

**ZARGON OIL & GAS LTD.**

**NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS  
TO BE HELD ON APRIL 27, 2011**

The annual general meeting of the shareholders of Zargon Oil & Gas Ltd. ("Zargon") will be held in the Strand/Tivoli Room of the Metropolitan Conference Centre, 333 – 4<sup>th</sup> Avenue S.W., Calgary, Alberta on April 27, 2011 at 3:00 p.m. (Calgary time) to:

1. receive and consider our financial statements for the year ended December 31, 2010, together with the report of the auditors;
2. elect our eight (8) directors;
3. appoint our auditors and to authorize the directors to fix their remuneration as such; and
4. transact such other business as may properly be brought before the meeting or any adjournment thereof.

The specific details of the matters proposed to be put before the meeting are set forth in the information circular - proxy statement accompanying this notice.

**Registered shareholders who are unable to attend the meeting in person are requested to complete, date and sign the enclosed form of proxy and return it to Valiant Trust Company, Attention: Proxy Department, Suite 600, 750 Cambie Street, Vancouver, British Columbia V6B 0A2, or deliver it by fax to (604) 681-3067 at least 48 hours, excluding Saturdays, Sundays and holidays, before the meeting or any adjournment thereof.** Registered shareholders may also vote via the internet at [www.valianttrust.com](http://www.valianttrust.com). Votes by internet must be received by 3:00 p.m. (Calgary Time) on Monday, April 25, 2011 or at least 48 hours prior to the time of any adjournment of the meeting. If a shareholder receives more than one proxy form because such shareholder owns common shares of Zargon registered in different names or addresses, each proxy form should be completed and returned. See the information circular - proxy statement for further instructions on internet voting.

Only shareholders of record at the close of business on March 10, 2011 will be entitled to vote at the meeting, unless that shareholder has transferred any common shares subsequent to that date and the transferee shareholder, not later than 10 days before the meeting, establishes ownership of the common shares and demands that the transferee's name be included on the list of shareholders entitled to vote at the meeting.

DATED at Calgary, Alberta this 10<sup>th</sup> day of March, 2011.

By order of the Board of Directors of  
Zargon Oil & Gas Ltd.

(signed) Craig H. Hansen  
President and Chief Executive Officer

## ZARGON OIL & GAS LTD.

Information Circular - Proxy Statement  
for the Annual General Meeting to be held on April 27, 2011

### PROXIES

#### Solicitation of Proxies

This information circular - proxy statement is furnished in connection with the solicitation of proxies for use at our annual general meeting to be held on April 27, 2011 at 3:00 p.m. (Calgary time) in the Strand/Tivoli Room of the Metropolitan Conference Centre, 333 – 4<sup>th</sup> Avenue S.W., Calgary, Alberta, and at any adjournment thereof. The completed proxy form must be deposited at the offices of Valiant Trust Company ("Valiant"), Attention: Proxy Department, Suite 600, 750 Cambie Street, Vancouver, British Columbia, V6B 0A2, or deliver it by fax to (604) 681-3067 at least 48 hours, excluding Saturdays, Sundays and holidays, before the meeting or any adjournment thereof. Registered shareholders may also use the internet [www.valianttrust.com](http://www.valianttrust.com) to vote their shares. Shareholders will be prompted to enter the control number which is located on the form of proxy. Votes by internet must be received by 3:00 p.m. (Calgary Time) on Monday, April 25, 2011 or at least 48 hours prior to the time of any adjournment of the meeting. The website may also be used to appoint a proxy holder to attend and vote at the meeting on the shareholder's behalf and to convey a shareholder's voting instructions. Solicitation of proxies will be primarily by mail, but some proxies may be solicited personally or by telephone, facsimile transmission or other electronic means by officers, directors or employees of Zargon at a nominal cost. The cost of solicitation will be borne by Zargon.

Only shareholders of record at the close of business on March 10, 2011 will be entitled to vote at the meeting, unless that shareholder has transferred any common shares subsequent to that date and the transferee shareholder, not later than 10 days before the meeting, establishes ownership of the common shares and demands that the transferee's name be included on the list of shareholders entitled to vote at the meeting.

The instrument appointing a proxy must be in writing and must be executed by you or your attorney authorized in writing or, if you are a corporation, under your corporate seal or by a duly authorized officer or attorney of the corporation.

The persons named in the enclosed form of proxy are officers of Zargon Oil & Gas Ltd. **As a shareholder, you have the right to appoint a person or company, who need not be a shareholder, to represent you at the meeting.** To exercise this right you should insert the name of the desired representative in the blank space provided on the form of proxy and strike out the other names or submit another appropriate proxy.

#### Advice to Beneficial Holders of Common Shares

The information set forth in this section is of significant importance to you if you do not hold your common shares in your own name. Only proxies deposited by shareholders whose names appear on our records as the registered holders of common shares can be recognized and acted upon at the meeting. If common shares are listed in your account statement provided by your broker, then in almost all cases those common shares will not be registered in your name on our records. Such common shares will likely be registered under the name of your broker or an agent of that broker. In Canada, the vast majority of such common shares are registered under the name of CDS & Co., the registration name for The Canadian Depository for Securities Limited, which acts as nominees for many Canadian brokerage firms. Common shares held by your broker or their nominee can only be voted upon your instructions. Without specific instructions, your broker or their nominee is prohibited from voting your common shares. We do not know for whose benefit the common shares registered in the name of CDS & Co. are held. The majority of common shares held in the United States are registered in the name of Cede & Co., the nominee for the Depository Trust Company, which is the United States equivalent of CDS Clearing and Depository Services Inc.

Applicable regulatory policy requires your broker to seek voting instructions from you in advance of the meeting. Every broker has its own mailing procedures and provides its own return instructions, which you should carefully follow in order to ensure that your common shares are voted at the meeting. Often, the form of proxy

supplied by your broker is identical to the form of proxy provided to registered shareholders. However, its purpose is limited to instructing the registered shareholder how to vote on your behalf. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Investor Communications, Canada, which mails a scannable voting instruction form in lieu of the form of proxy. You are asked to complete and return the voting instruction form to them by mail or facsimile. Alternately, you can call their toll-free telephone number or access the internet to vote your common shares. They then tabulate the results of all instructions received and provide appropriate instructions respecting the voting of common shares to be represented at the meeting. If you receive a voting instruction form from Broadridge Investor Communications, Canada it cannot be used as a proxy to vote common shares directly at the meeting as the proxy must be returned to them well in advance of the meeting in order to have the common shares voted.

Although you may not be recognized directly at the meeting for the purposes of voting common shares registered in the name of your broker, you may attend the meeting as a proxyholder for the registered holder and vote your common shares in that capacity. If you wish to attend the meeting and vote your own common shares, you must do so as proxyholder for the registered holder. To do this, you should enter your own name in the blank space on the applicable form of proxy provided to you and return the document to your broker or the agent of such broker in accordance with the instructions provided by such broker well in advance of the meeting.

### **Revocability of Proxy**

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

### **Persons Making the Solicitation**

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

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

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

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

We are authorized to issue an unlimited number of common shares without nominal or par value and 10,000,000 preferred shares without nominal or par value issuable in series. As at March 10, 2011, there were 27,095,343 common shares and no preferred shares outstanding. As a holder of common shares, you are entitled to one vote for each common share you own.

To the best of the knowledge of our directors and executive officers, as at March 10, 2011, no person or company beneficially owns, or controls or directs, directly or indirectly, 10% or more of our issued and outstanding common shares.

As at March 10, 2011, our directors and executive officers, as a group, beneficially owned, or controlled or directed, directly or indirectly, 1,816,562 common shares or approximately 6.7% of our issued and outstanding common shares.

## THE ARRANGEMENT

On January 1, 2011, Zargon Energy Trust (the "**Trust**") completed a plan of arrangement (the "**Arrangement**") pursuant to Section 193 of the *Business Corporations Act* (Alberta). The Arrangement involved an internal reorganization of the Trust and certain of its subsidiaries through which the trust structure was replaced with a corporate structure. Pursuant to the Arrangement, the Trust was reorganized into us and the Trust was dissolved. We operate under the name "Zargon Oil & Gas Ltd." and, together with our subsidiaries, own, directly or indirectly, the same assets owned by the Trust and its subsidiaries immediately prior to the Arrangement.

Pursuant to the Arrangement, the issued and outstanding trust units of the Trust were ultimately exchanged for our common shares on a one-for-one basis and the issued and outstanding exchangeable shares of Zargon Oil & Gas Ltd., were ultimately exchanged for our common shares on the basis of 1.84716 common shares for each outstanding exchangeable share. In addition, as part of the Arrangement, all outstanding incentive rights granted under the Trust's unit right incentive plans were assumed by us. Such trust unit incentive rights will continue to vest in accordance with the original terms thereof except that the holders of such rights will be entitled to receive our common shares in lieu of trust units of the Trust. No new rights will be granted under such plans but the plans will remain in place until such time as all outstanding rights granted thereunder have been exercised or expired. We have adopted a new share award plan which became effective on January 1, 2011 which we are now using to meet our compensation objectives. See "*Incentive Plans*" below for a description of our new share award plan.

## MATTERS TO BE ACTED UPON AT THE MEETING

### Election of Directors

Directors will be elected at the meeting. Our board of directors has been fixed at eight members. It is proposed that the persons referred to below will be nominated at the meeting. Each director elected will hold office until our next annual general meeting or until his or her successor is duly elected or appointed, unless his or her office is earlier vacated.

Management is soliciting proxies, in the accompanying form of proxy, for an ordinary resolution in favour of the election as directors of the eight nominees set forth below:

Craig H. Hansen	Geoffrey C. Merritt
K. James Harrison	Jim Peplinski
Kyle D. Kitagawa	J. Graham Weir
Margaret A. McKenzie	Grant A. Zawalsky

In the event that a vacancy among such nominees occurs because of death or for any reason prior to the meeting, the proxy will not be voted with respect to such vacancy.

The following information relating to the proposed nominees is based partly on our records and partly on information received by us from the nominees, and sets forth the names, ages and cities of residence of the persons proposed to be nominated for election as our directors, their committee memberships, the year in which each became a director of us (or a predecessor of us), the present occupations and brief biographies of such persons, and the number of our securities owned, controlled or directed, directly or indirectly, by each, as at March 10, 2011 in respect of 2010 and as at March 10, 2010 in respect of 2009:

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed <sup>(1)</sup>		Incentive Rights <sup>(2)</sup>		Total Market Value of Securities Owned and Incentive Rights <sup>(3)(4)</sup>	
			2010	2009	2010	2009	2010	2009

<b>K. James Harrison</b> Oakville, Ontario	50	1995	53,882 <sup>(5)</sup>	74,660 <sup>(5)</sup> / 24,327	48,000	38,000	\$1,481,371	\$1,027,676
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Member of:  
- Compensation Committee  
- Governance and  
Nominating Committee



Mr. Harrison is our Chairman. He is the founder of K.J. Harrison & Partners Inc., a private client investment management firm in Toronto, Ontario. Prior to 2000, he was the Vice-Chairman and Chief Executive Officer of Connor Clark Ltd. He is a LL.B., M.B.A. graduate of the University of Western Ontario and has a Chartered Financial Analyst designation.

