

**ZARGON OIL & GAS LTD.**

**NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS  
TO BE HELD ON MAY 15, 2013**

The annual and special meeting of the shareholders of Zargon Oil & Gas Ltd. will be held in Room 108-109 of the Calgary Telus Convention Centre, 120 – 9<sup>th</sup> Avenue S.E., Calgary, Alberta on May 15, 2013 at 10:00 a.m. (Calgary time) to:

1. receive and consider our financial statements for the year ended December 31, 2012, together with the report of the auditors;
2. elect our seven (7) directors;
3. appoint our auditors and authorize our directors to fix their remuneration as such;
4. consider, and if thought advisable, pass an ordinary resolution approving all unallocated common shares issuable upon the grant of share awards under our share award plan; and
5. 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 310, 606 – 4<sup>th</sup> Street S.W., Calgary, Alberta T2P 1T1, or deliver it by fax to (403) 233-2857 at least 24 hours, excluding Saturdays, Sundays and holidays, before the meeting or any adjournment thereof.** Registered shareholders may also vote via the internet at <https://proxy.valiantrust.com/>. Votes by internet must be received by 10:00 a.m. (Calgary time) on May 14, 2013 or at least 24 hours prior to the time of any adjournment of the meeting. If a shareholder receives more than one proxy form because such shareholder owns our common shares 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 April 12, 2013 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 12th day of April, 2013.

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 and Special Meeting to be held on May 15, 2013

### PROXIES

#### Solicitation of Proxies

This information circular - proxy statement is furnished in connection with the solicitation of proxies for use at our annual and special meeting to be held on May 15, 2013 at 10:00 a.m. (Calgary time) in Room 108-109 of the Calgary Telus Convention Centre, 120 – 9<sup>th</sup> Avenue S.E., Calgary, Alberta, and at any adjournment thereof. The completed proxy form must be deposited at the offices of Valiant Trust Company, **Attention: Proxy Department, Suite 310, 606 – 4<sup>th</sup> Street S.W., Calgary, Alberta T2P 1T1, or deliver it by fax to (403) 233-2857 at least 24 hours, excluding Saturdays, Sundays and holidays, before the meeting or any adjournment thereof.** Registered shareholders may also use the internet at <https://proxy.valiantrust.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 10:00 a.m. (Calgary time) on May 14, 2013 or at least 24 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 our officers, directors or employees at a nominal cost. The cost of solicitation will be borne by us.

Only shareholders of record at the close of business on April 12, 2013 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 our officers. **As a shareholder, you have the right to appoint a person or company, who need not be a shareholder, to represent you at the meeting.** To exercise this right you should insert the name of the desired representative in the blank space provided 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.

If you do not hold your shares in your own name, you may give permission to your broker or other intermediary to release your name and address to us so that we can send proxy related materials to you directly. Alternatively, you may instruct your broker or other intermediary who holds your common shares to not provide your name and address to us, in which case, your broker or other intermediary is required to send such materials to you. We currently do not provide proxy related materials directly to beneficial shareholders and we assume the costs associated with the delivery of meeting materials to beneficial shareholders.

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.

The Canadian Securities Administrators have adopted a new "notice-and-access" regime for shareholder meetings that take place on or after March 1, 2013 which permits issuers to send to shareholders a reduced package of meeting materials, together with the document required to cast their vote. We have elected not to use the "notice-and-access" regime for the meeting and paper copies of such materials will be sent to all shareholders.

### **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 and special meeting and this information circular – proxy statement. In addition to mailing forms of proxy, proxies may be solicited by personal interviews, or by other means of communication, by our directors, officers or 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 and special meeting and with respect to any other matters which may properly be brought before the meeting or any adjournment thereof. At the time of printing this information circular – proxy statement, we know of no such amendment, variation or other matter.

## VOTING SHARES AND PRINCIPAL HOLDERS 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 April 12, 2013, there were 29,955,789 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 April 12, 2013, no person or company beneficially owns, or controls or directs, directly or indirectly, 10% or more of our issued and outstanding common shares, except as set forth below:

Name	Number of Common Shares Beneficially Owned or Controlled or Directed, Directly or Indirectly	Percentage of Issued and Outstanding Common Shares
Franklin Templeton Investments Corp., on behalf of its division, Bissett Investment Management <sup>(1)</sup> Toronto, Ontario	5,797,623	19.67%

Note:

(1) Based on an alternative monthly report dated June 8, 2012 filed on SEDAR at [www.sedar.com](http://www.sedar.com).

