revoked, withdrawn or terminated;

- (vii) there are no pending or, to the knowledge of Madison, threatened claims, liens or Encumbrances (other than Permitted Encumbrances) resulting from Environmental Laws with respect to any of the properties of a member of the Madison Group currently or formerly owned, leased, operated or otherwise used; and
- (viii) no member of the Madison Group has assumed or retained by contract or operation of law any losses, expenses, claims, damages or liabilities of any third-party pursuant to applicable Environmental Laws.

(aa) Material Contracts. The Madison Disclosure Letter lists all of the following Contracts, correct, current and complete copies of which have been made available to Sea Dragon (the “**Madison Material Contracts**”): (i) all Contracts containing any rights on the part of any Person, including joint venture partners or entities, to acquire oil and gas or other property rights from a member of the Madison Group; (ii) all Contracts containing any rights on the part of a member of the Madison Group to acquire oil and gas or other property rights from any Person; (iii) any Contract that purports to limit the right of any of Madison or its affiliates to (A) engage in any line of business, or (B) compete with any Person or operate in any location; (iv) any Contract in respect of which the applicable transaction has not yet been consummated for the acquisition or disposition of assets or securities or other equity interests of another Person or which contain any indemnification or other obligations which survive; (v) any standstill or similar Contract currently restricting the ability of a member of the Madison Group to offer to purchase or purchase the assets or equity securities of another Person; (vi) all Contracts which entitle a party to rights of termination, the terms or conditions of which may or will be altered, or which entitle a party to any fee, payment, penalty or increased consideration, in each case as a result of the execution of this Agreement, the consummation of the transactions contemplated hereby or a “change in control” of a member of the Madison Group including, without limitation, any seismic license or similar agreements; and (vii) all Contracts pursuant to which a member of the Madison Group will, or may reasonably be expected to, result in a requirement of such member of the Madison Group to expend more than an aggregate of \$75,000 or receive or be entitled to receive revenue of more than \$75,000 in either case in the next 12 months, or is out of the ordinary course of business of the Madison Group. Each of such Material Contracts constitutes a legally valid and binding agreement of such member of the Madison Group, enforceable in accordance with their respective terms and, to the knowledge of Madison, no party thereto is in default in the observance or performance of any term or obligation to be performed by it under any such contract or agreement which is material to the business of Madison (taken as a whole) and no event has occurred which with notice or lapse of time or both would directly or indirectly constitute such a default, in any such case which default or event would reasonably be expected to have a Material Adverse Effect on Madison.

(bb) Employee Benefit Plans. Madison has made available to Sea Dragon true, complete and correct copies of each employee benefits plan (collectively, the “**Madison Plans**”) covering active, former or retired employees of the Madison Group, any related trust agreement, annuity or insurance contract or other funding vehicle, and:

- (i) each Madison Plan has been maintained and administered in material compliance with its terms and is, to the extent required by Applicable Laws or contract, fully funded without having any deficit or unfunded actuarial liability or adequate provision has been made therefor;
- (ii) all required employer contributions under any such plans have been made and the applicable funds have been funded in accordance with the terms thereof;

- (iii) each Madison Plan that is required or intended to be qualified under Applicable Laws or registered or approved by a Governmental Authority has been so qualified, registered or approved by the appropriate Governmental Authority, and to the knowledge of Madison, nothing has occurred since the date of the last qualification, registration or approval that would reasonably be expected to adversely affect, or cause, the appropriate Governmental Authority to revoke such qualification, registration or approval;
- (iv) to the knowledge of Madison, there are no pending or anticipated material claims against or otherwise involving any of the Madison Plans and no suit, action or other litigation (excluding claims for benefits incurred in the ordinary course of Madison Plan activities) has been brought against or with respect to any Madison Plan;
- (v) all material contributions, reserves or premium payments required to be made to the Madison Plans have been made or provided for; and
- (vi) Madison has no obligations for retiree health and life benefits under any Madison Plan.

(cc) Employees.

- (i) The Madison Disclosure Letter contains a complete list of all employees of the Madison Group, including the current salary and start date of each employee.
- (ii) No trade union, council of trade unions, employee bargaining agency or affiliated bargaining agent holds bargaining rights with respect to any employees of the Madison Group by way of certification, interim certification, voluntary recognition, designation or successor rights or has applied to have the Madison Group declared a related employer or successor employer pursuant to applicable labour legislation. To the knowledge of Madison, no member of the Madison Group has engaged in any unfair labour practices and, no strike, lock-out, work stoppage, or other material labour dispute is occurring. To the knowledge of Madison, there are no threatened or pending strikes, work stoppages, picketing, lock-outs, hand-billings, boycotts, slowdowns or similar labour related disputes pertaining to the Madison Group that could reasonably be expected to have a Material Adverse Effect on Madison or lead to a material and continuing interruption of operations of the Madison Group at any location. No member of the Madison Group has engaged in any closing or lay-off activities within the past two years that would violate or in any way subject the Madison Group to group termination or lay-off requirements of Applicable Laws.
- (iii) No member of the Madison Group has recognized any trade union or has any staff association, staff council, works council or other organization formed for or arrangements having a similar purpose and no notification to any trade union, staff association, staff council, works council or other organization formed for or in respect of any arrangements having a similar purpose is required by the Madison Group for the purpose of consummating the transactions contemplated by this Agreement.

(dd) Employment Agreements. Except as set forth in the Madison Disclosure Letter:

- (i) no member of the Madison Group is a party to any written contracts of employment which may not be terminated on one month's notice which provide for payments occurring on a change of control of Madison; and
- (ii) except as otherwise permitted by this Agreement, no member of the Madison Group will become a party to any employment agreement or to any written or oral policy, agreement, obligation or understanding (and for greater certainty, to any amendment to any of the foregoing) which contains any specific agreement as to notice of termination or severance pay in lieu thereof or which cannot be terminated without cause upon giving reasonable notice as may be implied by Applicable Laws, or

which creates rights in respect of loss or termination of office or employment in relation to the Arrangement or which contains any specific agreement as to obligations arising on a change of control or as to notice of termination or severance pay in lieu thereof.

- (ee) Brokers and Finders. Madison has not retained nor will it retain any financial advisor, broker, agent or finder or paid or agreed to pay any financial advisor, broker, agent or finder on account of this Agreement except that FirstEnergy has been retained as Madison's financial advisor in connection with certain matters including the transactions contemplated hereby. Madison has made available to Sea Dragon true and complete copies of its agreements with FirstEnergy.
- (ff) Employment and Officer Obligations. Other than as disclosed in the Madison Disclosure Letter, there are no existing health plans or pension obligations or other employment or consulting services agreements, termination, severance and retention plans or policies of any member of the Madison Group and there are no accrued bonuses payable to any present or former employee, director, officer or consultant of any member of the Madison Group.
- (gg) Fairness Opinion. The Madison Board has received a verbal opinion as of 17 August 2015 from FirstEnergy that the consideration to be received by Madison Shareholders pursuant to the Arrangement is fair, from a financial point of view, to the Madison Shareholders.
- (hh) Long Term and Derivative Transactions. No member of the Madison Group has any obligations or liabilities, direct or indirect, vested or contingent in respect of any rate swap transactions, basis swaps, forward rate transactions, commodity swaps, commodity options, equity or equity index swaps, equity or equity index options, bond options, interest rate options, foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross currency rate swap transactions, currency options, production sales transactions having terms greater than 90 days or any other similar transactions (including any option with respect to any of such transactions) or any combination of such transactions.
- (ii) Insurance. Policies of insurance that are in force as of the date hereof naming the applicable members of the Madison Group as an insured adequately and reasonably cover all risks as are customarily covered by oil and gas producers in the industry in which the Madison Group operates and having regard to the nature of the risk insured and the relative cost of obtaining insurance protect the Madison Group's interests. All such policies shall remain in force and effect and shall not be cancelled or otherwise terminated as a result of the transactions contemplated by this Agreement.
- (jj) No Limitation. There is no non-competition, exclusivity or other similar agreement, commitment or understanding in place to which any member of the Madison Group is a party or by which it is otherwise bound that would now or hereafter in any way limit the business or operations of the Madison Group in a particular manner or to a particular locality or geographic region or for a limited period of time, and the execution, delivery and performance of this Agreement does not and will not result in the restriction of any member of the Madison Group from engaging in its business or from competing with any Person or in any geographic area.
- (kk) Board Approval. Based upon, among other things, the opinion of FirstEnergy, the Madison Board has determined that the Arrangement is fair to the Madison Shareholders, has determined that the Arrangement is in the best interests of Madison and the Madison Shareholders, and has resolved to recommend the Madison Shareholders vote in favour of the Arrangement.
- (ll) No Shareholder Rights Plan. Madison is not a party to any shareholder rights plan or any other form of plan, agreement, contract or instrument that shall trigger any rights to acquire Madison Shares or other securities of Madison.