<b>Craig H. Hansen</b> Calgary, Alberta	54	1992	986,619	517,025/ 256,860	199,000	181,000	\$24,224,059	\$19,048,846
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Mr. Hansen has been our President and its predecessor company, Zargon Energy Trust since 1993. Mr. Hansen obtained a B.Sc. (Hons.) in Chemical Engineering from the University of Alberta in 1978 and is a professional engineer registered with APEGGA. Mr. Hansen was employed with Dome Petroleum Ltd. (1978-1980) and NRG Engineering Ltd. (1980-1984). He founded C.H. Hansen Engineering Ltd., an engineering consulting company, which provided reservoir, exploitation, and acquisition engineering services during the period 1984 through 1993. Mr. Hansen is a member of the Board of Directors of the Canadian Association of Petroleum Producers (CAPP) where he serves as the Chair of the Fiscal Executive Policy Group and the Audit Committee.

<b>Kyle D. Kitagawa</b> Calgary, Alberta	50	2001	78,919	23,251/ 23,475	17,300	8,000	\$2,023,089	\$1,285,722
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Member of:  
- Audit Committee  
(Chairman)  
- Reserves Committee



Mr. Kitagawa brings over 20 years experience in commodity trading, equity investing, and structured finance in energy and energy intensive industries. Prior to April 2003, he held senior executive positions in a global energy trading and capital corporation. Mr. Kitagawa has been an independent businessman since 2003. In addition, Mr. Kitagawa serves as Chairman of Canadian Energy Services & Technology Corp. and Coral Hill Energy Ltd. and is also a Director of ProspEx Resources Ltd. Prior directorships included Advanced Mobile Power Systems, LLC, Esprit Exploration Ltd., Ferus Trust, Independent Energy Ltd., Invasion Energy Inc., Livingston Energy Ltd., Papier Masson Ltee. and Wave Energy Ltd.

He holds a Master of Business Administration degree from Queen's University, a Bachelor of Commerce from the University of Calgary and is a Chartered Accountant.

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed <sup>(1)</sup>		Incentive Rights <sup>(2)</sup>		Total Market Value of Securities Owned and Incentive Rights <sup>(3) (4)</sup>	
			2010	2009	2010	2009	2010	2009

<b>Margaret A. McKenzie</b> Calgary, Alberta	49	2007	6,600	6,600/ Nil	37,300	28,000	\$295,703	\$167,958
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Member of:  
- Audit Committee  
- Governance and  
Nominating Committee



Ms. McKenzie is the Chief Financial Officer, Range Royalty Management Ltd. (general partner of Range Royalty Limited Partnership, a private royalty partnership). She was previously Vice President Finance and Chief Financial Officer of Profico Energy Management Ltd. (a private oil and gas company) and Manager, Treasury and Administration with Renaissance Energy Ltd. (a public oil and gas company).

Ms. McKenzie holds a Bachelor of Commerce with Distinction degree from the University of Saskatchewan and has been a member of the Institute of Chartered Accountants of Alberta since 1985. Ms. McKenzie is on the board of directors of Bonavista Energy Corporation and three private oil and natural gas exploration and development companies (Spur Resources Ltd., Endurance Energy Ltd. and Home Quarter Resources Ltd.).

<b>Geoffrey C. Merritt</b> Calgary, Alberta	56	2009	51,755	51,755/ Nil	17,300	8,000	\$1,371,968	\$1,072,413
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Member of:  
- Reserves Committee



Mr. Merritt has over 30 years of experience in the upstream oil and gas sector. He was the founder of Masters Energy Inc., a public exploration and production company, incorporated in 2003 and acquired by us in April 2009. From 1998 to 2003, Mr. Merritt was the President and CEO of Sunfire Energy. Prior to 1998, he was the Vice President and General Manager of the oil and gas division of Pembina Corporation. Mr. Merritt currently sits on the board of Perpetual Energy Inc.

Mr. Merritt received a B.Sc. in Chemical Engineering from the University of Alberta in 1978 and is a graduate of the Harvard Business School.

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed <sup>(1)</sup>		Incentive Rights <sup>(2)</sup>		Total Market Value of Securities Owned and Incentive Rights <sup>(3) (4)</sup>	
			2010	2009	2010	2009	2010	2009

<b>Jim Peplinski</b> Calgary, Alberta	50	1997	154,829	45,798/ 59,026	17,300	8,000	\$3,842,652	\$2,925,013
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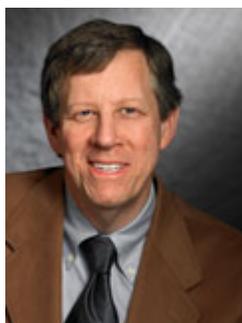
Member of:  
- Compensation Committee  
(Chairman)  
- Reserves Committee



Mr. Peplinski has assorted business interests including automotive finance, fleet management, real estate and oil and gas. He is also the VP Business Development, Calgary Flames Hockey Club and Co-chair of the 2012 World Junior Hockey Championships.

<b>J. Graham Weir</b> Calgary, Alberta	59	2004	380,175	85,869/ 159,329	17,300	8,000	\$9,244,196	\$7,042,761
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Member of:  
- Audit Committee  
- Reserves Committee  
(Chairman)



Mr. Weir is an independent businessman. From September 1990 to December 2000, he was Vice President and Director of Corporate Finance for Goepel McDermid Inc. (an investment bank), where he initiated and completed acquisition, financing, financial advisory, merger and valuation assignments for mid-market public and private companies generally headquartered in Calgary and active in the oil and gas producer and service sectors. Mr. Weir chairs the boards of Graymont Limited and Pulse Seismic Inc. and serves as a director of other companies including: Coral Hill Energy Ltd., Flagstone Energy Inc., Grupo Calidra, S.A. de C.V. and Joss Windpower Inc.

Mr. Weir graduated from Trent University in 1974 with a Bachelors Degree in Mathematics and the University of Manitoba in 1977 with a Masters Degree in Actuarial Mathematics. Mr. Weir received the designation Chartered Business Valuator in 1994 and completed a Masters Degree in Mathematical Finance at the University of Oxford in 2005.

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed <sup>(1)</sup>		Incentive Rights <sup>(2)</sup>		Total Market Value of Securities Owned and Incentive Rights <sup>(3) (4)</sup>	
			2010	2009	2010	2009	2010	2009
<b>Grant A. Zawalsky</b> Calgary, Alberta	51	2000	28,400	28,400/ Nil	17,300	8,000	\$812,149	\$604,612

Member of:  
- Governance and  
Nominating Committee  
(Chairman)  
- Compensation Committee



Mr. Zawalsky is a Partner of Burnet, Duckworth & Palmer LLP (Barristers and Solicitors). Mr. Zawalsky has been a Partner of Burnet, Duckworth & Palmer LLP since 1994. Mr. Zawalsky currently sits on the board of directors of a number of public and private companies including Endurance Energy Ltd., Flagstone Energy Inc., Home Quarter Resources Ltd., NuVista Energy Ltd., Range Royalty Management Ltd. (general partner of Range Royalty Limited Partnership), Spur Resources Ltd., Whitecap Resources Inc. and is Corporate Secretary of Bonavista Energy Corporation, Echoex Ltd., Northpoint Energy Ltd. and Rock Energy Ltd.

Mr. Zawalsky holds a B.Com and LL.B. from the University of Alberta and is a member of the Law Society of Alberta.

Notes:

- (1) For 2010, the "Securities Owned, Controlled or Directed" represents our common shares and for 2009, such amounts represent the trust units of the Trust and the exchangeable shares of Zargon Oil & Gas Ltd.
- (2) For 2010, "Incentive Rights" include incentive rights granted under the Trust's unit right incentive plans which were assumed by us pursuant to the Arrangement and awards granted under our share award plan. 2009 amounts represent incentive rights granted under the Trust's unit right incentive plans.
- (3) For 2010, the "Total Market Value of Securities Owned and Incentive Rights" was determined by multiplying the number of common shares held by the nominee as of March 10, 2011 by the closing price of our common shares on the Toronto Stock Exchange on such date (\$23.97), plus the number of common shares issuable upon exercise of share awards held multiplied by the closing price of our common shares on the Toronto Stock Exchange on such date, plus the number of common shares issuable upon exercise of incentive rights held multiplied by the difference between the closing price of our common shares on the Toronto Stock Exchange on such date (\$23.97) less the original grant price of the incentive rights for in-the-money incentive rights. For calculation purposes, no adjustment has been made to the grant price to give effect to distributions or dividends paid since the right was granted.
- (4) For 2009, the "Total Market Value of Securities Owned and Incentive Rights" was determined by multiplying the number of trust units of the Trust and the number of trust units of the Trust issuable upon the exchange of the exchangeable shares of Zargon Oil & Gas Ltd. held by the nominee as of March 10, 2010 by the closing price of the trust units of the Trust on the Toronto Stock Exchange on such date (\$20.03) and the number of trust units of the Trust issuable upon exercise of the trust unit incentive rights held multiplied by the difference between the closing price of the trust units of the Trust on the Toronto Stock Exchange on such date (\$20.03) less the original grant price of the trust unit rights for in-the-money trust unit rights. For calculation purposes, no adjustment has been made to the grant price to give effect to distributions paid since the right was granted.
- (5) Mr. Harrison has control or direction over 71,913 common shares in 2010 and had control or direction over 65,713 trust units of the Trust in 2009 that are held by clients of K.J. Harrison & Partners Inc. For the purposes of calculating Mr. Harrison's "Total Market Value of Securities Owned and Incentive Rights" the 71,913 common shares and the 65,713 trust units of the Trust in 2009 have not been included.

***Additional Disclosure Relating to Proposed Directors***

To the knowledge of our directors and executive officers, none of our proposed directors is, as of the date hereof, or has been within ten years before the date hereof, a director, chief executive officer or chief financial officer of any company (including us), that was subject to a cease trade order (including a management cease trade

order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "Order") that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer or was subject to an Order that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer. None of our proposed directors is, as of the date hereof, or has been within the ten years before the date hereof, a director or executive officer of any company (including us) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets or has, within the ten years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder, other than Mr. Zawalsky who was a director of Efficient Energy Resources Ltd. (a private electrical generation company) which agreed to the voluntary appointment of a receiver in 2005.

In addition, none of our proposed directors has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

#### ***Majority Voting for Directors***

Our board of directors has adopted a policy stipulating that if the votes in favour of the election of a director nominee at a shareholders' meeting represent less than a majority of the common shares voted and withheld, the nominee will submit his or her resignation promptly after the meeting, for the Governance and Nominating Committee's consideration. The Governance and Nominating Committee will make a recommendation to our board of directors after reviewing the matter, and our board of directors' decision to accept or reject the resignation offer will be disclosed to the public within 90 days of the applicable shareholders' meeting. Resignations shall be expected to be accepted except in situations where extenuating circumstances would warrant the applicable director to continue to serve as a board member. The nominee will not participate in any committee or board deliberations on the resignation offer. The policy does not apply in circumstances involving contested director elections.

#### **Appointment of Auditors**

Management is soliciting proxies, in the accompanying form of proxy, in favour of the appointment of the firm of Ernst & Young LLP, Chartered Accountants, as our auditors, to hold office until the next annual general meeting of our shareholders and to authorize the directors to fix their remuneration as such. See "*Audit Committee Information*" in our annual information form for the year ended December 31, 2010 for additional information including a description of fees we paid to Ernst & Young LLP during the past 2 years.