As at April 12, 2013, our directors and executive officers, as a group, beneficially owned, or controlled or directed, directly or indirectly, 2,351,403 common shares or approximately 7.8% of our issued and outstanding common shares.

## THE ARRANGEMENT

On January 1, 2011, our predecessor, 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."

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 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 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 seven 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 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 seven nominees set forth below:

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

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 April 12, 2013 in respect of 2012 and as at March 12, 2012 in respect of 2011:

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed		Incentive Rights <sup>(1)</sup>		Total Market Value of Securities Owned and Incentive Rights <sup>(2)(3)</sup>	
			2012	2011	2012	2011	2012	2011
<b>K. James Harrison</b> Oakville, Ontario  Member of: - Governance and Compensation Committee	52	1995	111,882 <sup>(4)</sup>	71,882 <sup>(4)</sup>	22,000	50,000	\$846,393	\$1,077,524



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.

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed		Incentive Rights <sup>(1)</sup>		Total Market Value of Securities Owned and Incentive Rights <sup>(2)(3)</sup>	
			2012	2011	2012	2011	2012	2011
<b>Craig H. Hansen</b> Calgary, Alberta	56	1992	1,374,399	1,077,083	94,000	154,000	\$10,184,105	\$15,621,181



Mr. Hansen has been our President and its predecessor, 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	52	2001	78,919	78,919	19,900	18,600	\$594,640	\$1,157,570
---	----	------	--------	--------	--------	--------	-----------	-------------

Member of:  
- Audit and Reserves  
Committee (Chairman)



Mr. Kitagawa brings over 25 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 both Canadian Energy Services & Technology Corp. and Coral Hill Energy 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., ProspEx Resources Ltd. and Wave Energy Ltd.

Mr. Kitagawa 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.

<b>Margaret A. McKenzie</b> Calgary, Alberta	51	2007	6,600	6,600	19,900	33,600	\$75,390	\$130,640
---	----	------	-------	-------	--------	--------	----------	-----------

Member of:  
- Audit and Reserves  
Committee



Ms. McKenzie is the Chief Financial Officer of 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.).

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed		Incentive Rights <sup>(1)</sup>		Total Market Value of Securities Owned and Incentive Rights <sup>(2)(3)</sup>	
			2012	2011	2012	2011	2012	2011

<b>Geoffrey C. Merritt</b> Calgary, Alberta Member of: - Audit and Reserves Committee	58	2009	51,755	51,755	19,900	18,600	\$399,603	\$771,841
---	----	------	--------	--------	--------	--------	-----------	-----------



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.

<b>Jim Peplinski</b> Calgary, Alberta Member of: - Governance and Compensation Committee (Chairman)	52	1997	219,929	151,429	19,900	18,600	\$1,607,092	\$2,187,212
--	----	------	---------	---------	--------	--------	-------------	-------------



Mr. Peplinski's main focus is commercial vehicle lessor Jim Peplinski Leasing Inc. He is also VP Business Development of the Calgary Flames Hockey Club as well as an investor in real estate and oil and gas. Mr. Peplinski currently sits on the board of directors of Wrangler West Energy Corp.

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed		Incentive Rights <sup>(1)</sup>		Total Market Value of Securities Owned and Incentive Rights <sup>(2)(3)</sup>	
			2012	2011	2012	2011	2012	2011
<b>Grant A. Zawalsky</b> Calgary, Alberta	53	2000	28,400	28,400	19,900	18,600	\$231,914	\$440,200

Member of:  
- Governance and  
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, Northpoint Energy Ltd., RMP Energy Inc. 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) "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.
- (2) For 2012, 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 April 12, 2013 by the closing price of our common shares on the Toronto Stock Exchange on such date (\$7.18), 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 (\$7.18) 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 number of common shares issuable upon exercise of share awards or the grant price of the incentive rights to give effect to distributions or dividends paid since the share award or incentive right was granted.
- (3) For 2011, 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 12, 2012 by the closing price of our common shares on the Toronto Stock Exchange on such date (\$14.20), 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 (\$14.20) 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 number of common shares issuable upon exercise of share awards or the grant price of the incentive rights to give effect to distributions or dividends paid since the share award or incentive right was granted.
- (4) Mr. Harrison has control or direction over 105,613 common shares in 2012 and had control or direction over 71,013 common shares in 2011 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 105,613 common shares in 2012 and the 71,013 common shares in 2011 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 our governance and compensation committee's consideration. The governance and compensation 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 meeting of our shareholders and to authorize the directors to fix their remuneration as such. See "*Audit and Reserves Committee Information*" in our annual information form for the year ended December 31, 2012 for additional information including a description of fees we paid to Ernst & Young LLP during the past two years.