- (mm) No Unanimous Shareholder Agreement. Neither Madison nor, to its knowledge, any of its shareholders is a party to any unanimous shareholders agreement, pooling agreement, voting trust or other similar type of arrangements in respect of outstanding securities of Madison.
- (nn) Proceeds of Crime. Neither the Madison Group nor, to the knowledge of Madison, any officer, director, employee or agent of the Madison Group has, directly or indirectly: (a) made or authorized any contribution, payment or gift of funds or property to any official, employee or agent of any governmental agency, authority or instrumentality of any jurisdiction; or (b) made any contribution to any candidate for public office, in either case, where any officer, director, employee or agent of the Madison Group knew or had reason to believe, or ought to have known that either the payment or the purpose of such contribution, payment or gift was, is, or would be prohibited under the *Canada Corruption of Foreign Public Officials Act* (Canada), any applicable law implementing the provisions of the *OFCD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*, the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada) or the *UK Bribery Act 2010* or the rules and regulations promulgated thereunder or under any other legislation of any relevant jurisdiction covering a similar subject matter applicable to the Madison Group and its operations and the Madison Group has instituted and maintained policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance with such legislation.
- (oo) No Guarantees. Other than an indemnification of directors and officers in accordance with existing indemnification agreements (which have been made available to Sea Dragon's legal counsel), the by-laws of Madison or Applicable Laws and other than standard indemnity agreements in underwriting and agency agreements, credit facilities, transfer agent and registrar agreements, and in the ordinary course provided to service providers or pursuant to the joint operating agreements, lease operatorship agreements, farm-out agreements, carried working interest agreements, overriding royalty agreements and similar agreements, no member of the Madison Group has guaranteed, endorsed, assumed, indemnified or accepted any responsibility for, and does not and will not guarantee, endorse, assume, indemnify or accept any responsibility for, contingently or otherwise, any indebtedness or the performance of any obligation of any Person except as disclosed in the Madison Disclosure Letter.
- (pp) Payments to Employees, Etc. Each member of the Madison Group has withheld from each payment made to any of its present or former employees, officers or directors, or to other persons, all amounts required by law or administrative practice to be withheld by it on account of income taxes, pension plan contributions, employment insurance premiums, employer health taxes and similar taxes, and levies, and has remitted such withheld amounts within the required time to the appropriate governmental entity.
- (qq) No Encumbrances. No member of the Madison Group has encumbered or alienated its interest in its oil and gas assets or agreed to do so and such assets are free and clear of all encumbrances (other than Permitted Encumbrances), created by, through or under such member of the Madison Group, except for those arising in the ordinary course of business, which would in the aggregate have a Material Adverse Effect on Sea Dragon.
- (rr) No Reduction of Interests. Except as is reflected in the Madison Reserve Report, none of the Madison Group's oil and gas assets are subject to reduction by reference to payout of or production penalty on any well or otherwise or to change to an interest of any other size or nature by virtue of or through any right or interest granted by, through or under the Madison Group, which would in the aggregate have a Material Adverse Effect on Madison.
- (ss) Royalties, Rentals and Taxes Paid. To the knowledge of Madison, all royalties, and all *ad valorem*, property, production, severance, income, corporation, petroleum and similar taxes, levies, imposts, assessments and rentals payable on or before the date hereof and based on, or measured by, the Madison Group's ownership of its oil and gas assets, the production of petroleum substances from its oil and gas assets or the receipt of proceeds therefrom under the leases and concession agreements and other title and operating documents pertaining to the Madison Group's oil and gas assets and all *ad valorem*, property, production, severance, income, corporation, petroleum and similar taxes, levies, imposts and assessments based upon

or measured by the ownership of such assets or the production of petroleum substances derived therefrom or allocated thereto or the proceeds of sales thereof payable on or before the date hereof have been properly paid in full and in a timely manner except to the extent that such non-payment would not in the aggregate have a Material Adverse Effect on Madison.

(tt) Production Allowables and Production Penalties.

- (i) To the knowledge of Madison, none of the wells in which a member of the Madison Group holds an interest have been produced in excess of applicable production allowables imposed by any Applicable Laws or any Governmental Authority and Madison has no knowledge of any impending change in production allowables imposed by any Applicable Laws or any Governmental Authority that may be applicable to any of the wells in which it holds an interest, other than changes of general application in the jurisdiction in which such wells are situate; and
- (ii) No member of the Madison Group has received notice of any production penalty or similar production restriction of any nature imposed or to be imposed by any Governmental Authority, including gas oil ratio, off target and overproduction penalties imposed by any Governmental Authority that may be applicable, and, to its knowledge, none of the wells in which it holds an interest is subject to any such penalty or restriction;

except, in either case, to the extent that such events would not in the aggregate have a Material Adverse Effect on Madison.

(uu) Operation and Condition of Wells. All wells in which the Madison Group holds an interest:

- (i) for which a member of the Madison Group was or is operator, were or have been drilled and, if and as applicable, completed, operated and abandoned (and if abandoned, plugged and abandoned and the wellsite therefor properly restored) in accordance with good and prudent international oil and gas industry practices and all Applicable Laws; and
- (ii) for which a member of the Madison Group was not or is not operator, to its knowledge, were or have been drilled and, if and as applicable, completed, operated and abandoned (and if abandoned, plugged and abandoned and the wellsite therefor properly restored) in accordance with good and prudent international oil and gas industry practices and all Applicable Laws;

except, in either case, to the extent that such non-compliance with prudent oil and gas industry practices or Applicable Laws would not in the aggregate have a Material Adverse Effect on Madison.

(vv) Operation and Condition of Tangibles. The Madison Group's tangible depreciable property used or intended for use in connection with its oil and gas assets:

- (i) for which a member of the Madison Group was or is operator, was or has been constructed, operated and maintained in accordance with good and prudent international oil and gas industry practices and all Applicable Laws during all periods in which such member of the Madison Group was operator thereof and is in good condition and repair, ordinary wear and tear excepted, and is useable in the ordinary course of business; and
- (ii) for which a member of the Madison Group was not or is not operator, to its knowledge, was or has been constructed, operated and maintained in accordance with good and prudent international oil and gas industry practices and all Applicable Laws during all periods in which a member of the Madison Group was not operator thereof and is in good condition and repair, ordinary wear and tear excepted, and is useable in the ordinary course of business;

except to the extent that such non-compliance with prudent oil and gas industry practices or Applicable Laws or failure to be in good condition and repair would not in the aggregate have a Material Adverse Effect on Madison.

- (ww) Outstanding AFEs. Other than as set forth in the Madison Disclosure Letter, there are no outstanding authorizations for expenditure pertaining to any of the Madison Group's oil and gas assets or any other commitments, approvals or authorizations pursuant to which an expenditure may be required to be made in respect of such assets.
- (xx) Confidentiality Agreements. The Madison Disclosure Letter contains a list of confidentiality agreements entered into by a member of the Madison Group with Persons other than Sea Dragon with respect to the sale of any member of the Madison Group or the sale of a substantial portion of Madison's assets or any other business combination or similar transaction involving a member of the Madison Group, and Madison has not waived any standstill rights where provided under such agreements.
- (yy) Off-Balance Sheet Arrangements. No member of the Madison Group has any "off-balance sheet arrangements" as such term is defined under IFRS.
- (zz) No Withholding. To the knowledge of Madison, Madison has not withheld from Sea Dragon any material information or documents concerning the Madison Group or their assets or liabilities during the course of Sea Dragon's review of the Madison Group and their assets. When all of the following are considered as a whole, no representation or warranty contained herein and no statement contained in any schedule or other disclosure document, including the Madison Disclosure Letter, provided or to be provided to Sea Dragon by Madison pursuant hereto contains or will contain any untrue statement or a Material Fact which is necessary in order to make the statements herein or therein not misleading.
- (aaa) Madison Transaction Costs. The Madison Disclosure Letter sets out Madison's *bona fide* good faith estimate of each component of the Madison Transaction Costs.
- (bbb) Working Capital. As of 11 August 2015, Madison's Working Capital was \$12.3 million. A detailed break-down of the calculation of such Working Capital is set out in the Madison Disclosure Letter.
- (ccc) US Issues.
  - (i) The Madison Shares are not registered and are not required to be registered pursuant to Section 12 of the *United States Securities Exchange Act* of 1934, as amended, nor does Madison have a reporting obligation pursuant to Section 15(d) of the *U.S. Securities Act*, as amended.
  - (ii) Madison is not registered or required to be registered as an "investment company" pursuant to the *United States Investment Company Act* of 1940, as amended.

#### 4.3 Privacy Issues

- (a) For the purposes of this Section 4.3, the following definitions shall apply:
  - (i) "applicable law" means, in relation to any Person, transaction or event, all applicable provisions of Applicable Laws by which such Person is bound or having application to the transaction or event in question, including applicable privacy laws;
  - (ii) "applicable privacy laws" means any and all applicable laws relating to privacy and the collection, use and disclosure of Personal Information in all applicable jurisdictions, including but not limited to the *Personal Information Protection and Electronic Documents Act* (Canada) and/or any comparable provincial law including the *Personal Information Protection Act* (Alberta);