### **DIRECTORS COMPENSATION**

#### **Compensation of Directors**

Our board of directors, through the governance and nominating committee, is responsible for the development and implementation of a compensation plan for our independent directors. Our directors who are also our officers are not paid any compensation for acting as a director.

The main objectives of our compensation plan for directors are to attract and retain the services of the most qualified individuals and to compensate our directors in a manner that is commensurate with the risks and responsibilities assumed in board and committee membership and at a level that is similar to the compensation paid to directors of a peer group of oil and gas companies. In addition, our philosophy of using compensation to foster a culture of ownership also extends to our director compensation policies. Our board of directors believes it is

important that directors demonstrate their commitment to our stewardship through common share ownership. As a result, all of our independent directors are required to hold common shares with the total value aggregating not less than four times their annual board retainer. New directors have two years from being appointed to the board to comply with this policy. See "*Common Share Ownership Guidelines*" below.

We currently pay our outside directors, other than our Chairman, an annual board retainer of \$20,000 plus a fee of \$1,500 for each board meeting, \$1,500 for each telephone board meeting and \$1,500 for each committee meeting. We pay our Chairman an annual retainer of \$45,000, plus a fee of \$1,500 for each board meeting, \$1,500 for each telephone board meeting and \$1,500 for each committee meeting. We pay an annual retainer to the chairman of our audit committee of \$10,000. A \$5,000 retainer is paid to the chairmen of our compensation, governance and nominating and reserves committees, respectively. Outside directors are also reimbursed for their out-of-pocket expenses incurred in carrying out their duties as directors.

In 2010, a peer group review was conducted by our governance and nominating committee, with results indicating the directors' compensation to be competitive with its peers. Director compensation is discussed on an annual basis and there have been no changes to our director's compensation arrangement since 2007.

The following table sets forth the principal elements of the compensation plan for the year ended December 31, 2010.

Compensation Element	Amount (\$)
Board Retainer - Annual	20,000
Additional Chair Retainers – Annual:	
Board	45,000
Audit	10,000
Compensation	5,000
Governance and Nominating	5,000
Reserves	5,000
Meeting Attendance Fee	1,500

Pursuant to the Arrangement, all outstanding incentive rights granted under the Trust's unit right incentive plans were assumed by us. Such trust unit incentive rights will continue to vest in accordance with the original terms thereof except that the holders of such rights will be entitled to receive our common shares in lieu of trust units of the Trust. No new rights will be granted under such plans but the plans will remain in place until such time as all outstanding rights granted thereunder have been exercised or expired.

Our outside directors were eligible to receive awards under the trust unit rights incentive plan of the Trust. Participation of non-management directors in the trust unit rights incentive plan was limited to 1% of the Trust's total outstanding trust units (including trust units issuable upon exchange of exchangeable shares of Zargon Oil & Gas Ltd. and other fully paid securities of any of the Trust's subsidiaries, partnerships, trusts or other controlled entities exchangeable into trust units of the Trust which were the economic equivalent of the Trust's trust units including full voting rights) ("**Total Units**"). In addition, each non-management director's participation was limited to an annual grant value of \$100,000 or less, with the value of each grant calculated on the applicable grant date.

On March 15, 2010, our outside directors were each granted 8,000 trust unit rights pursuant to the Trust's trust unit rights incentive plan, at a grant price of \$19.85. The right to purchase these trust units were granted in one instalment, with the grant vesting in three parts, 3,000 trust unit rights as of January 1, 2011, 2,500 trust unit rights as of January 1, 2012 and the remaining 2,500 trust unit rights as of January 1, 2013.

We have adopted a new share award plan which became effective on January 1, 2011. Our outside directors are eligible to receive awards under our share award program. The participation of each non-management director in the share award plan is limited to the lesser of (a) 1% of our issued and outstanding common shares; and (b) an annual equity award value of \$100,000, with the value of each award calculated at the time of grant. See "*Incentive Plans*" for a description of our new share award plan.

As at December 31, 2010, our outside directors held an aggregate of 162,000 incentive rights, which represented approximately 0.6% of our issued and outstanding common shares as at such date. For information regarding the outstanding rights held by our independent directors as at December 31, 2010, see "*Outstanding Option-based and Share-based Awards*" and "*Incentive Plan Awards – Value Vested or Earned during the Year*" below.

On January 24, 2011, our chairman of the board was granted 2,000 share awards and our outside directors were each granted 1,300 share awards pursuant to our share award incentive plan. The right to purchase these common shares were granted in one instalment, with the grant vesting annually in four equal parts commencing on January 1, 2012.

The following table sets forth the cash retainers and fees that were paid to each of our independent directors during the year ended December 31, 2010. Directors' fees are paid on a quarterly basis.

Name	Board Retainer (\$)	Chair of Board Retainer (\$)	Committee Chair Retainer (\$)	Meeting Attendance Fees (\$)	Total Fees Earned (\$)
K. James Harrison	Nil	45,000	Nil	27,000	72,000
Kyle D. Kitagawa	20,000	Nil	10,000	31,000	61,000
Margaret A. McKenzie	20,000	Nil	Nil	30,000	50,000
Geoffrey C. Merritt	20,000	Nil	Nil	21,000	41,000
Jim Peplinski	20,000	Nil	5,000	25,500	50,500
J. Graham Weir	20,000	Nil	5,000	27,000	52,000
Grant A. Zawalsky	20,000	Nil	5,000	27,000	52,000

#### *Summary Compensation Table*

The following table sets forth information concerning the compensation for our independent directors for the year ended December 31, 2010. Please refer to "*Executive Compensation*" for details regarding the disclosure paid to our President and Chief Executive Officer, who is also one of our directors.

Name	Fees earned (\$)	Share-based awards (\$)	Option-based awards <sup>(1)</sup> (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
K. James Harrison	72,000	Nil	46,221	Nil	Nil	Nil	118,221
Kyle D. Kitagawa	61,000	Nil	46,221	Nil	Nil	Nil	107,221
Margaret A. McKenzie	50,000	Nil	46,221	Nil	Nil	Nil	96,221
Geoffrey C. Merritt	41,000	Nil	46,221	Nil	Nil	Nil	87,221
Jim Peplinski	50,500	Nil	46,221	Nil	Nil	Nil	96,721
J. Graham Weir	52,000	Nil	46,221	Nil	Nil	Nil	98,221
Grant A. Zawalsky <sup>(2)</sup>	52,000	Nil	46,221	Nil	Nil	Nil	98,221

Notes:

- (1) The value disclosed represents the fair value of these rights using the Black-Scholes pricing model valued on the grant date.
- (2) Mr. Zawalsky is a partner at the law firm of Burnet, Duckworth & Palmer LLP, which receives fees for the provision of legal services to us.

**Directors' Outstanding Option-based Awards and Share-based Awards**

The following table sets forth all option-based awards and share-based awards outstanding held by our independent directors at December 31, 2010.

Name	Option-based Awards				Share-based Awards	
	Number of securities underlying unexercised incentive rights <sup>(1)</sup> (#)	Incentive right exercise price <sup>(1)(2)</sup> (\$)	Incentive right expiration date <sup>(1)</sup>	Value of unexercised in-the-money incentive rights <sup>(1)(3)</sup> (\$)	Number of share awards that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)
K. James Harrison	6,000	22.75	January 31, 2012	Nil	N/A	N/A
	8,000	22.10	January 31, 2013	2,880		
	8,000	26.00	January 31, 2013	Nil		
	8,000	21.55	January 31, 2013	7,280		
	8,000	15.56	January 31, 2014	55,200		
	8,000	19.85	January 31, 2015	20,880		
Kyle D. Kitagawa	8,000	15.56	January 31, 2014	55,200	N/A	N/A
	8,000	19.85	January 31, 2015	20,880		
Margaret A. McKenzie	5,000	24.61	January 17, 2012	Nil	N/A	N/A
	5,000	27.91	January 31, 2012	Nil		
	5,000	26.65	January 31, 2012	Nil		
	5,000	22.75	January 31, 2012	Nil		
	8,000	15.56	January 31, 2014	55,200		
	8,000	19.85	January 31, 2015	20,880		
Geoffrey C. Merritt	8,000	15.56	January 31, 2014	55,200	N/A	N/A
	8,000	19.85	January 31, 2015	20,800		
Jim Peplinski	8,000	15.56	January 31, 2014	55,200	N/A	N/A
	8,000	19.85	January 31, 2015	20,800		
J. Graham Weir	8,000	15.56	January 31, 2014	55,200	N/A	N/A
	8,000	19.85	January 31, 2015	20,800		
Grant A. Zawalsky	8,000	15.56	January 31, 2014	55,200	N/A	N/A
	8,000	19.85	January 31, 2015	20,800		

Notes:

- (1) Pursuant to the Arrangement, all outstanding incentive rights granted under the Trust's unit right incentive plans were assumed by us. Such trust unit incentive rights will continue to vest in accordance with the original terms thereof except that the holders of such rights will be entitled to receive our common shares in lieu of trust units of the Trust. No new rights will be granted under such plans but the plans will remain in place until such time as all outstanding rights granted thereunder have been exercised or expired.
- (2) Pursuant to the trust unit rights incentive plans, holders of rights have the option to elect to have the exercise price per right reduced to account for distributions paid on the trust units and dividends paid on our common shares subsequent to the grant date, provided that certain performance benchmarks are achieved. For calculation purposes, no adjustment has been made to the grant price to give effect to these adjustments.
- (3) Calculated based on the difference between the closing price of the trust units on the Toronto Stock Exchange on December 31, 2010 (being \$22.46) less the original grant price of the trust unit incentive rights for in-the-money trust unit incentive rights. For calculation purposes, no adjustment has been made to the grant price to give effect to distributions paid by the Trust since the right was granted.

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

The following table sets forth for each of our independent directors the value of option-based awards and share-based awards which vested during the year ended December 31, 2010 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2010.

<b>Name</b>	<b>Option-based awards – Value vested during the year <sup>(1)</sup> (\$)</b>	<b>Share-based awards – Value vested during the year (\$)</b>	<b>Non-equity incentive plan compensation – Value earned during the year (\$)</b>
K. James Harrison	11,070	Nil	Nil
Kyle D. Kitagawa	11,070	Nil	Nil
Margaret A. McKenzie	11,070	Nil	Nil
Geoffrey C. Merritt	11,070	Nil	Nil
Jim Peplinski	11,070	Nil	Nil
J. Graham Weir	11,070	Nil	Nil
Grant A. Zawalsky	11,070	Nil	Nil

Note:

- (1) Calculated based on the difference between the closing price of the trust units of the Trust on the Toronto Stock Exchange as of December 31, 2009, which was the last trading date before the vesting date of January 1, 2010 and the grant price of the rights. No adjustment has been made to the grant price to give effect to distributions paid by the Trust since the right was granted.

### ***Common Share Ownership Guidelines***

Directors (other than the President and Chief Executive Officer) are expected to own common shares having a market value of at least four times the amount of their annual board retainer. Directors are required to attain the minimum ownership level within a period of two years from the date of approval of the guideline or the date of their election or appointment, whichever is later.