### **Approval of Unallocated Share Awards**

Section 613(a) of the Toronto Stock Exchange Company Manual provides that every three (3) years after the institution of a security based compensation arrangement all unallocated rights, options or other entitlements under such arrangement which does not have a fixed maximum number of securities issuable must be approved by a majority of the issuer's directors and by the issuer's security holders.

As our share award plan is considered to be a security based compensation arrangement and the share award plan provides that the maximum number of common shares reserved for issuance from time to time pursuant to outstanding share awards granted and outstanding under the plan is not a fixed number and instead 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, approval will be sought at the meeting to approve the grant of unallocated common shares reserved for issuance from time to time pursuant to outstanding share awards under the plan. When share awards have been granted pursuant to the share award plan, common shares that are reserved for issuance under outstanding share awards are referred to as allocated common shares. We have additional common shares that may be reserved for issuance

pursuant to future grants of share awards under the share award plan, but as they are not subject to current share award grants, they are referred to as unallocated common shares.

If approval is obtained at the meeting, we will not be required to seek further approval for unallocated common shares reserved for issuance pursuant to future grants of share awards under the plan until May 15, 2016. If approval is not obtained at the meeting, common shares which have not been allocated as of May 15, 2013 and common shares which are reserved for issuance pursuant to share awards which are outstanding as of May 15, 2013 and which are subsequently cancelled, terminated or exercised will not be available for a new grant of share awards under the share award plan. Previously allocated common shares reserved for issuance under all outstanding share awards will continue to be unaffected by the approval or disapproval of the resolution.

As of April 12, 2013, there were 576,190 share awards and 443,250 legacy incentive rights outstanding, representing 3.4% of our issued and outstanding common shares on that date, leaving approximately 921,599 million common shares reserved and available for issuance pursuant to share awards that may be granted in the future (calculation does not include dividend equivalents that will accumulate on the underlying grants).

Accordingly, at the meeting, the following ordinary resolution will be presented:

"BE IT RESOLVED, as an ordinary resolution of the shareholders of Zargon Oil & Gas Ltd. (the "Corporation"), that:

1. the share award plan, as described under the heading "*Executive Compensation – Executive Compensation Discussion and Analysis – Incentive Plans - Share Award Plan*" in the information circular – proxy statement of the Corporation dated April 12, 2013 is hereby ratified, confirmed and approved;
2. all unallocated common shares reserved for issuance pursuant to grants of share awards under the share award plan are approved and authorized until May 15, 2016;
3. any one officer or director of the Corporation be and is hereby authorized to execute and deliver all such agreements and documents, whether under the corporate seal or otherwise, and to take all action, as such officer or director shall deem necessary or appropriate to give effect to the foregoing resolutions; and
4. notwithstanding that this resolution has been duly passed by the shareholders of the Corporation, the directors of the Corporation are hereby authorized and empowered to revoke this resolution, without any further approval of the shareholders of the Corporation, at any time if such revocation is considered necessary or desirable by the directors."

It is the intention of the management to vote proxies "FOR" approval of the ordinary resolution above, unless otherwise directed.

## **DIRECTORS COMPENSATION**

### **Compensation of Directors**

Our board of directors, through the governance and compensation 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 a 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.

In 2012, the committees of our board were restructured to more equitably distribute responsibilities, and to improve costs and efficiencies. As a result, we consolidated our audit committee and reserves committee into our audit and reserves committee and our governance and nominating committee and our compensation committee into our governance and compensation committee. Our audit and reserves committee also had a fixed cost sub-committee whose mandate was to examine our fixed operating and general and administrative cost structure.

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 aggregate 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 and reserves committee of \$10,000 and a \$5,000 retainer is paid to the chairmen of our governance and compensation committee. Outside directors are also reimbursed for their out-of-pocket expenses incurred in carrying out their duties as directors.

In 2011, a peer group review was conducted by our governance and nominating committee, with the results indicating that our directors' compensation is competitive with our peers. Director compensation is discussed on an annual basis and there have been no changes to our director's compensation arrangement, other than reported below, since 2007.

The following table sets forth the principal elements of the compensation plan for the year ended December 31, 2012.

Compensation Element	Amount (\$)
Board Retainer – Annual	20,000
Additional Chair Retainers – Annual:	
Board	25,000
Audit and Reserves	10,000
Governance and Compensation	5,000
Meeting Attendance Fee	1,500

In April 2013, modifications were recommended and approved to the compensation of our directors, whereby, the meeting attendance fee was reduced from \$1,500 per meeting to \$1,000 per meeting.