- (iii) **“authorized authority”** means, in relation to any Person, transaction or event, any (a) federal, provincial, municipal or local governmental body (whether administrative, legislative, executive or otherwise), both domestic and foreign, (b) agency, authority, commission, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government, (c) court, arbitrator, commission or body exercising judicial, quasi-judicial, administrative or similar functions, and (d) other body or entity created wider the authority of or otherwise subject to the jurisdiction of any of the foregoing, including any stock or other securities exchange, in each case having jurisdiction over such Person, transaction or event; and
  - (iv) **“Personal Information”** means information (other than business contact information when used or disclosed for the purpose of contacting such individual in that individual’s capacity as an employee or an official of an organization and for no other purpose) about an identifiable individual disclosed or transferred to Sea Dragon by Madison in accordance with this Agreement and/or as a condition of the Arrangement.
- (b) The Parties hereto acknowledge that they are responsible for compliance at all times with applicable privacy laws which govern the collection, use or disclosure of Personal Information disclosed to either Party pursuant to or in connection with this Agreement (the **“Disclosed Personal Information”**).
  - (c) Prior to the completion of the Arrangement, neither Party shall use or disclose the Disclosed Personal Information for any purposes other than those related to the performance of this Agreement and the completion of the Arrangement. After the completion of the transactions contemplated herein, a Party may only collect, use and disclose the Disclosed Personal Information for the purposes for which the Disclosed Personal Information was initially collected from or in respect of the individual to which such Disclosed Personal Information relates or for the completion of the transactions contemplated herein, unless (a) either Party shall have first notified such individual of such additional purpose, and where required by applicable law, obtained the consent of such individual to such additional purpose, or (b) such use or disclosure is permitted or authorized by applicable law, without notice to, or consent from, such individual.
  - (d) Each Party acknowledges and confirms that the disclosure of the Disclosed Personal Information is necessary for the purposes of determining if the Parties shall proceed with the Arrangement, and that the Disclosed Personal Information relates solely to the carrying on of the business or the completion of the Arrangement.
  - (e) Each Party acknowledges and confirms that it has taken and shall continue to take reasonable steps to, in accordance with applicable law, prevent accidental loss or corruption of the Disclosed Personal Information, unauthorized input or access to the Disclosed Personal Information, or unauthorized or unlawful collection, storage, disclosure, recording, copying, alteration, removal, deletion, use or other processing of such Disclosed Personal Information.
  - (f) Subject to the following provisions, each Party shall at all times keep strictly confidential all Disclosed Personal Information provided to it, and shall instruct those employees or advisors responsible for processing such Disclosed Personal Information to protect the confidentiality of such information in a manner consistent with the Parties’ obligations hereunder. Prior to the completion of the Arrangement, each Party shall take reasonable steps to ensure that access to the Disclosed Personal Information shall be restricted to those employees or advisors of the respective Party who have a bona fide need to access to such information in order to complete the Arrangement.
  - (g) Where authorized by applicable law, each Party shall promptly notify the other Party to this Agreement of all inquiries, complaints, requests for access, variations or withdrawals of consent and claims of which the Party is made aware in connection with the Disclosed Personal Information. To the extent permitted by applicable law, the Parties shall fully co-

operate with one another, with the persons to whom the Personal Information relates, and any authorized authority charged with enforcement of applicable privacy laws, in responding to such inquiries, complaints, requests for access, variations or withdrawals of consent and claims.

- (h) Upon the expiry or termination of this Agreement, or otherwise upon the reasonable request of either Party, the other Party shall forthwith cease all use of the Disclosed Personal Information acquired by it in connection with this Agreement and will return to the requesting Party or, at the requesting Party's request, destroy in a secure manner, the Disclosed Personal Information (and any copies thereof) in its possession.

## ARTICLE 5 CONDITIONS PRECEDENT

### 5.1 Mutual Conditions Precedent

The respective obligations of the Parties to consummate the transactions contemplated hereby, and in particular the Arrangement, are subject to the satisfaction, on or before the Effective Date or such other time specified, of the following conditions:

- (a) Interim Order. The Interim Order shall have been granted by 11 September 2015 in form and substance satisfactory to each of Sea Dragon and Madison, acting reasonably, and such order shall not have been set aside or modified in a manner unacceptable to Sea Dragon and Madison, each acting reasonably, on appeal or otherwise.
- (b) Sea Dragon Consolidation Resolution. The Sea Dragon Consolidation Resolution shall have been passed by the Sea Dragon Shareholders.
- (c) Arrangement Resolution. The Arrangement Resolution shall have been passed by the Madison Shareholders in accordance with the Interim Order by the Outside Date.
- (d) Final Order. The Final Order shall have been granted by the Outside Date in form and substance satisfactory to Sea Dragon and Madison, acting reasonably and such order shall not have been set aside or materially modified in a manner unacceptable to Sea Dragon and Madison, acting reasonably, on appeal or otherwise.
- (e) Articles of Arrangement. The Articles of Arrangement to be filed with the Registrar in accordance with the Arrangement shall be in form and substance satisfactory to each of Sea Dragon and Madison, acting reasonably.
- (f) Third Party Approvals. Sea Dragon and Madison shall have obtained all consents, waivers, permissions and approvals necessary to complete the Arrangement by or from relevant third parties and Governmental Authorities, including, but not limited to, any and all consents, waivers, permissions and approvals resulting from a change of control or otherwise as set forth in the Sea Dragon Disclosure Letter, on terms and conditions satisfactory to the Parties, acting reasonably, including conditional listing approval for the listing on the TSXV of the Sea Dragon Shares to be issued or to be made issuable pursuant to the Arrangement (collectively, the "**Third Party Approvals**").
- (g) Outside Date. The Effective Date shall be on or before the Outside Date.
- (h) Dissent Rights. Holders of Madison Shares representing not more than 10% (in the aggregate) of the Madison Shares then outstanding shall have validly exercised, and not withdrawn, Dissent Rights.
- (i) No Actions. There shall be no action taken under any existing Applicable Law, or any statute, rule, regulation or order which is enacted, enforced, promulgated or issued by any Governmental Authority, that:



- (i) makes illegal or otherwise directly or indirectly restrains, enjoins or prohibits the Arrangement or any other transactions contemplated herein; or
- (ii) results in a judgment or assessment of material damages directly or indirectly relating to the transactions contemplated herein.

The foregoing conditions are for the mutual benefit of Sea Dragon on the one hand and Madison on the other hand and may be waived, in whole or in part, jointly by the Parties at any time. If any of the foregoing conditions are not satisfied or waived on or before the Outside Date, then a Party may terminate this Agreement (save and except for Article 6, Section 4.3, Section 9.1, Article 10 and each Party's obligations under the Confidentiality Agreements which shall survive such termination and remain in full force and effect) by written notice to the other Party in circumstances where the failure to satisfy any such condition is not the result, directly or indirectly, of such terminating Party's breach of this Agreement.

## 5.2 Additional Conditions to Obligations of Sea Dragon

The obligation of Sea Dragon to consummate the transactions contemplated hereby, and in particular the Arrangement, is subject to the following conditions:

- (a) Representations and Warranties. The representations and warranties of Madison set forth in this Agreement shall be true and correct (for representations and warranties qualified as to materiality, true and correct in all respects, and for all other representations and warranties, true and correct in all material respects) as of the Effective Date as if made on and as of such date (except to the extent such representations and warranties speak as of an earlier date, the accuracy of which shall be determined as of that specified date) and Madison shall have provided to Sea Dragon a certificate of two senior officers certifying such accuracy on the Effective Date, provided that Madison shall be entitled to cure any breach of a representation and warranty within five Business Days after receipt of written notice thereof from Sea Dragon (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date).
- (b) Covenants. Madison shall have complied in all material respects with its covenants herein, and Madison shall have provided to Sea Dragon a certificate of two senior officers certifying compliance with such covenants; provided that Madison shall be entitled to cure any breach of a covenant within five Business Days after receipt of written notice thereof from Sea Dragon (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date).
- (c) No Actions. No act, action, suit, proceeding, objection or opposition shall have been threatened or taken before or by any Governmental Authority or by any elected or appointed public official or private Person in Canada or elsewhere, whether or not having the force of law and no law, regulation, policy, judgment, decision, order, ruling or directive (whether or not having the force of law) shall have been proposed, enacted, promulgated, amended or applied, which in the sole judgement of Sea Dragon, acting reasonably, in either case has had or, if the Arrangement was consummated, would result in a Material Adverse Effect on Madison or would materially impede the ability of the Parties to complete the Arrangement.
- (d) No Material Adverse Change. Between the date hereof and the Effective Time, there shall not have occurred any Material Adverse Change with respect to Madison.
- (e) Madison Board and Arrangement Resolutions. Madison shall have furnished Sea Dragon with: (i) certified copies of the resolutions duly passed by the Madison Board approving this Agreement and the consummation of the transactions contemplated hereby; and (ii) certified copies of the resolution of Madison Shareholders, duly passed at the Madison Meeting, approving the Arrangement Resolution.
- (f) Madison Securities. Immediately prior to the Effective Time: (i) the aggregate number of Madison Shares issued and outstanding shall not exceed 56,348,080; (ii) the aggregate number of Madison Warrants issued and outstanding shall not exceed 1,280,000; (iii) the aggregate number of Madison Options issued and outstanding shall not exceed 5,630,000 and (iv) other

than holders of Madison Options and Madison Warrants no Person shall have any agreement or option or any right or privilege (whether by law, pre-emptive right, by contract or otherwise) capable of becoming an agreement or option for the purchase, subscription, allotment or issuance of any unissued Madison Shares or other equity interests in Madison.

The conditions in this Section 5.2 are for the exclusive benefit of Sea Dragon and may be asserted by Sea Dragon regardless of the circumstances or may be waived by Sea Dragon in its sole discretion, in whole or in part, at any time and from time to time without prejudice to any other rights which Sea Dragon may have. If any of the foregoing conditions are not satisfied or waived by the Outside Date, Sea Dragon may, in addition to any other remedies it may have at law or equity, terminate this Agreement (save and except for Article 6, Section 4.3, Section 9.1, Article 10 and each Party's obligations under the Confidentiality Agreements which shall survive such termination and remain in full force and effect) provided that, prior to the filing of the Articles of Arrangement for the purpose of giving effect to the Arrangement, Sea Dragon has delivered a written notice to Madison, specifying in reasonable detail all breaches of covenants, representations and warranties or other matters which Sea Dragon is asserting as the basis for the non-fulfillment of the applicable conditions precedent. More than one such notice may be delivered by Sea Dragon.