Our President and Chief Executive Officer is expected to own common shares having a market value of at least two times his annual base salary. Our President and Chief Executive Officer is required to attain the target ownership level within a period of two years from the date of approval of the guideline or the date of his appointment, whichever is later.

In calculating ownership levels, common shares that an individual beneficially owns or controls or directs, directly or indirectly, may be counted. The ownership of common share incentive rights does not count towards these requirements.

Following the phase-in period, directors and the President and Chief Executive Officer are expected to be in continuous compliance with the guidelines. In the event that an individual who has achieved the target ownership level subsequently falls below such target ownership level due solely to a decline in the market price of the common shares, such individual shall be considered to be in compliance with the ownership guidelines as long as the adjusted cost base of his/her common shares exceeds the target ownership level.

The following table sets out the ownership levels of the President and Chief Executive Officer and each of our current independent directors as at December 31, 2010.

Name	Ownership Guideline		Ownership Value		Guideline Met or Investment Required to Meet Guideline
	Multiple	Amount (\$)	Multiple	Amount (\$) <sup>(1)</sup>	
Craig H. Hansen	2 x base salary	613,776	36.1 times	22,147,392	Yes
<b>Independent Directors:</b>					
K. James Harrison	4 x retainer	180,000	6.7 times	1,210,190	Yes
Kyle D. Kitagawa	4 x retainer	80,000	22.2 times	1,772,521	Yes
Margaret A. McKenzie	4 x retainer	80,000	1.9 times	148,236	Yes
Geoffrey C. Merritt	4 x retainer	80,000	14.5 times	1,162,417	Yes
Jim Peplinski	4 x retainer	80,000	43.5 times	3,477,459	Yes
J. Graham Weir	4 x retainer	80,000	106.7 times	8,538,731	Yes
Grant A. Zawalsky	4 x retainer	80,000	8.0 times	637,864	Yes

Note:

(1) Based on the closing price of the trust units on the Toronto Stock Exchange on December 31, 2010 (being \$22.46).

### ***Meeting Attendances***

The following table outlines the attendance record of our directors in 2010.

Name	Board Meeting	Audit Committee	Governance and Nominating Committee	Compensation Committee	Reserves Committee
K. James Harrison	12/12	-	3/3	3/3	-
Craig H. Hansen	12/12	5/5	3/3	3/3	2/2
Kyle D. Kitagawa	12/12	5/5	-	-	2/2
Margaret A. McKenzie	12/12	5/5	3/3	-	-
Geoffrey C. Merritt	12/12	-	-	-	2/2
Jim Peplinski	12/12	-	-	3/3	2/2
J. Graham Weir	12/12	5/5	-	-	2/2
Grant A. Zawalsky	12/12	-	3/3	3/3	-

## EXECUTIVE COMPENSATION

### Statement of Executive Compensation

For the year ended December 31, 2010, our named executive officers ("NEO") were:

Craig H. Hansen, President and Chief Executive Officer ("CEO");  
Jason B. Dranchuk, Vice President, Finance and Chief Financial Officer ("CFO");  
Brian G. Kergan, Vice President, Corporate Development;  
Allen D. Thorsen, Vice President, Operations;  
Henry J. Baird, Vice President, Reservoir Engineering; and  
Brent C. Heagy, former Executive Vice President and Chief Financial Officer.

### Executive Compensation Discussion and Analysis

#### *Compensation Objectives and Philosophy*

Compensation plays an important role in achieving short and long term business objectives that ultimately drive business success. We have developed a compensation strategy built on offering a competitive compensation package, which is oriented toward developing a culture of ownership by making long term equity-based incentives, through the granting of incentive rights, a significant component of executive compensation. This approach is based on the assumption that the performance of our share price over the long term is an important indicator of long term performance.

Our compensation philosophy is based on the following fundamental principles:

- Compensation programs align with shareholder interests – we align the goals of our executives with maximizing long term shareholder value;
- Performance sensitive – compensation for our executive's should be linked to our operating and market performance; and
- Offer market competitive compensation to attract and retain talent – the compensation program should provide market competitive pay in terms of value and structure in order to retain existing employees who are performing according to their objectives and to attract new individuals of the highest calibre.

The objectives of our compensation program in compensating our executives were developed based on the above-mentioned compensation philosophy and are as follows:

- To attract and retain highly qualified executive officers;
- To align the interests of executive officers with shareholders' interests and with the execution of our business strategy;
- To evaluate executive performance on the basis of key measurements that correlate to long term shareholder value; and
- To tie compensation directly to those measurements and rewards based on achieving and exceeding predetermined objectives.

### ***Compensation Decision-Making Process***

Our compensation committee assists our board of directors in fulfilling its responsibilities by monitoring our compensation plans and practises and ensuring their congruence with our objectives and goals by assessing and making recommendations regarding compensation, benefits, short and long term incentive programs and employee retention.

Our compensation committee is currently composed of three independent directors, Messrs. Peplinski (Chairman), Harrison and Zawalsky. The compensation committee annually reviews and recommends the compensation of members of the executive team, specifically the CEO and the Vice Presidents, and granting of incentive rights. Typically, recommendations regarding executive compensation are presented to the compensation committee in February.

### ***Analysis of Compensation Practices of Competitors***

Aggregate compensation for each executive officer is designed to be competitive. The Mercer Total Compensation Survey for the Petroleum Industry ("**Mercer**") was used to assist the Compensation Committee in its evaluation of compensation. The 2010 Mercer survey included data from 186 distinct participating organizations. Mercer classifies its survey data into several categories. For our overall base salary benchmarking purposes, the mean (average) of the following categories was used:

- Industry Segment: Fully Integrated Exploration and Production;
- Net Sales/Revenue: \$100 million < \$500 million
- Barrel of Oil Equivalent/Day: 5,000 < 10,000 and 10,000 < 25,000
- Total Employment: 75 < 350

The purpose of reviewing the Mercer data was to:

- Understand the competitiveness of current pay and bonus levels for each executive position relative to companies of similar size;
- Identify and understand any gaps that may exist between actual compensation levels and market compensation levels; and
- Establish as a basis for developing salary adjustments and short and long term incentive awards for the compensation committee's approval.

### ***Elements of Compensation Plan***

Our executive compensation package provides a balanced set of elements designed to deliver the objectives of our compensation philosophy. The fixed elements, salary and perquisites, provide a competitive base of secure compensation necessary to attract and retain executive talent. The variable elements, bonus and long term incentives are designed to balance short term gains with our long term interests and motivate the superior performance of both. Our long term incentive plan also aligns our executive's with shareholders and helps retain executive talent. Our employee savings plan further aligns our executive's with shareholders and allows executive's to accumulate wealth for retirement or other purposes. The combination of the fixed elements and the variable incentive opportunities delivers a competitive compensation package.

Our CEO presents recommendations and rationale to our compensation committee regarding salary adjustments, bonuses and long term incentives for all staff. The focus of the discussion is on the individual executive salaries and bonuses with a review of the aggregate level of salary and bonuses for the balance of the staff. The compensation committee makes specific recommendations to our board of directors on our CEO's salary, bonus payments and incentive plan allocations. Our board of directors reviews all recommendations of the compensation committee before final approval. Any director who is also an officer is excused from the directors' meeting during any discussion of his compensation. Our compensation committee also approves the salaries, bonus payments and incentive plan allocations of all other senior officers.

In determining annual bonuses, raises and other compensation, our compensation committee considers overall corporate performance, performance across a number of operating measures such as production and reserves per share, finding and developments costs and recycle ratio to assess the operational effectiveness of the execution of our strategy and other subjective elements such as the strengthening of staff resources, processes and internal communication and individual performance.

### **Base Salary**

In setting base salaries, our compensation committee, consistent with our long time policy, has targeted our executive's base salaries at a competitive range for comparable organizations in the oil and gas industry. Salaries reflect market conditions and levels of responsibility. Salaries of senior executive officers are determined utilizing salary survey information from comparator companies. In February of each year, our Chief Executive Officer makes salary recommendations to our compensation committee, which in turn makes its own recommendation to our board of directors.

The following table summarizes base salaries paid to our executive officers for the years ended December 31, 2009 and December 31, 2010.

<b>Name and principal position</b>	<b>2009 Base Salary (\$)</b>	<b>2010 Base Salary (\$)</b>	<b>% Increase</b>
Craig H. Hansen President and CEO	297,950	306,888	3.0
Jason B. Dranchuk Vice President, Finance and CFO <sup>(1)</sup>	N/A	188,632	N/A
Brian G. Kergan Vice President, Corporate Development <sup>(2)</sup>	215,250	225,309	4.7
Allen D. Thorsen Vice President, Operations	210,000	216,300	3.0
Henry J. Baird Vice President, Reservoir Engineering	207,050	213,261	3.0
Brent C. Heagy Former Executive Vice President and CFO <sup>(3)</sup>	229,270	177,111	N/A

Notes:

- (1) Effective October 1, 2010, Mr. Dranchuk was promoted to the position of Vice President, Finance and Chief Financial Officer and therefore received a salary increase. Prior to assuming his current position, Mr. Dranchuk was our Vice President, Finance and Controller since November 2009. The amount shown for 2010 has not been annualized.
- (2) Effective October 1, 2010, Mr. Kergan assumed additional non-financial responsibilities as a result of the resignation of our Executive Vice President and CFO and therefore received a salary increase. The amount shown for 2010 has not been annualized.
- (3) Mr. Heagy resigned effective September 30, 2010. The amount shown for 2010 has not been annualized.

Based on the Mercer 2009 fall update survey and referencing the exploration and production organizations producing less than 10,000 barrels of oil equivalent per day, Mercer had projected a 2010 salary increase of 3.0

percent for the 50<sup>th</sup> percentile of this category. Our overall corporate increase for 2010 was 3.6 percent. The average salary increases for our executive officers was 3.0 percent.

### ***Bonuses***

Our compensation committee approves targeted amounts of annual bonuses for each of our executive officers. The overall targeted bonus amount is determined based on market research prepared by Mercer. The compensation committee benchmarks the overall bonus target as the average of the 50<sup>th</sup> and 75<sup>th</sup> percentile of organizations producing less than 10,000 barrels of oil equivalent per day, which results in us aiming for performance better than average compared to our peers. If all targets are met, this methodology results in an amount that roughly aligns with industry benchmarking data. In 2010, our overall corporate targeted bonus amount was set at 24 percent of total salaries. The 2010 actual bonus was 19.2 percent (including executives) of total salaries.

Predetermined target bonuses for our executive officers range from 30 percent to 40 percent of annual salary. Actual bonuses paid as a percentage of 2010 salary are then adjusted from the target based on the achievement of overall corporate, team and an individual's specific contribution and performance.

The following table summarizes bonuses paid to our executive officer's for the years ended December 31, 2009 and December 31, 2010.

<b>Name and principal position</b>	<b>2009 Bonus (\$)</b>	<b>2010 Bonus (\$)</b>	<b>2010 Bonus as a % of 2010 Base Salary <sup>(1)</sup></b>
Craig H. Hansen President and CEO	131,098	90,812	29.6
Jason B. Dranchuk Vice President, Finance and CFO <sup>(2)</sup>	N/A	59,589	31.6
Brian G. Kergan Vice President, Corporate Development	84,435	68,717	30.5
Allen D. Thorsen Vice President, Operations	68,802	51,633	23.9
Henry J. Baird Vice President, Reservoir Engineering	65,096	45,954	21.5
Brent C. Heagy Former Executive Vice President and CFO <sup>(3)</sup>	91,228	Nil	N/A

Notes:

- (1) 2010 bonus amounts were paid in February 2011.
- (2) Effective October 1, 2010, Mr. Dranchuk was promoted to the position of Vice President, Finance and Chief Financial Officer. Prior to assuming his current position, Mr. Dranchuk was our Vice President, Finance and Controller since November 2009. Amounts shown have not been annualized.
- (3) Mr. Heagy resigned effective September 30, 2010. Amounts shown have not been annualized.

### ***Incentive Plans***

In anticipation of the conversion of the Trust from a trust to a corporation, our compensation committee determined that it was appropriate to review and re-design, as appropriate, the longer term aspects of our executive compensation program.

The compensation committee's objectives for a new long term compensation program included the following:

- to provide incentives which encourage the long-term sustained growth of the organization;
- to provide incentives which encourage the retention of highly skilled and talented employees; and
- to encourage and facilitate proprietary ownership of the organization.

As a result, our compensation committee recommended that our board of directors approve a five year share award plan which would provide for awards of common shares which will generally be issued from treasury that would vest in quarters over a four year period and expire on the fifth anniversary date of grant. This new share award plan was approved by our shareholders in December 2010 and became effective January 1, 2011.

Our executive management participate in the share award plan and the terms and conditions of share awards granted under the plan are determined by our compensation committee. Share awards for executives will generally be approved annually and will be granted after the release of our annual results, subject to the imposition of trading black-out periods, in which case share awards scheduled for grant will be granted subsequent to the end of the black-out period.

On January 24, 2011, an aggregate of 26,700 share awards were granted to our executive management pursuant to the new share award incentive plan, see "*Incentive Plans*". These share awards provide for the awards of common shares which will vest quarterly every January 1 over a four year period commencing on January 1, 2012 and will expire on January 24, 2016.

As a result of the completion of the Arrangement and the associated implementation of the share award plan, our former trust unit incentive rights plans are being wound down. As part of the Arrangement, all outstanding incentive rights granted under these plans are assumed by us and such rights will continue to vest in accordance with the original terms thereof. However, no new rights will be granted under such plans and they will terminate when all rights existing thereunder have been exercised or expired. There are 1,368,925 common shares currently reserved for issuance under these former plans.

### ***Share Award Plan***

The principal purposes of our share award plan are: (i) to retain and attract qualified certain directors, officers and employees for us and our subsidiaries, partnerships or other controlled entities; and (ii) to promote a proprietary interest in us by such persons and to encourage such persons to remain in our employ or service and put forth maximum efforts for the success of our business and affairs. Our share award plan is designed to encourage ownership and entrepreneurship on the part of our senior management and other employees. Our compensation committee believes that the plan aligns the interests of our executive officer's with shareholders.

In accordance with its terms, our board of directors has delegated the authority to administer the share award plan to our compensation committee. The compensation committee has the authority in its sole discretion to administer the plan and to exercise all the powers and authorities either specifically granted to it under the plan or necessary or advisable in the administration of the plan subject to and not inconsistent with the express provisions of the plan, including, without limitation, the authority to grant awards under the plan and to determine those persons to whom, and the time or times at which share awards shall be granted and become issuable.

Each share award entitles the holder be issued that number of common shares designated in the share award with such common shares to vest as to one-quarter every January 1 over a four year period with such share award to expire on the fifth anniversary of the date of grant (or such other vesting dates or expiry dates as may be determined by our compensation committee).

The plan provides for cumulative adjustments to the number of common shares to be issued pursuant to share awards on each date that dividends are paid on the common shares pursuant to the adjustment ratio set forth in the plan. Additionally, subject to the approval of the Toronto Stock Exchange, the plan also provides for an adjustment to the number of common shares to be issued or the payment or a cash equivalent amount in the case of a non-cash dividend in certain circumstances.

Unless otherwise approved by our shareholders, the number of common shares reserved for issuance from time to time pursuant to outstanding share awards granted and outstanding under the plan may not exceed the lesser of: (a) a number of common shares equal to 5% of the aggregate number of issued and outstanding common shares; and (b) a number of common shares equal to 10% of the aggregate number of issued and outstanding common shares less common shares reserved for issuance under our legacy trust unit incentive plans. This prescribed maximum may be subsequently increased to any specified amount, provided the increase is authorized by a vote of our shareholders. If any share awards granted under the plan expire, terminate or are cancelled for any reason without having been settled in full, any unissued common shares to which such share awards relate will be available for the purposes of the granting of further share awards under the plan.

The plan also limits the level of participation of each holder. No one holder may be granted any share award which, together with all share awards then held by such holder, would entitle such holder to receive a number of common shares which is greater than 10% of our issued and outstanding common shares, calculated on an undiluted basis. In addition: (i) the number of common shares issuable to insiders at any time, under the plan and all of our other security based compensation arrangements, may not exceed 10% of our issued and outstanding common shares; and (ii) the number of common shares issued to insiders, within any one year period, under the plan and all of our other security based compensation arrangements, may not exceed 10% of our issued and outstanding common shares. Participation of each non-management director in the share award plan is also limited. Such participation may not exceed the lesser of: (a) 1% of our issued and outstanding common shares; and (b) an annual equity award value of \$100,000, with the value of each share award calculated at the time of grant.

In the event of a "change of control" of us (as such term is defined in the plan), all common shares awarded pursuant to any share awards to a holder that have not yet been issued as of such time shall be vested on the earlier of (i) the next applicable expiry date; and (ii) the date which is immediately prior to the date upon which the change of control is completed.

Unless otherwise determined by our compensation committee or unless otherwise expressly set forth in a share award agreement pertaining to a particular share award or any written employment or consulting agreement governing a holder's role as an employee, the following provisions shall apply in the event that a holder ceases to be a director, officer or employee of us (or of our subsidiaries, partnerships or other controlled entities):

- a) if a holder ceases to be a director, officer or employee for any reason whatsoever, including termination without cause, other than the death or disability of the holder (as contemplated under (b) below), there shall be no further vesting of any of such holder's share awards following the cessation date and all outstanding share award agreements under which share awards have been made to such holder shall be terminated and all rights to receive common shares thereunder shall be forfeited by the holder effective as of the earlier of (i) the date that is 30 days from the cessation date plus any black-out extension term if a black-out is in effect at the end of such 30 day period; and (ii) the expiry date otherwise relating to such share award;
- b) upon the death or disability of a holder, there shall be no further vesting of any of such holder's share awards following the cessation date and all outstanding share award agreements under which share awards have been made to such holder shall be terminated and all rights to receive common shares thereunder shall be forfeited by the holder effective as of the earlier of (i) the date that is six months from the cessation date and (ii) the expiry date otherwise relating to such share award.

Notwithstanding the foregoing, in the event that any of the early termination provisions conflict with or are inconsistent with the express terms of a written employment agreement between a holder and us, the terms of the employment agreement will govern.

The right to receive common shares pursuant to a share award granted to a holder may only be exercised by such holder personally or through the holder's personal representative or estate and no assignment, sale, transfer, pledge or charge of a share award, whether voluntary, involuntary, by operation of law or otherwise (except by will or the laws of descent and distribution), will vest any interest or right in such share award whatsoever in any assignee or transferee and, immediately upon any assignment, sale, transfer, pledge or charge or attempt to assign, sell, transfer, pledge or charge, such share award shall terminate and be of no further force or effect.

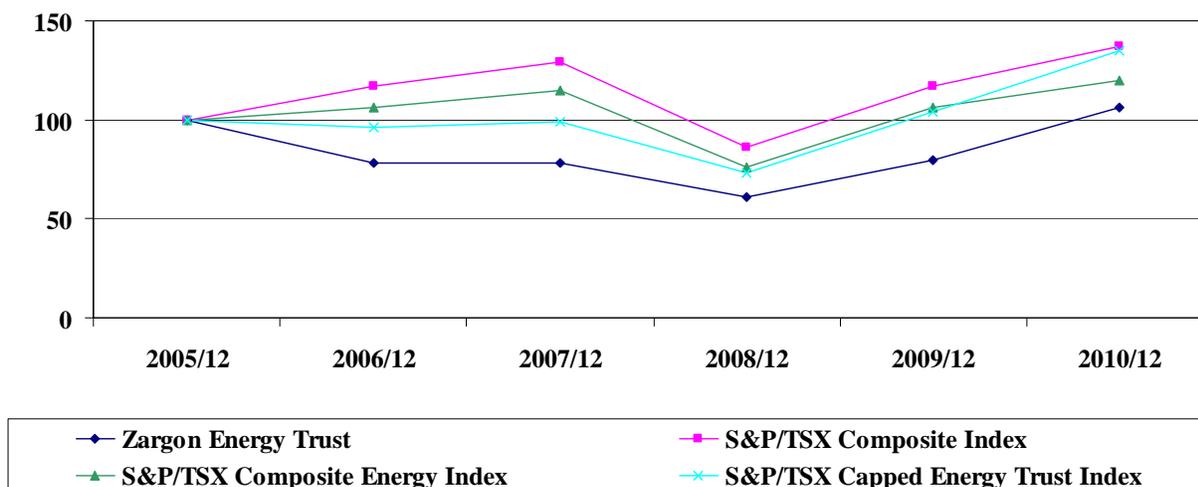
The share award plan and any share awards granted thereunder may be amended, modified or terminated by our board of directors without approval of our shareholders subject to any required approval of the Toronto Stock Exchange. Our compensation committee may also vary the vesting dates and expiry dates under the plan provided that the duration of any share awards shall not exceed seven (7) years. Notwithstanding the foregoing, the plan or any share award may not be amended without shareholder approval to: (a) increase the number of common shares issuable on exercise of outstanding share awards at any time in excess of the limits described above; (b) extend the expiry date of any outstanding share awards; (c) permit a holder to transfer or assign share awards to a new beneficial holder other than for estate settlement purposes; (d) amend the limits on the permitted level of participation under the plan by non-management directors; (e) increase the number of common shares that may be issued to insiders above the restriction contained in the plan; or (f) amend the amending provisions of the plan to delete any of (a) through (e).

### ***Employee Savings Plan***

We also have an employee savings plan whereby all employees, including executive officers, are encouraged to contribute up to a maximum of 10% of their salary to the employee savings plan. The contributions by employees are equally matched by us. The funds are used to purchase common shares in the open market. Since the plan is available to all employees it has been successful in encouraging employees to become shareholders and promoting the principle of alignment with shareholders. Our compensation committee considers this program to be competitive. There is no other form of retirement or savings program. All of our executive officer's participated in the program in 2010. These amounts are included in the "*All Other Compensation Category*" on the Summary Compensation Table below.

## Performance Graph

The following graph illustrates the five year cumulative securityholder return of our the Trust, as measured by the closing price of the trust units of the Trust at the end of each financial year, assuming an initial investment of \$100 on December 31, 2005, compared to the S&P/TSX Composite Index, the S&P/TSX Composite Energy Index and the S&P/TSX Capped Energy Trust Index, with all distributions reinvested.