### **5.3 Additional Conditions to Obligations of Madison**

The obligation of Madison to consummate the transactions contemplated hereby, and in particular the Arrangement, is subject to the following conditions:

- (a) Representations and Warranties. The representations and warranties of Sea Dragon set forth in this Agreement shall be true and correct (for representations and warranties qualified as to materiality, true and correct in all respects, and for all other representations and warranties, true and correct in all material respects) as of the Effective Date as if made on and as of such date (except to the extent such representations and warranties speak as of an earlier date, the accuracy of which shall be determined as of that specified date), and Sea Dragon shall have provided to Madison a certificate of two senior officers certifying such accuracy on the Effective Date, provided that Sea Dragon shall be entitled to cure any breach of a representation and warranty within five Business Days after receipt of written notice thereof from Madison (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date).
- (b) Covenants. Sea Dragon shall have complied in all material respects with its covenants herein, and Sea Dragon shall have provided to Madison a certificate of two senior officers certifying compliance with such covenants; provided that Sea Dragon shall be entitled to cure any breach of a covenant within five Business Days after receipt of written notice thereof from Madison (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date).
- (c) Sea Dragon Share Consolidation. The Sea Dragon Consolidation shall have been implemented, but only if the Sea Dragon Consolidation Resolution has been passed by the Sea Dragon Shareholders.
- (d) No Actions. No act, action, suit, proceeding, objection or opposition shall have been threatened or taken before or by any Governmental Authority or by any elected or appointed public official or private person in Canada or elsewhere, whether or not having the force of law, and no law, regulation, policy, judgment, decision, order, ruling or directive (whether or not having the force of law) shall have been proposed, enacted, promulgated, amended or applied, which in the sole judgement of Madison, acting reasonably, in either case has had or, if the Arrangement was consummated, would result in a Material Adverse Effect on Sea Dragon or would materially impede the ability of the Parties to complete the Arrangement.
- (e) No Material Adverse Change. Between the date hereof and the Effective Time, there shall not have occurred any Material Adverse Change with respect to Sea Dragon.
- (f) Sea Dragon Board and Sea Dragon Consolidation Resolution. Sea Dragon shall have furnished Madison with: (i) certified copies of the resolutions duly passed by the Sea Dragon Board approving this Agreement and the consummation of the transactions contemplated

hereby; and (ii) certified copies of the resolution of Sea Dragon Shareholders, duly passed at the Sea Dragon Shareholders' Meeting, approving the Sea Dragon Resolutions; and (iii) evidence of the implementation of the Sea Dragon Consolidation.

- (g) Purchase Consideration. Sea Dragon shall have deposited or caused to be deposited in escrow with the Depository under the Arrangement the Sea Dragon Shares to be issued pursuant to the Arrangement.
- (h) Sea Dragon Securities. Immediately prior to the Effective Time: (i) the aggregate number of Sea Dragon Shares issued and outstanding shall not exceed 376,459,359; (ii) the aggregate number of Sea Dragon Options issued and outstanding shall not exceed 29, 200,000; and (iii) other than holders of Sea Dragon Options, no Person shall have any agreement or option or any right or privilege (whether by law, pre-emptive right, by contract or otherwise) capable of becoming an agreement or option for the purchase, subscription, allotment or issuance of any unissued Sea Dragon Shares or other equity interests in Sea Dragon.
- (i) Resignations and Releases. Executed resignations and mutual releases, in form satisfactory to Madison, acting reasonably, shall have been received by Sea Dragon from all of the Sea Dragon Resigning Directors (effective as of the Effective Time).
- (j) Supplemental Warrant Indenture. Sea Dragon shall have entered into a supplemental warrant indenture with Alliance Trust Company, on terms and conditions satisfactory to Madison acting reasonably, with respect to the Madison Warrants.
- (k) Board Representation. Each of the Madison Nominees shall have been appointed by the Sea Dragon Board to the Sea Dragon Board effective immediately upon the occurrence of the Effective Time.

The conditions in this Section 5.3 are for the exclusive benefit of Madison and may be asserted by Madison regardless of the circumstances or may be waived by Madison in its sole discretion, in whole or in part, at any time and from time to time without prejudice to any other rights which Madison may have. If any of the foregoing conditions are not satisfied or waived by the Outside Date, Madison may, in addition to any other remedies it may have at law or equity, terminate this Agreement (save and except for Article 6, Section 4.3, Section 9.1, Article 10 and each Party's obligations under the Confidentiality Agreements which shall survive such termination and remain in full force and effect), provided that, prior to the filing of the Articles of Arrangement for the purpose of giving effect to the Arrangement, Madison has delivered a written notice to Sea Dragon, specifying in reasonable detail all breaches of covenants, representations and warranties or other matters which Madison is asserting as the basis for the non-fulfillment of the applicable conditions precedent. More than one such notice may be delivered by Madison.

#### **5.4 Notice and Effect of Failure to Comply with Conditions**

Each of Sea Dragon and Madison shall give prompt notice to the other of the occurrence, or failure to occur, at any time from the date hereof to the Effective Date of any event or state of facts which occurrence or failure would, or would be likely to: (i) cause any of the representations or warranties of such Party contained herein to be untrue or inaccurate in any material respect; or (ii) result in the failure to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by any Party hereunder; provided, however, that no such notification will affect the representations or warranties of the Parties or the conditions to the obligations of the Parties hereunder.

#### **5.5 Satisfaction of Conditions**

The conditions set out in this Article 5 are conclusively deemed to have been satisfied, waived or released when, with the agreement of the Parties, Articles of Arrangement are filed under the ABCA to give effect to the Arrangement.

**ARTICLE 6**  
**AGREEMENT AS TO DAMAGES AND OTHER ARRANGEMENTS**

**6.1 Sea Dragon Damages**

If at any time after the execution of this Agreement and prior to its termination:

- (a) other than as a direct result of and in direct response to a material breach or non-performance by Sea Dragon of any of its covenants, agreements, representations and warranties in this Agreement which would permit Madison to terminate this Agreement pursuant to Article 8, the Madison Board fails to recommend that holders of Madison Shares vote in favour of the Arrangement or withdraws, amends, changes or qualifies, or proposes publicly to withdraw, amend, change or qualify, in any manner adverse to Sea Dragon, any of its recommendations or determinations referred to in Section 2.9;
- (b) the Madison Board shall have failed to publicly reaffirm any of its recommendations or determinations referred to in Section 2.9 in accordance with Section 3.5(e) or within two Business Days of any written request to do so by Sea Dragon (or, in the event that the Madison Meeting to approve the Arrangement is scheduled to occur within such two Business Day period, prior to the scheduled date of such meeting);
- (c) prior to the date of the Madison Meeting, a *bona fide* Acquisition Proposal is publicly announced, proposed, offered or made to the Madison Shareholders or to Madison and the Madison Shareholders do not approve the Arrangement or the Arrangement is not submitted for their approval, and such Acquisition Proposal, an amended version thereof or any other Acquisition Proposal relating to Madison is consummated within 12 months of the date the first Acquisition Proposal is publicly announced, proposed, offered or made;
- (d) Madison or the Madison Board or any committee of the Madison Board accepts, recommends, approves or enters into a definitive agreement to implement a Superior Proposal;
- (e) Madison is in non-compliance with any of its covenants made in this Agreement where, other than in the case of Section 3.5, such non-compliance individually or in the aggregate causes or would reasonably be expected to cause a Material Adverse Change with respect to, or Material Adverse Effect on, Madison (taken as a whole) or, in any case, materially impedes or would reasonably be expected to materially impede the completion of the Arrangement in accordance with its terms, and Madison fails to cure such breach within five Business Days after receipt of written notice thereof from Sea Dragon (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date); or
- (f) Madison is in breach of any representation or warranty made in this Agreement which breach individually or in the aggregate causes or would reasonably be expected to cause a Material Adverse Change with respect to, or have a Material Adverse Effect on, Madison (taken as a whole) or, materially impedes or would reasonably be expected to materially impede the completion of the Arrangement in accordance with its terms, and Madison fails to cure such breach within five Business Days after receipt of written notice thereof from Sea Dragon (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date);

(each of the above being, upon the expiration of any applicable cure period, a “**Sea Dragon Damages Event**”), then, provided no Madison Damages Event has occurred, in the event of the termination of this Agreement pursuant to Sections 8.1(a)(ii), 8.1(a)(iii) and 8.1(a)(iv), Madison shall pay to Sea Dragon (or to whom Sea Dragon may direct in writing) \$1,000,000 (the “**Sea Dragon Termination Fee**”) (less any amounts paid or payable by Madison to Sea Dragon under Section 6.5) as liquidated damages in immediately available funds to an account designated by Sea Dragon within one Business Day after the first to occur of the events described above. Following a Sea Dragon Damages Event, but prior to payment of the Sea Dragon Termination Fee, Madison shall and shall be deemed to hold such payment in trust for Sea Dragon. Notwithstanding the foregoing, if a Sea Dragon Damages Event occurs in the circumstances described in Section 6.1(c) and the Sea Dragon Termination Fee is payable in accordance with this Agreement, the Sea Dragon Termination Fee (less

any amounts paid by Madison to Sea Dragon under Section 6.5) shall be paid immediately upon consummation of an Acquisition Proposal by Madison in accordance with the above terms.