	2005/12	2006/12	2007/12	2008/12	2009/12	2010/12
Zargon Energy Trust	100	78	78	61	80	106
S&P/TSX Composite Index <sup>(1)</sup>	100	117	129	86	117	137
S&P/TSX Composite Energy Index <sup>(2)</sup>	100	106	115	76	106	120
S&P/TSX Capped Energy Trust Index <sup>(3)</sup>	100	96	99	73	104	135

Notes:

- (1) The S&P/TSX Composite Index was previously called the TSE 300 Index.
- (2) The S&P/TSX Composite Energy Index was previously called TSX Oil and Gas Producers Index.
- (3) The S&P/TSX Capped Energy Trust Index was previously called the S&P/TSX Canadian Energy Trust Index.

## Compensation of Named Executive Officers

Compensation for management is based on the achievement of certain pre-determined criteria at the beginning of each fiscal year. These criteria include capital efficiency measures (such as finding, development and acquisition costs), meeting of sustainability objectives (such as production, reserves and distributions on a per security basis) and other subjective objectives (such as the building of core area team capabilities and improving business processes in the organization). The achievement of these pre-determined objectives are reflected in the determination of the meeting of corporate, team and individual targets, as described earlier and do not necessarily track the changes in the market value of the common shares of the corporation.

The following table sets forth the information concerning the compensation for our CEO and CFO, our former CFO and our three most highly compensated executive officers (or the three most highly compensated individuals acting in a similar capacity), other than the CEO, CFO and former CFO, for the year ended December 31, 2010, whose total compensation was more than \$150,000 (each a NEO and collectively, NEO's).

Name and principal position	Year	Salary (\$)	Share-based awards (\$)	Option-based awards <sup>(1)</sup> (\$)	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation <sup>(2)</sup>	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
Craig H. Hansen President and CEO	2010	306,888	N/A	144,440	90,812	N/A	N/A	49,653	591,793
	2009	297,950	N/A	110,718	131,098	N/A	N/A	48,713	588,479
	2008	295,000	N/A	75,953	107,970	N/A	N/A	42,894	521,817
Jason B. Dranchuk Vice President, Finance and CFO <sup>(3)</sup>	2010	188,632	N/A	72,220	59,589	N/A	N/A	27,931	348,372
	2009	155,833	N/A	50,930	53,681	N/A	N/A	26,028	286,472
	2008	148,000	N/A	27,555	38,906	N/A	N/A	22,635	237,096
Brian G. Kergan Vice President, Corporate Development <sup>(4)(5)</sup>	2010	225,310	N/A	98,219	93,717	N/A	N/A	32,847	450,093
	2009	215,250	N/A	75,288	84,435	N/A	N/A	29,891	404,864
	2008	200,500	N/A	37,976	82,767	N/A	N/A	24,379	345,622
Allen D. Thorsen Vice President, Operations <sup>(6)</sup>	2010	216,300	N/A	80,886	51,633	N/A	N/A	32,671	381,490
	2009	208,492	N/A	39,858	68,802	N/A	N/A	30,862	348,014
	2008	172,083	N/A	29,563	48,837	N/A	N/A	24,088	274,571
Henry J. Baird Vice President, Reservoir Engineering	2010	213,261	N/A	80,886	45,954	N/A	N/A	30,747	370,848
	2009	207,050	N/A	62,002	65,096	N/A	N/A	29,469	363,617
	2008	205,000	N/A	37,976	59,378	N/A	N/A	26,845	329,199
Brent C. Heagy Former Executive Vice President and CFO <sup>(4)(7)</sup>	2010	177,111	N/A	Nil	Nil	N/A	N/A	25,692	202,803
	2009	229,270	N/A	75,288	91,228	N/A	N/A	34,814	430,600
	2008	227,000	N/A	42,141	98,953	N/A	N/A	31,098	399,192

Notes:

- (1) The value disclosed represents the fair value of these incentive rights using the Black-Scholes pricing model valued on the grant date.
- (2) The amounts in this column represent perquisites and other taxable benefits.
- (3) Effective October 1, 2010, Mr. Dranchuk was promoted to the position of Vice President, Finance and Chief Financial Officer. Prior to assuming his current position, Mr. Dranchuk was our Vice President, Finance and Controller since November 2009. Amounts shown have not been annualized.
- (4) The 2008 Annual Incentive Plan amount includes a special bonus of \$20,000 paid to each of Mr. Heagy and Mr. Kergan for the successful completion of the Rival Energy Ltd. and Newpact Energy Corp. corporate acquisitions.
- (5) The 2010 Annual Incentive Plan amount includes a special bonus of \$25,000 paid to Mr. Kergan for the acquisition of certain properties and the execution of our property disposition package.
- (6) Mr. Thorsen commenced his employment on December 1, 2007 in the capacity of Alberta Plains Production Manager. On April 23, 2009, Mr. Thorsen was promoted to the position of Vice President, Operations. Amounts shown have not been annualized.
- (7) Mr. Heagy resigned effective September 30, 2010. Amounts shown have not been annualized.

**Named Executive Officers' Outstanding Option-based Awards and Share-based Awards**

The following table sets forth for each NEO all option-based awards and share-based awards outstanding at December 31, 2010.

Name	Option-based Awards				Share-based Awards	
	Number of securities underlying unexercised incentive rights <sup>(1)</sup> (#)	Incentive right exercise price <sup>(2)</sup> (\$)	Incentive rights expiration date	Value of unexercised in-the-money incentive rights <sup>(3)</sup> (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)
Craig H. Hansen	15,000	29.93	January 23, 2011	Nil	N/A	N/A
	15,000	31.10	January 31, 2011	Nil		
	15,000	33.05	January 31, 2011	Nil		
	15,000	24.90	January 31, 2011	Nil		
	15,000	24.61	January 17, 2012	Nil		
	15,000	27.91	January 31, 2012	Nil		
	15,000	26.65	January 31, 2012	Nil		
	15,000	22.75	January 31, 2012	Nil		
	12,000	22.10	January 31, 2013	4,320		
	12,000	26.00	January 31, 2013	Nil		
	12,000	21.55	January 31, 2013	10,920		
	25,000	15.56	January 31, 2014	172,500		
	25,000	19.85	January 31, 2015	65,250		
Jason B. Dranchuk	3,500	29.93	January 23, 2011	Nil		
	3,500	31.10	January 31, 2011	Nil		
	3,500	33.05	January 31, 2011	Nil		
	3,500	24.90	January 31, 2011	Nil		
	3,750	24.61	January 17, 2012	Nil		
	3,750	27.91	January 31, 2012	Nil		
	3,750	26.65	January 31, 2012	Nil		
	3,750	22.75	January 31, 2012	Nil		
	4,500	22.10	January 31, 2013	1,620		
	4,500	26.00	January 31, 2013	Nil		
	4,000	21.55	January 31, 2013	3,640		
	11,500	15.56	January 31, 2014	79,350		
	12,500	19.85	January 31, 2015	32,625		
Brian G. Kergan	12,500	26.65	January 31, 2012	Nil	N/A	N/A
	12,500	22.75	January 31, 2012	Nil		
	6,000	22.10	January 31, 2013	2,160		
	6,000	26.00	January 31, 2013	Nil		
	6,000	21.55	January 31, 2013	5,460		
	17,000	15.56	January 31, 2014	117,300		
	17,000	19.85	January 31, 2015	44,370		
Allen D. Thorsen	4,000	22.75	January 31, 2012	Nil	N/A	N/A
	4,700	22.10	January 31, 2013	1,692		
	4,700	26.00	January 31, 2013	Nil		
	4,600	21.55	January 31, 2013	4,186		
	9,000	15.56	January 31, 2014	62,100		
	14,000	19.85	January 31, 2015	36,540		
Henry J. Baird	9,000	31.10	January 31, 2011	Nil		
	8,000	33.05	January 31, 2011	Nil		
	2,000	24.90	January 31, 2011	Nil		
	4,150	24.61	January 17, 2012	Nil		
	6,250	27.91	January 31, 2012	Nil		
	6,250	26.65	January 31, 2012	Nil		

	Option-based Awards				Share-based Awards	
	4,150	22.75	January 31, 2012	Nil		
	6,000	22.10	January 31, 2013	2,160		
	6,000	26.00	January 31, 2013	Nil		
	6,000	21.55	January 31, 2013	5,460		
	14,000	15.56	January 31, 2014	96,600		
	14,000	19.85	January 31, 2015	36,540		
Brent C. Heagy <sup>(4)</sup>	N/A	N/A	N/A	N/A	N/A	N/A

Notes:

- (1) Pursuant to the Arrangement, all outstanding incentive rights granted under the Trust's unit right incentive plans were assumed by us. Such trust unit incentive rights will continue to vest in accordance with the original terms thereof except that the holders of such rights will be entitled to receive our common shares in lieu of trust units of the Trust. No new rights will be granted under such plans but the plans will remain in place until such time as all outstanding rights granted thereunder have been exercised or expired.
- (2) Pursuant to these trust unit rights incentive plans, holders of rights have the option to elect to have the exercise price per right reduced to account for distributions and dividends paid on the trust units and our common shares subsequent to the grant date, provided that certain performance benchmarks are achieved. No adjustment has been made to the grant price to give effect to distributions paid by the Trust since the right was granted.
- (3) Calculated based on the difference between the closing price of the trust units of the Trust on the Toronto Stock Exchange on December 31, 2010 (being \$22.46) less the original grant price of the trust unit rights for in-the-money trust unit rights. No adjustment has been made to the grant price to give effect to distributions paid by the Trust since the right was granted.
- (4) Mr. Heagy resigned effective September 30, 2010.

#### ***Securities Authorized for Issuance Under Equity Compensation Plans***

The following sets forth information in respect of securities authorized for issuance under our equity compensation plans as at December 31, 2010.

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans</b>
Equity compensation plans approved by securityholders <sup>(1)(2)</sup>	1,445,875	\$21.90	534,440
Equity compensation plans not approved by securityholders	Nil	Nil	Nil
<b>Total</b>	<b>1,445,875</b>		<b>534,440</b>

Notes:

- (1) Pursuant to the Arrangement, all outstanding incentive rights granted under the Trust's unit right incentive plans were assumed by us. Such trust unit incentive rights will continue to vest in accordance with the original terms thereof except that the holders of such rights will be entitled to receive our common shares in lieu of trust units of the Trust. No new rights will be granted under such plans but the plans will remain in place until such time as all outstanding rights granted thereunder have been exercised or expired.
- (2) In connection with the Arrangement, we adopted a new long term incentive plan which was approved by our shareholders in December 2010 and which became effective January 1, 2011. See "*Incentive Plans*".

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

The following table sets forth for each executive officer, the value of option-based awards and share-based awards which vested during the year ended December 31, 2010 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2010.

<b>Name</b>	<b>Option-based awards – Value vested during the year<sup>(1)</sup> (\$)</b>	<b>Share-based awards – Value vested during the year (\$)</b>	<b>Non-equity incentive plan compensation – Value earned during the year (\$)</b>
Craig H. Hansen	33,210	N/A	90,812
Jason B. Dranchuk	14,760	N/A	59,589
Brian G. Kergan	22,140	N/A	93,717
Allen D. Thorsen	16,605	N/A	51,633
Henry J. Baird	18,450	N/A	45,954
Brent C. Heagy <sup>(2)</sup>	22,140	N/A	Nil

Note:

- (1) Calculated based on the difference between the closing price of the trust units of the Trust on the Toronto Stock Exchange as of December 31, 2009, which was the last trading date before the vesting date of January 1, 2010 and the grant price of the rights. No adjustment has been made to the grant price to give effect to distributions paid by the Trust since the right was granted.
- (2) Mr. Heagy resigned effective September 30, 2010.

### ***Pension Plan Benefits***

We do not have any pension plans for our employees. We have established a savings plan to assist employees in meeting their savings goals. See "*Executive Compensation Discussion and Analysis – Employee Savings Plan*".

### ***Employment Contracts***

We have entered into employment agreements with each of the NEO's pursuant to which we have agreed to make a lump-sum payment to each executive in the event of termination without cause or if the executive elects to terminate his employment within 30 days following a "change of control". For these purposes, a "change of control" shall be deemed to occur upon the effective date of the earlier of any of the following event, provided that such event results in an actual change of control of us:

- a successful "take-over bid" (as defined in the *Securities Act* (Alberta), as amended, or any successor legislation thereto) pursuant to which the "offeror" as a result of such take-over bid, beneficially owns, directly or indirectly, in excess of 50% of our issued and outstanding common shares;
- the issuance to or acquisition by any person, or group of persons acting in concert, directly or indirectly, which in the aggregate total 50% or more of our then issued and outstanding common shares;
- the completion of an arrangement, merger or other form of reorganization of us where the holders of our outstanding voting securities or immediately prior to the completion of the arrangement, merger or other reorganization will hold 50% or less of the outstanding voting securities or interests of the continuing entity upon completion of the arrangement, merger or other form of reorganization; or
- the winding-up or termination of us or the sale, lease or transfer of all or substantially all of our directly or indirectly held assets to any other person or persons (other than pursuant to an internal reorganization or in circumstances where our business is continued and where the security holdings in the continuing entity are such that the transaction would not be considered a "Change of Control" if the third paragraph above were applicable to the transaction),

provided that notwithstanding the application of any of the foregoing, a "Change of Control" will be deemed to have not occurred if a majority of the board of directors, in good faith, determines that in substance the arrangement or reorganization has occurred or the circumstances are such that a Change of Control was not intended to occur in the particular circumstances in question and any such determination shall be binding and conclusive for all purposes.

The following table outlines the compensation arrangements that would be provided to our NEO's in the event of a change of control.

	<b>Termination Event</b>	
	<b>Change of Control Provision <sup>(1)</sup></b>	<b>Change of Control Provision and Good Reason <sup>(1)</sup></b>
Craig H. Hansen President and CEO	<p>A retiring allowance equal to one and a half (1.5) times the executive's then annual base salary plus an additional one-twelfth (1/12th) of the executive's then annual base salary for each full year of service after the start date, up to a maximum payment of two (2) times the executive's then annual base salary;</p> <p>An additional retiring allowance equal to twenty (20%) percent of the amount calculated pursuant to the retiring allowance to compensate the executive for the loss of employment benefits; and</p> <p>An additional retiring allowance equal to the average of the last three (3) annual bonuses (or averaged over such lesser period of time as the executive has been employed with us) multiplied by one (1) plus an additional one-twelfth (1/12th) for each full year of service after the start date up to a maximum of two (2) times.</p>	
Jason B. Dranchuk Vice President, Finance and CFO  Brian G. Kergan Vice President, Corporate Development  Allen D. Thorsen Vice President, Operations		<p>A retiring allowance equal to one (1) times the executive's then annual base salary plus an additional one-twelfth (1/12th) of the executive's then annual base salary for each full year of service after the start date, up to a maximum payment of two (2) times the executive's then annual base salary;</p> <p>An additional retiring allowance equal to twenty (20%) percent of the amount calculated pursuant to the retiring allowance to compensate the executive for the loss of employment benefits; and</p> <p>An additional retiring allowance equal to the average of the last three (3) annual bonuses (or averaged over such lesser period of time as the executive has been employed with us) multiplied by one (1) plus an additional one-twelfth (1/12th) for each full year of service after the start date up to a maximum of two (2)</p>

	<b>Termination Event</b>	
	<b>Change of Control Provision <sup>(1)</sup></b>	<b>Change of Control Provision and Good Reason <sup>(1)</sup></b>
		times.
Henry J. Baird Vice President, Reservoir Engineering	<p>A retiring allowance equal to one (1) times the executive's then annual base salary plus an additional one-twelfth (1/12th) of the executive's then annual base salary for each full year of service after the start date, up to a maximum payment of two (2) times the executive's then annual base salary;</p> <p>An additional retiring allowance equal to twenty (20%) percent of the amount calculated pursuant to the retiring allowance to compensate the executive for the loss of employment benefits; and</p> <p>An additional retiring allowance equal to the average of the last three (3) annual bonuses (or averaged over such lesser period of time as the executive has been employed with the corporation) multiplied by one (1) plus an additional one-twelfth (1/12th) for each full year of service after the start date up to a maximum of two (2) times.</p>	
Brent C. Heagy Former Executive Vice President and CFO <sup>(2)</sup>	N/A	N/A

Notes:

- (1) On February 5, 2009, our compensation committee approved amendments to our existing executive employment agreements. At that time, Mr. Hansen and Mr. Baird were permitted to retain their previously approved executive employment arrangements, which included a single-trigger, change of control provision. All subsequent executive employment agreements were approved with a double-trigger, change of control provision.
- (2) Mr. Heagy resigned effective September 30, 2010.

The following table sets forth the estimated incremental payments (rounded to the nearest thousand dollars) that would be made to each of our NEO's assuming that a change of control event (as described in the table above) occurred on December 31, 2010.

Name	Severance Period (months)	Salary (\$)	Benefits and Perquisites (\$)	Bonus (\$)	Incentive Rights <sup>(1)</sup>	Total Incremental Payment (\$)
Craig H. Hansen	24	613,776	122,755	219,920	252,990	1,209,441
Jason B. Dranchuk <sup>(2)</sup>	13	231,591	46,318	54,952	117,235	450,096
Brian G. Kergan <sup>(3)</sup>	15	295,148	59,030	98,300	169,290	621,768
Allen D. Thorsen <sup>(4)</sup>	13	234,325	46,865	61,126	104,518	446,834
Henry J. Baird	16	284,348	56,870	75,746	140,760	557,724
Brent C. Heagy <sup>(5)</sup>	N/A	N/A	N/A	N/A	N/A	N/A

Note:

- (1) On the effective date of the change of control, any unvested incentive rights vest and become immediately exercisable. The amounts shown in the table includes the in-the-money value of unvested incentive rights, which is calculated based on the difference between the closing price of the trust units of the Trust on the Toronto Stock Exchange on December 31, 2010 (being \$22.46) and the exercise price of such rights on December 31, 2010. No adjustment has been made to the grant price to give effect to distributions paid by the Trust since the right was granted.
- (2) Mr. Dranchuk's employment agreement was executed on November 1, 2009; therefore, the above calculations have been adjusted accordingly.
- (3) Mr. Kergan's employment agreement was executed on August 16, 2007; therefore, the above calculations have been adjusted accordingly.
- (4) Mr. Thorsen's employment agreement was executed on April 23, 2009; therefore, the above calculations have been adjusted accordingly.
- (5) Mr. Heagy resigned effective September 30, 2010.

### ***Liability Insurance of Directors and Officers***

We maintain directors' and officers' liability insurance coverage in the amount of \$20 million for losses to us if we are required to reimburse directors and officers, where permitted, and for direct indemnity of directors and officers where corporate reimbursement is not permitted by law. This insurance protects us against liability (including costs), subject to standard policy exclusions, which may be incurred by our directors and/or officers acting in such capacity.

All of our directors and officers are covered by the policy and the amount of insurance applies collectively to all. The cost of this insurance in 2010 was \$85,500 per annum. The term of the policy is from December 1, 2010 to December 1, 2011.

In addition, we have entered into indemnity agreements with each of our directors and officers pursuant to which we have agreed to indemnify such directors and officers from liability arising in connection with the performance of their duties. Such indemnity agreements conform to the provisions of the *Business Corporations Act* (Alberta).

Pursuant to our by-laws, we have also indemnified, to the maximum extent permitted under the *Business Corporations Act* (Alberta), each of our directors and officers and each of our former directors and officers, and we may indemnify a person who acts or acted at our request as a director or officer of a body corporate of which we are or was a shareholder or creditor, and their heirs and legal representatives, against all costs, charges and expenses, including any amount paid to settle an action or satisfy a judgment, reasonably incurred by him or her in respect of any civil, criminal or administrative action or proceeding to which he or she is made a party by reason of being or having been a director or officer of us or such body corporate.

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

### Board of Directors

The majority of the members of our board are independent. Our board has determined that Messrs. Harrison, Kitagawa, Merritt, Peplinski, Weir and Zawalsky and Ms. McKenzie are independent for the purposes of National Instrument 58-101. Mr. Hansen is not considered independent as he is our President and Chief Executive Officer.

Our independent board members hold regularly scheduled meetings, generally immediately following regularly scheduled board meetings.

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

<b>Director</b>	<b>Names of Other Issuers</b>
Kyle D. Kitagawa	ProspEx Resources Ltd. and Canadian Energy Services & Technology Corp.
Margaret A. McKenzie	Bonavista Energy Corporation
Geoffrey C. Merritt	Perpetual Energy Inc.
Jim Peplinski	Wrangler West Energy Corp.
J. Graham Weir	Pulse Seismic Inc.
Grant A. Zawalsky	NuVista Energy Ltd., Whitecap Resources Inc.

### Board Mandate

Our board, either directly or through its committees, is responsible for the supervision of management of our business and affairs with the objective of enhancing shareholder value. The board's written mandate follows:

The Board of Directors of Zargon Oil & Gas Ltd. ("Zargon") is responsible for the stewardship of Zargon, and its subsidiaries and partnerships (collectively, the "Zargon Entities"). In discharging its responsibility, the board will exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances and will act honestly and in good faith with a view to the best interests of the Zargon Entities. In general terms, the board will:

- in consultation with the CEO, define the principal objectives of Zargon;
- supervise the management of the business and affairs of the Zargon Entities with the goal of achieving the Zargon Entities' principal objectives as defined by the board;
- discharge the duties imposed on the board by applicable laws; and
- for the purpose of carrying out the foregoing responsibilities, take all such actions as the board deems necessary or appropriate.

Without limiting the generality of the foregoing, the board will perform the following duties:

#### *Strategic Direction and Capital and Financial Plans*

- require the CEO to present annually to the board a longer range strategic plan and a shorter range business plan for Zargon's business, which plans must:
  - be designed to achieve the Zargon Entities' principal objectives;
  - identify the principal strategic and operational opportunities and risks of the Zargon Entities' business; and
  - be approved by the board as a pre-condition to the implementation of such plans.
- review progress towards the achievement of the goals established in the strategic, operating and capital plans;

- identify the principal risks of the Zargon Entities' business and take all reasonable steps to ensure the implementation of the appropriate systems to manage these risks;
- approve the annual operating and capital plans;
- approve acquisitions and dispositions in excess of which require approval pursuant to expenditure limits established by the board;
- approve the establishment of credit facilities; and
- approve issuances of additional common shares or other instruments to the public.