## **6.2 Sea Dragon Liquidated Damages**

Madison acknowledges that the Sea Dragon Termination Fee or payment by Madison pursuant to 6.5 as applicable, as set out in Sections 6.1 or 6.5 is a payment of liquidated damages which are a genuine pre-estimate of the damages which Sea Dragon will suffer or incur as a result of the event giving rise to such damages and the resultant termination of this Agreement and is not a penalty. Madison irrevocably waives any right it may have to raise as a defence that any such liquidated damages are excessive or punitive. For greater certainty, Sea Dragon agrees that the payment of the amount pursuant to Section 6.1 and 6.5, if applicable, is the sole monetary remedy of Sea Dragon; provided, however, that this limitation shall not apply in the event of fraud or wilful breach of this Agreement by Madison. Nothing herein shall preclude Sea Dragon from seeking injunctive relief to restrain any breach or threatened breach of the covenants or agreements of Madison set forth in this Agreement or otherwise to obtain specific performance of any of such acts, covenants or agreements, without the necessity of posting bond or security in connection therewith.

## **6.3 Madison Damages**

If at any time after the execution of this Agreement and prior to its termination:

- (a) other than as a direct result of and in direct response to a material breach or non-performance by Madison of any of its covenants, agreements, representations and warranties in this Agreement which would permit Sea Dragon to terminate this Agreement pursuant to Article 8, the Sea Dragon Board fails to recommend that holders of Sea Dragon Shares vote in favour of the Sea Dragon Resolutions or withdraws, amends, changes or qualifies, or proposes publicly to withdraw, amend, change or qualify, in any manner adverse to Madison, any of its recommendations or determinations referred to in Section 2.10;
- (b) the Sea Dragon Board shall have failed to publicly reaffirm any of its recommendations or determinations referred to in Section 2.10 in accordance with Section 3.5(e) or within two Business Days of any written request to do so by Madison (or, in the event that the Sea Dragon Shareholders' Meeting to approve the Sea Dragon Resolutions is scheduled to occur within such two Business Day period, prior to the scheduled date of such meeting);
- (c) prior to the date of the Sea Dragon Meeting, a *bona fide* Acquisition Proposal is publicly announced, proposed, offered or made to the Sea Dragon Shareholders or to Sea Dragon and the Sea Dragon Shareholders do not approve the Sea Dragon Consolidation Resolution and such Acquisition Proposal, an amended version thereof or any other Acquisition Proposal relating to Sea Dragon is consummated within 12 months of the date the first Acquisition Proposal is publicly announced, proposed, offered or made;
- (d) Sea Dragon or the Sea Dragon Board or any committee of the Sea Dragon Board accepts, recommends, approves or enters into a definitive agreement to implement a Superior Proposal;
- (e) Sea Dragon is in non-compliance with any of its covenants made in this Agreement where, other than in the case of Section 3.5, such non-compliance individually or in the aggregate causes or would reasonably be expected to cause a Material Adverse Change with respect to, or Material Adverse Effect on, Sea Dragon (taken as a whole) or, in any case, materially impedes or would reasonably be expected to materially impede the completion of the Arrangement in accordance with its terms, and Sea Dragon fails to cure such breach within five Business Days after receipt of written notice thereof from Sea Dragon (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date); or
- (f) Sea Dragon is in breach of any representation or warranty made in this Agreement which breach individually or in the aggregate causes or would reasonably be expected to cause a Material Adverse Change with respect to, or have a Material Adverse Effect on, Sea Dragon (taken as a whole) or, materially impedes or would reasonably be expected to materially impede the completion of the Arrangement in accordance with its terms, and Sea Dragon fails

to cure such breach within five Business Days after receipt of written notice thereof from Madison (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date);

(each of the above being, upon the expiration of any applicable cure period, a “**Madison Damages Event**”), then, provided no Sea Dragon Damages Event has occurred, in the event of the termination of this Agreement pursuant to Sections 8.1(a)(ii), 8.1(a)(v) and 8.1(a)(vi), Sea Dragon shall pay to Madison (or to whom Madison may direct in writing) \$1,000,000 (the “**Madison Termination Fee**”) (less any amounts paid or payable by Sea Dragon to Madison under Section 6.5) as liquidated damages in immediately available funds to an account designated by Madison within one Business Day after the first to occur of the events described above. Following a Madison Damages Event, but prior to payment of the Madison Termination Fee, Sea Dragon shall and shall be deemed to hold such payment in trust for Madison. Notwithstanding the foregoing, if a Madison Damages Event occurs in the circumstances described in Section 6.3(c) and the Madison Termination Fee is payable in accordance with this Agreement, the Madison Termination Fee (less any amounts paid by Sea Dragon to Madison under Section 6.5) shall be paid immediately upon consummation of an Acquisition Proposal by Sea Dragon in accordance with the above terms.

#### **6.4 Madison Liquidated Damages**

Sea Dragon acknowledges that the Madison Termination Fee or payment by Sea Dragon pursuant to 6.5, as applicable, as set out in Section 6.3 or 6.5 is a payment of liquidated damages which are a genuine pre-estimate of the damages which Madison will suffer or incur as a result of the event giving rise to such damages and the resultant termination of this Agreement and is not a penalty. Sea Dragon irrevocably waives any right it may have to raise as a defence that any such liquidated damages are excessive or punitive. For greater certainty, Madison agrees that the payment of the amount pursuant to Section 6.3 and 6.5, if applicable, is the sole monetary remedy of Madison; provided, however, that this limitation shall not apply in the event of fraud or wilful breach of this Agreement by Sea Dragon. Nothing herein shall preclude Madison from seeking injunctive relief to restrain any breach or threatened breach of the covenants or agreements of Sea Dragon set forth in this Agreement or otherwise to obtain specific performance of any of such acts, covenants or agreements, without the necessity of posting bond or security in connection therewith.

#### **6.5 Expense Reimbursement**

In the event that this Agreement is:

- (a) terminated pursuant to the exercise by Madison of its termination rights pursuant to Section 8.1(a)(ii) as a result of the condition in Section 5.3(c) not being met; or
- (b) terminated pursuant to the exercise by Madison or Sea Dragon of their respective termination rights pursuant to Section 8.1(a)(ii) as a result of the condition in Section 5.1(c) not being met,
- (c) then, (i) in the case of clause (a), in addition to the rights of Madison under Section 6.3, Sea Dragon shall pay to Madison (or to whom Madison may direct in writing) by wire transfer in immediately available funds to an account designated by Madison an amount equal to Madison’s out-of-pocket expenses incurred in connection with this Agreement and the transactions contemplated hereby, up to a maximum amount of \$400,000 against receipts therefor and (ii) in the case of clause (b) in addition to the rights of Sea Dragon under Section 6.1, Madison shall pay to Sea Dragon (or to whom Sea Dragon may direct in writing) by wire transfer in immediately available funds to an account designated by Sea Dragon an amount equal to Sea Dragon’s out-of-pocket expenses incurred in connection with this Agreement and the transactions contemplated hereby, up to a maximum amount of \$400,000 against receipts therefor.

## **ARTICLE 7 AMENDMENT**

### **7.1 Amendment**

This Agreement may at any time and from time to time before or after the holding of the Madison Meeting and the Sea Dragon Shareholders’ Meeting be amended by written agreement of the Parties

without, subject to Applicable Laws, further notice to or authorization on the part of the Madison Shareholders or the Sea Dragon Shareholders and any such amendment may, without limitation:

- (a) change the time for performance of any of the obligations or acts of the Parties;
- (b) waive any inaccuracies or modify any representation or warranty contained herein or in any document delivered pursuant hereto;
- (c) waive compliance with or modify any of the covenants herein contained and waive or modify performance of any of the obligations of the Parties; or
- (d) waive compliance with or modify any other conditions precedent contained herein;

provided that no such amendment reduces or materially adversely affects the consideration to be received by a Madison Shareholder without approval by the affected securityholders given in the same manner as required for the approval of the Arrangement or as may be ordered by the Court.

## **7.2 Amendment of Plan of Arrangement**

The Parties may by mutual agreement amend the Plan of Arrangement as set forth in Article 6 of the Plan of Arrangement.

## **ARTICLE 8 TERMINATION**

### **8.1 Termination**

- (a) This Agreement may be terminated at any time prior to the Effective Date:
  - (i) by mutual written consent of Sea Dragon and Madison;
  - (ii) as provided in Sections 5.1, 5.2 and 5.3 provided that the right to terminate this Agreement as a result of the condition in Section 5.1(g) not being met shall not be available to a Party whose failure to fulfill any of its obligations or breach of any of its representations and warranties under this Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur by the Outside Date.;
  - (iii) by Sea Dragon upon the occurrence of a Sea Dragon Damages Event as provided in Section 6.1;
  - (iv) by Madison upon the occurrence of a Sea Dragon Damages Event as provided in Section 6.1(d) (in accordance with Section 3.5(b)(vi) and provided Madison has complied with its obligations set forth in Section 3.5(d)) and the payment by Madison to Sea Dragon of the amount required by Section 6.1;
  - (v) by Madison upon the occurrence of a Madison Damages Event as provided in Section 6.3; or
  - (vi) by Sea Dragon upon the occurrence of a Madison Damages Event as provided in Section 6.3(d) (in accordance with Section 3.5(b)(vi)) and provided Sea Dragon has complied with its obligations set forth in Section 3.5(d) and the payment by Sea Dragon to Madison of the amount required by Section 6.3.
- (b) If this Agreement is terminated in accordance with the foregoing provisions of this Section 8.1, this Agreement shall forthwith become void and no Party shall have any liability or further obligation to the other Party hereunder except as provided in Article 6 (provided in the case of Sections 6.1 and 6.3, the right of payment arose, other than with respect to Section 6.1(c) or 6.3(c), as applicable, prior to the termination of this Agreement), Section 4.3, Section 9.1, Article 10 and each Party's obligations under the Confidentiality Agreements, which shall

survive such termination, and provided that neither the termination of this Agreement nor anything contained in this Section 8.1(b) shall relieve any Party from any liability for any fraud or wilful breach by it of this Agreement prior to the date of such termination.