### ***Monitoring and Acting***

- monitor the Zargon Entities' progress towards achieving its goals, and to revise and alter its direction through management in light of changing circumstances;
- monitor overall human resources policies and procedures, including compensation and succession planning;
- appoint the CEO and determine the terms of the CEO's employment with the Zargon Entities;
- approve the dividend policy of the Zargon Entities;
- ensure systems are in place for the implementation and integrity of the Zargon Entities' internal control and management information systems;
- in consultation with the CEO, develop a position description for the CEO;
- evaluate the performance of the CEO at least annually;
- in consultation with the CEO, establish the limits of management's authority and responsibility in conducting the Zargon Entities' business;
- in consultation with the CEO, appoint all officers of the Zargon Entities and approve the terms of each officer's employment with the Zargon Entities;
- develop a system under which succession to senior management positions will occur in a timely manner;
- approve any proposed significant change in the management organization structure of the Zargon Entities;
- approve all retirement plans for officers and employees of the Zargon Entities;
- in consultation with the CEO, establish a disclosure policy for the Zargon Entities;
- generally provide advice and guidance to management; and
- approve all matters relating to a takeover bid for the securities of the Zargon Entities.

### ***Finances and Controls***

- review the Zargon Entities' systems to manage the risks of the Zargon Entities' business and, with the assistance of management, Zargon's auditors and others (as required), evaluate the appropriateness of such systems;
- monitor the appropriateness of the Zargon Entities capital structure;
- ensure that the financial performance of the Zargon Entities is properly reported to shareholders, other security holders and regulators on a timely and regular basis;
- in consultation with the CEO, establish the ethical standards to be observed by all officers and employees of the Zargon Entities and use reasonable efforts to ensure that a process is in place to monitor compliance with those standards;
- require that the CEO institute and monitor processes and systems designed to ensure compliance with applicable laws by the Zargon Entities and its officers and employees;
- require the CEO institute, and maintain the integrity of, internal control and information systems, including maintenance of all required records and documentation;
- require and approve material contracts to be entered into by Zargon;
- recommend to shareholders of Zargon a firm of chartered accountants to be appointed as Zargon's auditors;
- ensure the Zargon Entities' oil and gas reserve report fairly represents the quantity and value of corporate reserves in accordance with generally accepted engineering principles and applicable securities laws; and
- take reasonable actions to gain reasonable assurance that all financial information made public by the Zargon Entities (including Zargon's annual and quarterly financial statements) is accurate and complete and represents fairly Zargon's financial position and performance including review and approval of annual and quarterly financial statements.

### ***Governance and Nominating***

- in consultation with the Chairman of the Board, develop a position description for the Chairman of the Board;
- selecting nominees for election to the board;
- facilitate the continuity, effectiveness and independence of the board by, amongst other things:
- appointing a Chairman of the Board;
- appointing from amongst the directors an audit committee and such other committees of the board as the board deems appropriate;
- defining the mandate of each committee of the board;
- ensuring that processes are in place and are utilized to assess the effectiveness of the Chairman of the Board, the board as a whole, each committee of the board and each director; and
- establishing a system to enable any director to engage an outside adviser at the expense of the Zargon Entities;
- review annually the composition of the board and its committees and assess directors' performance on an ongoing basis, and propose new members to the board; and
- review annually the adequacy and form of the compensation of directors.

### ***Delegation***

- the board may delegate its duties to, and receive reports and recommendations from, any committee of the board.

### ***Composition***

- the board should be composed of at least 6 individuals elected by the shareholders at the annual meeting;
- a majority of board members should be independent Directors (within the meaning of National Instrument 58-101) and free from any business or other relationship that could impair the exercise of independent judgment;
- members should have or obtain sufficient knowledge of Zargon and the oil and gas business to assist in providing advice and counsel on relevant issues; and board members should offer their resignation from the board to the Chairman of the Board Governance and Nominating Committee following:
  - change in personal circumstances which would reasonably interfere with the ability to serve as a Director; and
  - change in personal circumstances which would reasonably reflect poorly on Zargon (for example, finding by a Court of fraud, or conviction under Criminal Code or securities legislation).

### ***Meetings***

- the board shall meet at least four times per year and/or as deemed appropriate by the board Chair;
- the board shall meet at the end of its regular quarterly meetings without members of management being present;
- minutes of each meeting shall be prepared;
- the CEO and CFO shall be available to attend all meetings of the board upon invitation by the board; and
- Vice-Presidents and such other staff as appropriate to provide information to the board shall attend meetings at the invitation of the board.

### ***Authority***

- the board shall have the authority to review any corporate report or material and to investigate activity of the Zargon Entities and to request any employees to cooperate as requested by the board; and
- the board may retain persons having special expertise and/or obtain independent professional advice to assist in fulfilling its responsibilities at the expense of Zargon.

## **Board Committees**

Our board has four committees; the Audit Committee, Compensation Committee, Reserves Committee and Governance and Nominating Committee, all members of whom are independent directors. Our board has accepted overall responsibility for health, safety and environment and no separate committees have been established to deal with these issues. The full text of the mandates of each committee is available on our website [www.zargon.ca](http://www.zargon.ca).

### ***Audit Committee***

The members of the audit committee are: Mr. Kitagawa (Chairman), Ms. McKenzie and Mr. Weir. The committee's mandate includes:

- reviewing the annual audited consolidated financial statements and the auditors' report thereon prior to submission to the board for approval;
- reviewing the quarterly consolidated financial statements prior to submission to the board for approval;
- reviewing the scope of external and internal audits;
- reviewing and discussing accounting and reporting policies and changes in accounting principles;
- reviewing our internal control systems and procedures; and
- meeting with the external auditors independently of our management.

### ***Compensation Committee***

The members of the compensation committee are: Mr. Peplinski (Chair), Mr. Harrison and Mr. Zawalsky. The compensation committee's mandate includes:

- determining compensation and terms of employment for executives, including the granting of shares and incentive programs;
- approving our benefit plans; and
- assessing, at least annually, the compensation and terms of employment of the Chairman, President and Chief Executive Officer.

### ***Reserves Committee***

The members of the reserves committee are Mr. Weir (Chair), Mr. Kitagawa, Mr. Merritt and Mr. Peplinski. The reserves committee's mandate with respect to reserves includes:

- reviewing management's recommendations for the appointment of the independent engineer;
- reviewing the terms of the independent engineers' engagement and the appropriateness and reasonableness of the proposed fees;
- reviewing the scope and methodology of the independent engineers' evaluation;
- reviewing any significant new discoveries, additions, revisions and acquisitions;
- reviewing assumptions and consistency with prior years;
- reviewing any problems experienced by the independent engineer in preparing the reserves report, including any restrictions imposed by management or significant issues on which there was a disagreement with management; and
- reviewing all public disclosure documents containing reserves information prior to its release, including, the annual report, the annual information form and management's discussion and analysis.

### ***Governance and Nominating Committee***

The members of the governance and nominating committee are: Mr. Zawalsky (Chair), Mr. Harrison and Ms. McKenzie. The governance and nominating committee's mandate includes:

- assessing our corporate governance practises and making recommendations to the board with respect to corporate governance practises;
- establishing a nomination process and making recommendations to the board with respect to the nomination of directors; and
- assessing, at least annually, the effectiveness of the board and its committees.

### **Orientation and Continuing Education**

Upon joining our board, a new director will be provided with a directors' information binder which will include a copy of all board and committee mandates, corporate policies, relevant position descriptions, organizational structure, the structure of the board and its committees, by-laws as well as agendas and minutes for board and committee meetings for the preceding 12 months. In addition, any new director will receive presentations with respect to our operations. As part of continuing education, the board receives management presentations with respect to the operations and risks of our business at least 4 times per year, with a more significant presentation provided in conjunction with the annual budgeting process and annual strategic planning meeting with all directors and officers in attendance. In addition, the individual directors identify their continuing education needs through a variety of means, including discussions with management and at board and committee meetings.

### **Ethical Business Conduct**

Our board has adopted a code of business conduct, a copy of which is available to review on our website [www.zargon.ca](http://www.zargon.ca). It is intended that annually each employee, officer and director confirms in that he or she has read, understood and complied with the code. Any reports of variance from the code will be reported to the board.

The board has also adopted a whistleblower policy which provides employees with the ability to report, on a confidential and anonymous basis, any violations within our organization including (but not limited to), falsification of financial records, unethical conduct, harassment or theft. The board believes that providing a forum for employees, officers and directors to raise concerns about ethical conduct and treating all complaints with the appropriate level of seriousness foster a culture of ethical conduct.

### **Position Descriptions**

The board has developed position descriptions for each of the Chairman, the President and Chief Executive Officer and chairman of the board committees.

### **Nomination of Directors**

We have established a governance and nominating committee which, among other things, has the responsibility for establishing a nomination process and making recommendations to the board with respect to nomination of directors. See "*Board Committees – Governance and Nominating Committee*" for a summary of the committee's mandate. The governance and nominating committee is composed entirely of independent directors. In accordance with the mandate of the governance and nominating committee, the guidelines include considering what competencies and skills the board, as a whole, should possess, the competencies and skills the board considers each existing director to possess and the competencies and skills each proposed nominee will bring to the board as well as whether the new nominee can devote sufficient time and resources to his or her duties as a member of the board. In seeking nominees the governance and nominating committee encourages input from all members of the board and may use the services of professional recruiters if required.

### **Board Assessment**

We commenced an annual formal process of assessing our board and its committees or the individual directors in 2005 under the direction of the governance and nominating committee and have conducted annual reviews since 2005.

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

Except as disclosed herein, there were no material interests, direct or indirect, of our insiders, proposed nominees for election as directors, or any associate or affiliate of such insiders or nominees since January 1, 2010, or in any proposed transaction, which has affected or would materially affect us or any of our subsidiaries.

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

Our management is not aware of any material interest of any director or executive officer or anyone who has held office as such since the beginning of our last financial year or of any associate or affiliate of any of the foregoing in any matter to be acted on at the meeting, save as is disclosed herein.

## **ADDITIONAL INFORMATION**

We undertake to provide, upon request, a copy of our 2010 annual report, containing financial information in the management's discussion and analysis of financial condition and results of operations and the 2010 audited financial statements, as well as a copy of our annual information form, subsequent interim financial statements and this information circular - proxy statement. Our annual information form also contains disclosure relating to our audit committee and the fees paid to Ernst & Young LLP in 2010. Copies of these documents may be obtained on request without charge from the Vice President, Finance and Chief Financial Officer of Zargon Oil & Gas Ltd. at 700, 333 – 5<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3B6, telephone (403) 264-9992 or by accessing the disclosure documents available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at [www.sedar.com](http://www.sedar.com) or on our website at [www.zargon.ca](http://www.zargon.ca).

## **OTHER MATTERS**

Our management knows of no amendment, variation or other matter to come before the meeting other than the matters referred to in the notice of annual meeting. However, if any other matter properly comes before the meeting, the accompanying proxy will be voted on such matter in accordance with the best judgment of the person voting the proxy.

The contents and the sending of this information circular - proxy statement has been approved by our directors.

Dated: March 10, 2011