**ARTICLE 9  
NOTICES**

**9.1 Notices**

All notices that may or are required to be given pursuant to any provision of this Agreement are to be given or made in writing and served personally, delivered by overnight courier or sent by facsimile transmission:

(a) in the case of Sea Dragon, to:

Sea Dragon Energy Inc.  
38 Welbeck Street  
London W1G 8DP, United Kingdom

Attention: Paul Welch, President and CEO  
Facsimile: +44 20 3219 5655

with a copy to:

Blake, Cassels & Graydon LLP  
5th Floor, 23 College Hill  
London EC4R 2RP, United Kingdom

Attention: David Glennie  
Facsimile: +44 20 7429 3560

(b) in the case of Madison, to:

Madison PetroGas Ltd.  
Suite 1610, 140 – 4th Avenue SW  
Calgary, Alberta, T2P 3N3, Canada,

Attention: David Mitchell, President and CEO  
Facsimile: +1 403 718 0168

with a copy to:

Osler, Hoskin & Harcourt LLP  
Suite 2500, TransCanada Tower, 450 1st Street SW  
Calgary, Alberta, T2P 5H1, Canada

Attention: Edward Tapuska  
Facsimile: +1 403 260 7024

or such other address as the Parties may, from time to time, advise the other Party hereto by notice in writing. The date or time of receipt of any such notice will be deemed to be the date of delivery or the time such facsimile transmission is received.



**ARTICLE 10  
GENERAL**

**10.1 Non-Survival of Representations and Warranties**

No investigation by or on behalf of, or knowledge of, a Party, will mitigate, diminish or affect the representations or warranties made by the other Party in this Agreement or any certificate delivered by such other Party pursuant to this Agreement. The respective representations and warranties of the Parties contained in this Agreement shall not survive the completion of the Arrangement and shall expire and be terminated on the earlier of the Effective Time and the date on which this Agreement is terminated in accordance with its terms. This Section 10.1 shall not limit any undertaking, obligations covenant or agreement of whatever nature of a Party or any of its subsidiaries which, by its terms, contemplates performance after the Effective Time or date on which this Agreement is terminated, as the case may be.

**10.2 Binding Effect**

This Agreement shall be binding upon and enure to the benefit of the Parties hereto and their respective successors and permitted assigns.

**10.3 Assignment**

Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the Parties hereto without the prior written consent of the other Party hereto.

**10.4 Public Communications**

Each of Sea Dragon and Madison agree to consult with each other prior to issuing any press releases or otherwise making public statements with respect to this Agreement or the Arrangement or making any filing with any Governmental Authority with respect thereto. Without limiting the generality of the foregoing, no Party shall issue any press release regarding the Arrangement, this Agreement or any transaction relating to this Agreement without first providing a draft of such press release to the other Party and reasonable opportunity for comment; provided, however, that the foregoing shall be subject to each Party's overriding obligation to make any such disclosure required in accordance with Applicable Laws. If such disclosure is required and the other Party has not reviewed or commented on the disclosure, the Party making such disclosure shall use all commercially reasonable efforts to give prior oral or written notice to the other Party, and if such prior notice is not possible, to give such notice promptly following such disclosure.

**10.5 Costs**

Except as otherwise expressly provided for in Article 6, all fees, costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the Party incurring such cost or expense, whether or not the Arrangement is completed.

**10.6 Severability**

If any one or more of the provisions or parts thereof contained in this Agreement should be or become invalid, illegal or unenforceable in any respect, the remaining provisions or parts thereof contained herein shall be and shall be conclusively deemed to be severable therefrom and the validity, legality or enforceability of such remaining provisions or parts thereof shall not in any way be affected or impaired by the severance of the provisions or parts thereof severed. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the fullest extent possible.

**10.7 Further Assurances**

Each Party hereto shall, from time to time and at all times hereafter, at the request of the other Party hereto, but without further consideration, do all such further acts, and execute and deliver all such further documents and instruments and provide all such further assurances as may be reasonably required in order to fully perform and carry out the terms and intent hereof.

**10.8 Time of Essence**

Time shall be of the essence of this Agreement.

**10.9 Applicable Law and Enforcement**

This Agreement shall be governed, including as to validity, interpretation and effect, by the Applicable Laws of the Province of Alberta and the Applicable Laws of Canada applicable therein. The Parties hereby irrevocably submit and attorn to the non-exclusive jurisdiction of the courts of the Province of Alberta located in Calgary, in respect of all matters arising out of this Agreement, without prejudice to the rights of the Parties to take proceedings in any other jurisdiction. The Parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is, accordingly, agreed that the Parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the Province of Alberta having jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity, subject to the provisions of this Agreement.

**10.10 Waiver**

Any Party may, on its own behalf only, (i) extend the time for the performance of any of the obligations or acts of the other Party, (ii) waive compliance with the other Party's agreements or the fulfillment of any conditions to its own obligations contained herein, or (iii) waive inaccuracies in the other Party's representations or warranties contained herein or in any document delivered by the other Party; provided, however, that any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such Party and, unless otherwise provided in the written waiver, will be limited to the specific breach or condition waived.

**10.11 Third Party Beneficiaries**

The provisions of Section 3.1(cc), 3.2 and 3.3(y) are: (i) intended for the benefit of all such directors and officers and shall be enforceable by each of such persons and his or her heirs, executors, administrators and other legal representatives (collectively, the "**Third Party Beneficiaries**") and Madison shall hold the rights and benefits of such sections in trust for and on behalf of the Third Party Beneficiaries and Madison hereby accepts such trust and agrees to hold the benefit of and enforce performance of such covenants on behalf of the Third Party Beneficiaries; and (ii) are in addition to, and not in substitution for, any other rights that the Third Party Beneficiaries may have by contract or otherwise.

**10.12 Counterparts**

This Agreement may be executed by facsimile or other electronic signature and in counterparts, each of which shall be deemed an original, and all of which together constitute one and the same instrument.

*[Remainder of page left blank intentionally – signatures follow]*

IN WITNESS WHEREOF the Parties have executed this Agreement as of the date first above written.

**SEA DRAGON ENERGY INC.**

By: *"Said Arrata"*  
Name: Said Arrata  
Title: Executive Chairman & Director

By: *"Paul Welch"*  
Name: Paul Welch  
Title: President & CEO

**MADISON PETROGAS LTD.**

By: *"Michael Doyle"*  
Name: Michael Doyle  
Title: Chairman

By: *"David Mitchell"*  
Name: David Mitchell  
Title: President & CEO

## EXHIBIT "A"

### ARRANGEMENT RESOLUTION

#### BE IT RESOLVED, AS A SPECIAL RESOLUTION, THAT:

1. the arrangement (the "**Arrangement**") under section 193 of the *Business Corporations Act* (Alberta) (the "**ABCA**") involving Madison PetroGas Ltd. ("**Madison**"), as more particularly described and set forth in the management information circular and proxy statement (the "**Madison Information Circular**") of Madison accompanying the notice of this meeting, as the Arrangement may be modified or amended in accordance with its terms, and all transactions contemplated thereby, are hereby authorized, approved and adopted;
2. the plan of arrangement (the "**Plan of Arrangement**") involving Madison, the full text of which is set out as Exhibit "B" to the Arrangement Agreement made as of 18 August 2015 between Sea Dragon Energy Inc. ("**Sea Dragon**") and Madison (the "**Arrangement Agreement**"), as the Plan of Arrangement may be modified or amended in accordance with its terms, is hereby authorized, approved and adopted;
3. the Arrangement Agreement, the actions of the directors of Madison in approving the Arrangement Agreement and the actions of the directors and officers of Madison in executing and delivering the Arrangement Agreement and any amendments thereto in accordance with its terms are hereby ratified and approved;
4. notwithstanding that this resolution has been passed (and the Plan of Arrangement adopted) by the shareholders of Madison or that the Arrangement has been approved by the Court of Queen's Bench of Alberta (the "**Court**"), the directors of Madison are hereby authorized and empowered, at their discretion, without further notice to or approval of the shareholders of Madison (i) to amend the Arrangement Agreement or the Plan of Arrangement, to the extent permitted by the Arrangement Agreement or the Plan of Arrangement and approved by the Court, and (ii) subject to the terms of the Arrangement Agreement, not to proceed with the Arrangement;
5. any one director or officer of Madison be and is hereby authorized and directed for and on behalf of Madison to make an application to the Court for an order approving the Arrangement and to execute, under the corporate seal of Madison or otherwise, and to deliver to the Registrar under the ABCA for filing articles of arrangement, a certified copy of the Final Order (as defined in the Arrangement Agreement) and to execute and, if appropriate, deliver such other documents as are necessary or desirable to give effect to the Arrangement and the Plan of Arrangement in accordance with the Arrangement Agreement; and
6. any one director or officer of Madison be and is hereby authorized and directed for and on behalf of Madison to execute or cause to be executed, under the corporate seal of Madison or otherwise, and to deliver or cause to be delivered, all such other documents and instruments and to perform or cause to be performed all such other acts and things as in such person's opinion may be necessary or desirable to give full effect to the foregoing resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document, agreement or instrument or the doing of any such act or thing.

## EXHIBIT “B”

### PLAN OF ARRANGEMENT

#### PLAN OF ARRANGEMENT UNDER SECTION 193 OF THE *BUSINESS CORPORATIONS ACT* (ALBERTA)

#### ARTICLE 1 INTERPRETATION

1.1 In this Plan of Arrangement, the following terms have the following meanings:

- (a) “**ABCA**” means the *Business Corporations Act*, R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;
- (b) “**Arrangement**”, “**herein**”, “**hereof**”, “**hereto**”, “**hereunder**” and similar expressions mean and refer to the arrangement pursuant to section 193 of the ABCA set forth in this Plan of Arrangement as supplemented, modified or amended in accordance with this plan, and not to any particular article, section or other portion hereof;
- (c) “**Arrangement Agreement**” means the agreement dated 18 August 2015, between Sea Dragon and Madison with respect to the Arrangement and all amendments thereto;
- (d) “**Arrangement Resolution**” means the special resolution of Madison Shareholders in respect of the Arrangement to be considered at the Madison Meeting substantially in the form attached as Exhibit “A” to the Arrangement Agreement;
- (e) “**Articles of Arrangement**” means the articles of arrangement to be prepared by Madison, with the cooperation, consultation and prior approval of Sea Dragon, acting reasonably, in respect of the Arrangement required under subsection 193(10) of the ABCA to be sent to the Registrar for filing after the Final Order has been granted, giving effect to the Arrangement;
- (f) “**Business Day**” means a day other than a Saturday, Sunday or statutory holiday or other day when banks in the City of Calgary, Alberta are not generally open for business;
- (g) “**Certificate**” means the certificate or certificates or other proof of filing to be issued by the Registrar pursuant to section 193(11) of the ABCA giving effect to the Arrangement;
- (h) “**Court**” means the Court of Queen’s Bench of Alberta;
- (i) “**Depositary**” means Equity Financial Trust Company or such other Person that may be appointed by and at the expense of Sea Dragon for the purpose of receiving deposits of certificates formerly representing Madison Shares;
- (j) “**dissent rights**” means the right of a Dissenting Madison Shareholder pursuant to section 191 of the ABCA (as modified by the Interim Order) and the Interim Order and Article 5 hereof to dissent to the Arrangement Resolution and to be paid the fair market value of the securities in respect of which the holder dissents, in accordance with section 191 of the ABCA (as modified by the Interim Order) and the Interim Order and Article 5 hereof;
- (k) “**Dissenting Madison Shareholders**” means registered Madison Shareholders who validly exercise the rights of dissent provided to them under the Interim Order and whose dissent rights remain valid immediately before the Effective Time;
- (l) “**Effective Date**” means the date the Arrangement is effective under the ABCA;
- (m) “**Effective Time**” means the time at which the Articles of Arrangement are filed with the Registrar on the Effective Date;

- (n) “**Final Order**” means the order of the Court approving the Arrangement to be granted pursuant to subsection 193(9) of the ABCA in respect of Madison Shareholders, Madison, and Sea Dragon, as such order may be affirmed, amended or modified by the Court (with the consent of both Madison and Sea Dragon, each acting reasonably) at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended (provided that such amendment is acceptable to both Madison and Sea Dragon, each acting reasonably) on appeal;
  - (o) “**Interim Order**” means an interim order of the Court concerning the Arrangement under subsection 193(4) of the ABCA, containing declarations and directions with respect to the Arrangement and the holding of the Madison Meeting, as such order may be affirmed, amended or modified by any court of competent jurisdiction;
  - (p) “**ITA**” means the *Income Tax Act (Canada)*, R.S.C. 1985, c. 1 (5th Supp.), as amended, including the regulations promulgated thereunder, as amended from time to time;
  - (q) “**Letter of Transmittal**” means the letter of transmittal accompanying the Madison Information Circular sent to Madison Shareholders pursuant to which holders of Madison Shares are required to deliver certificates representing the Madison Shares;
  - (r) “**Madison**” means Madison PetroGas Ltd., a corporation existing under the ABCA;
  - (s) “**Madison Information Circular**” means the management information circular and proxy statement of Madison, together with all appendices thereto to be mailed or otherwise distributed by Madison to the Madison Shareholders and such other securityholders of Madison as may be required pursuant to the Interim Order in connection with the Madison Meeting;
  - (t) “**Madison Meeting**” means the special meeting of Madison Shareholders to be held to consider the Arrangement Resolution and related matters, and any adjournment(s) thereof; and
  - (u) “**Madison Shareholders**” means holders of Madison Shares;
  - (v) “**Madison Shares**” means the common shares in the capital of Madison;
  - (w) “**Madison Warrants**” means the common share purchase warrants of Madison to acquire Madison Shares;
  - (x) “**Madison Warrantholders**” means holders of Madison Warrants;
  - (y) “**Registrar**” means the Registrar of Corporations or the Deputy Registrar of Corporations appointed pursuant to section 263 of the ABCA;
  - (z) “**Sea Dragon**” means Sea Dragon Energy Inc., a corporation existing under the *Canada Business Corporations Act*;
  - (aa) “**Sea Dragon Shareholders**” means holders of Sea Dragon Shares;
  - (bb) “**Sea Dragon Shares**” means the common shares in the capital of Sea Dragon.
- 1.2 The division of this Plan of Arrangement into articles, sections and subsections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Plan of Arrangement.
- 1.3 Unless reference is specifically made to some other document or instrument, all references herein to articles, sections and subsections are to articles, sections and subsections of this Plan of Arrangement.
- 1.4 Unless the context otherwise requires, words importing the singular number shall include the plural and vice versa; words importing any gender shall include all genders; and words importing persons shall

include individuals, partnerships, associations, corporations, funds, unincorporated organizations, governments, regulatory authorities, and other entities.

- 1.5 In the event that the date on which any action is required to be taken hereunder by any of the parties is not a Business Day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a Business Day in such place.
- 1.6 References in this Plan of Arrangement to any statute or sections thereof shall include such statute as amended or substituted and any regulations promulgated thereunder from time to time in effect.

## **ARTICLE 2 ARRANGEMENT AGREEMENT**

- 2.1 This Plan of Arrangement is made pursuant and subject to the provisions of the Arrangement Agreement.
- 2.2 This Plan of Arrangement, upon the filing of the Articles of Arrangement and the issue of the Certificate, will become effective on, and be binding on and after, the Effective Time on: (i) all registered and beneficial Madison Shareholders; (ii) the Madison Warrantholders; (iii) Madison; and (iv) Sea Dragon.
- 2.3 The Articles of Arrangement and Certificate shall be filed and issued, respectively, with respect to this Arrangement in its entirety. The Certificate shall be conclusive evidence that the Arrangement has become effective and that each of the provisions of Article 3 has become effective in the sequence set out therein. If no Certificate is required to be issued by the Registrar pursuant to subsection 193(11) of the ABCA, the Arrangement shall become effective at the Effective Time on the date the Articles of Arrangement are filed with the Registrar pursuant to subsection 193(10) of the ABCA.

## **ARTICLE 3 ARRANGEMENT**

- 3.1 Commencing at the Effective Time, each of the events set out below shall occur and shall be deemed to occur in the following order without any further act or formality except as otherwise provided herein:

### **Dissenting Madison Shareholders**

- (a) the Madison Shares held by Dissenting Madison Shareholders who have validly exercised the rights of dissent provided to them under the Interim Order which remain valid immediately prior to the Effective Time shall, as of the Effective Time, be deemed to have been transferred to Sea Dragon, free and clear of all liens, claims, encumbrances, adverse interests and security interests of any nature or kind whatsoever, as of the Effective Time, such Dissenting Madison Shareholders shall cease to have any rights as Madison Shareholders, other than the right to be paid the fair value of their Madison Shares in accordance with Article 5 and the names of such holders shall be removed from the register of holders of Madison Shares with respect to all such Madison Shares and Sea Dragon shall become the holder of such Madison Shares and shall be added to the register of holders of Madison Shares as the registered holder of such shares;

### **Acquisition of Madison Shares by Sea Dragon**

- (b) each issued and outstanding Madison Share (other than those held by Sea Dragon) shall be, and shall be deemed to be, transferred by the holder thereof without any further action on its part, free and clear of all liens, claims, encumbrances, adverse interests and security interests of any nature or kind whatsoever, to Sea Dragon in exchange for 0.477143 (or such other exchange ratio as is determined in accordance with the Plan of Arrangement) of a duly authorized, fully-paid and non-assessable Sea Dragon Share and Sea Dragon shall be deemed to be the legal and beneficial owner of such transferred Madison Shares free and clear of any liens, claims, encumbrances, adverse interests or security interests of any nature or kind whatsoever, and upon such exchange:

- (i) the holders of such Madison Shares shall cease to be the holders of Madison Shares and the names of such holders shall be removed from the register of holders of Madison Shares with respect to all such Madison Shares; and
- (ii) Sea Dragon shall become the holder of the Madison Shares so exchanged and shall be added to the register of holders of Madison Shares as the registered holder of such shares;

#### **ARTICLE 4 MADISON WARRANTS**

- 4.1 Each Madison Warrant shall be adjusted in accordance with the adjustment provisions in the Madison Warrant Indenture such that upon the completion of the Arrangement, each holder of Madison Warrants shall receive, upon exercise thereof, that number of Sea Dragon Shares that such Madison Warrantholder would have been entitled to receive at the Effective Time if he/she/it had been the holder of the number of Madison Shares receivable upon exchange of Madison Warrants then held by such Madison Warrantholder. Upon any valid exercise of a Madison Warrant after the Effective Time, Sea Dragon shall issue the number of Sea Dragon Shares necessary to settle such exercise, provided that Sea Dragon has received the Madison Warrant exercise price.

#### **ARTICLE 5 DISSENTING MADISON SHAREHOLDERS**

- 5.1 Each registered holder of Madison Shares shall have the right to dissent with respect to the Arrangement in accordance with the Interim Order and this Article 5, provided that notwithstanding section 191(5) of the ABCA, the written objection to the Arrangement referred to in section 191(5) of the ABCA must be received by Madison not later than 4:00 p.m. (Calgary time) on the date that is five Business Days prior to the date of the Madison Meeting. A Dissenting Madison Shareholder shall, at the Effective Time, cease to have any rights as a holder of Madison Shares (other than as set forth herein) and shall only be entitled to be paid by Sea Dragon the fair value of the holder's Madison Shares. A Dissenting Madison Shareholder who is entitled to be paid by Sea Dragon the fair value of the holder's Madison Shares shall be deemed to have transferred the holder's Madison Shares, free and clear of all liens, claims, encumbrances, adverse interests and security interests of any nature or kind whatsoever, to Sea Dragon without any further act or formality as of the Effective Time, notwithstanding the provisions of section 191 of the ABCA.
- 5.2 A Dissenting Madison Shareholder who for any reason is not entitled to be paid the fair value of the holder's Madison Shares shall be deemed to have participated in the Arrangement on the same basis as a non-dissenting holder of Madison Shares notwithstanding the provisions of section 191 of the ABCA.
- 5.3 The fair value of the Madison Shares shall be determined as of the close of business on the last business day before the day on which the Arrangement Resolution is approved by the holders of Madison Shares.
- 5.4 In no event shall Madison or Sea Dragon be required to recognize such Dissenting Madison Shareholder as a Madison Shareholder after the Effective Time and the names of such holders shall be removed from the register of Madison Shareholders as at the Effective Time.
- 5.5 For greater certainty, in addition to any other restrictions in section 191 of the ABCA, any person who has voted in favour of the Arrangement Resolution shall not be entitled to dissent with respect to the Arrangement. In addition, a Dissenting Madison Shareholder may only exercise dissent rights in respect of all, and not less than all, of its Madison Shares.

#### **ARTICLE 6 CERTIFICATES AND PAYMENTS**

- 6.1 Sea Dragon shall cause the Depository, as soon as practicable following the later of the Effective Date and the date of deposit by a former holder of Madison Shares of a duly completed and executed Letter of Transmittal, such additional documents and instruments as the Depository may reasonably require and the certificates representing such Madison Shares, either:



- (a) forward or cause to be forwarded by first class mail (postage prepaid) to such former holder at the address specified in the Letter of Transmittal; or
- (b) if requested by such holder in the Letter of Transmittal, make available or cause to be made available at the Depository for pickup by such holder;

certificates representing the number of Sea Dragon Shares issued to such holder under the Arrangement.

- 6.2 Until deposited as contemplated by Section 6.1, each certificate that immediately prior to the Effective Time represented Madison Shares shall be deemed after the Effective Time to represent only the right to receive upon such deposit the consideration and other property to which the holders of such Madison Shares are entitled under the Arrangement, or as to those held by Dissenting Madison Shareholders, other than those Dissenting Madison Shareholders deemed to have participated in the Arrangement pursuant to Section 5.2, to receive the fair value of the Madison Shares represented by such certificates. Any such certificate formerly representing Madison Shares not duly surrendered on or before the last business day prior to the fifth anniversary of the Effective Date shall cease to represent a claim by or interest of any former Madison Shareholder of any kind or nature against Madison or Sea Dragon. On such date, all consideration and other property to which such former holder was entitled shall be deemed to have been surrendered to Madison or Sea Dragon, as applicable.
- 6.3 No Madison Shareholder shall be entitled to receive any consideration with respect to such Madison Shares other than the consideration and other property to which such holder is entitled to receive under the Arrangement and, for greater certainty, no such holder will be entitled to receive any interest, dividend, premium or other payment in connection therewith.
- 6.4 If any certificate which immediately prior to the Effective Time represented an interest in outstanding Madison Shares, that were exchanged pursuant to Section 3.1 has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such certificate to have been lost, stolen or destroyed, the Depository will issue and deliver in exchange for such lost, stolen or destroyed certificate the consideration and other property to which the holder is entitled pursuant to the Arrangement as determined in accordance with the Arrangement. The person who is entitled to receive such consideration and other property shall, as a condition precedent to the receipt thereof, give a bond satisfactory to Sea Dragon and its transfer agent in such form as is satisfactory to Sea Dragon and such transfer agent, each acting reasonably, or otherwise indemnify Madison, Sea Dragon, and the transfer agent, to the reasonable satisfaction of such parties, against any claim that may be made against any of them with respect to the certificate alleged to have been lost, stolen or destroyed.
- 6.5 All dividends payable with respect to any Sea Dragon Shares allotted and issued pursuant to this Arrangement for which a certificate has not been issued shall be paid or delivered to the Depository to be held by the Depository in trust for the registered holder thereof. All monies received by the Depository shall be invested by it in interest-bearing trust accounts upon such terms as the Depository may reasonably deem appropriate. The Depository shall pay and deliver to any such registered holder, as soon as reasonably practicable after application therefor is made by the registered holder to the Depository in such form as the Depository may reasonably require, such distributions and any interest thereon to which such holder is entitled, net of applicable withholding and other taxes.
- 6.6 No certificates representing fractional Sea Dragon Shares shall be issued under the Arrangement. In lieu of any fractional Sea Dragon Shares, each registered Madison Shareholder otherwise entitled to a fractional interest in Sea Dragon Shares will receive the nearest whole number of Sea Dragon Shares. For greater certainty, where such fractional interest is greater than or equal to 0.5, the number of Sea Dragon Shares to be issued will be rounded up to the nearest whole number and where such fractional interest is less than 0.5, the number of Sea Dragon Shares to be issued will be rounded down to the nearest whole number. In calculating such fractional interests, all Madison Shares registered in the name of or beneficially held by such Madison Shareholder or their nominee shall be aggregated.
- 6.7 Madison, Sea Dragon, and the Depository shall be entitled to deduct and withhold from any consideration otherwise payable to any Person under this Plan of Arrangement (including, without limitation, any amounts payable pursuant to Article 5 hereof), such amounts as Madison, Sea Dragon, or the Depository determines, acting reasonably, are required or reasonably believes to be required to

be deducted and withheld from such consideration in accordance with the ITA, the United States Internal Revenue Code of 1986 or any provision of any other applicable law. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the Person in respect of which such withholding was made, provided that such deducted and withheld amounts are remitted to the appropriate taxing authority.

#### **ARTICLE 7 AMENDMENTS**

- 7.1 Madison and Sea Dragon may amend, modify and/or supplement this Plan of Arrangement at any time and from time to time prior to the Effective Time, provided that each such amendment, modification and/or supplement must be: (i) set out in writing; (ii) approved by both parties; (iii) filed with the Court and, if made following the Madison Meeting, approved by the Court; and (iv) communicated to Madison Shareholders, if and as required by the Court.
- 7.2 Any amendment, modification or supplement to this Plan of Arrangement may be proposed by Madison or Sea Dragon at any time prior to or at the Madison Meeting (provided that the other party shall have consented thereto) with or without any other prior notice or communication, and if so proposed and accepted by the persons voting at the Madison Meeting (other than as may be required under the Interim Order or other order of the Court), shall become part of this Plan of Arrangement for all purposes.
- 7.3 Any amendment, modification or supplement to this Plan of Arrangement that is approved by the Court following the Madison Meeting shall be effective only (i) if it is consented to in writing by each of Madison and Sea Dragon (each acting reasonably), and (ii) if required by the Court or applicable law, it is consented to by the Madison Shareholders.
- 7.4 Any amendment, modification or supplement to this Plan of Arrangement may be made following the Effective Time effective only if it is consented to in writing by each of Sea Dragon and Madison, provided that it concerns a matter which, in the reasonable opinion of each of Sea Dragon and Madison, is of an administrative nature required to better give effect to the implementation of this Plan of Arrangement and is not adverse to the financial or economic interests of any former holder of Madison Shares.

#### **ARTICLE 8 FURTHER ASSURANCES**

- 8.1 Notwithstanding that the transactions and events set out herein shall occur and shall be deemed to occur in the order set out in this Plan without any further act or formality, each of the Parties to the Arrangement Agreement shall make, do and execute, or cause to be made, done and executed, all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required in order further to document or evidence any of the transactions or events set out herein.
- 8.2 From and after the Effective Time (a) this Plan shall take precedence and priority over any and all rights related to Madison Shares and Madison Warrants issued prior to the Effective Time; (b) the rights and obligations of the holders of Madison Shares and Madison Warrants and any trustee and transfer agent therefor, shall be solely as provided for in this Plan; and (c) all actions, causes of actions, claims or proceedings (actual or contingent, and whether or not previously asserted) based on or in any way relating to Madison Shares or Madison Warrants shall be deemed to have been settled, compromised, released and determined without liability except as set forth herein.