Our outside directors were eligible to receive awards under the trust unit rights incentive plans of the Trust although participation 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). 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. 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 share award plan became effective on January 1, 2011. Outside directors are eligible to receive awards under our share award plan. 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 "*Executive Compensation – Executive*

*Compensation Discussion and Analysis – Incentive Plans - Share Award Plan*" for a description of our share award plan. On March 14, 2013 our chairman of the board was granted 2,000 share awards and our six remaining outside directors were granted 1,300 share awards each pursuant to our share award incentive plan. These share awards provide for the awards of common shares which will vest in quarters every January 1 over a four year period commencing on January 1, 2014 and will expire on March 14, 2018.

As at December 31, 2012, our outside directors held an aggregate of 155,600 incentive rights and share awards, which represented approximately 0.5% of our issued and outstanding common shares as at such date. For information regarding the outstanding incentive rights and share awards held by our independent directors as at December 31, 2012, see "*Outstanding Option-based and Share-based Awards*" and "*Incentive Plan Awards – Value Vested or Earned during the Year*" below.

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, 2012. 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	20,000	25,000	Nil	22,500	67,500
Kyle D. Kitagawa	20,000	Nil	10,000	31,500	61,500
Margaret A. McKenzie	20,000	Nil	Nil	25,500	45,500
Geoffrey C. Merritt	20,000	Nil	Nil	28,500	48,500
Jim Peplinski	20,000	Nil	5,000	22,500	47,500
J. Graham Weir <sup>(1)</sup>	20,000	Nil	5,000	22,500	47,500
Grant A. Zawalsky	20,000	Nil	5,000	22,500	47,500

Note:

(1) Mr. Weir will not be standing for re-election at our May 15, 2013 Annual and Special Meeting of Shareholders.

### **Summary Compensation Table**

The following table sets forth information concerning the compensation for our independent directors for the year ended December 31, 2012. Please refer to "*Executive Compensation*" for details regarding the compensation paid to our President and Chief Executive Officer, who is also one of our directors.

Name	Fees earned (\$)	Share-based awards <sup>(1)</sup> (\$)	Option-based awards <sup>(2)</sup> (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
K. James Harrison	67,500	25,360	Nil	Nil	Nil	Nil	92,860
Kyle D. Kitagawa	61,500	16,484	Nil	Nil	Nil	Nil	77,984
Margaret A. McKenzie	45,500	16,484	Nil	Nil	Nil	Nil	61,984
Geoffrey C. Merritt	48,500	16,484	Nil	Nil	Nil	Nil	64,984
Jim Peplinski	47,500	16,484	Nil	Nil	Nil	Nil	63,984
J. Graham Weir	47,500	16,484	Nil	Nil	Nil	Nil	63,984
Grant A. Zawalsky <sup>(3)</sup>	47,500	16,484	Nil	Nil	Nil	Nil	63,984

Notes:

- (1) The value disclosed represents the fair value of these rights on the grant date using the Black-Scholes pricing model valued on the grant date, a methodology chosen due to its wide spread use in the energy industry. The Black Scholes fair value calculation includes weighted average assumptions such as a forfeiture rate, a volatility factor of expected market price, a risk-free interest rate and an expected life of the share based awards and option based awards. No adjustment has been made to the number of share awards granted during the year for dividends.
- (2) 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.

- (3) 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, 2012.

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 that have not vested (#)	Market or payout value of share-based awards that have not vested <sup>(4)</sup> (\$)	Market or payout value of vested share-based awards not paid out or distributed <sup>(4)</sup> (\$)
K. James Harrison	8,000	22.10	January 31, 2013	Nil	3,500	29,330	4,190
	8,000	26.00	January 31, 2013	Nil			
	8,000	21.55	January 31, 2013	Nil			
	8,000	15.56	January 31, 2014	Nil			
	8,000	19.85	January 31, 2015	Nil			
Kyle D. Kitagawa	8,000	15.56	January 31, 2014	Nil	2,275	19,065	2,724
	8,000	19.85	January 31, 2015	Nil			
Margaret A. McKenzie	8,000	15.56	January 31, 2014	Nil	2,275	19,065	2,724
	8,000	19.85	January 31, 2015	Nil			
Geoffrey C. Merritt	8,000	15.56	January 31, 2014	Nil	2,275	19,065	2,724
	8,000	19.85	January 31, 2015	Nil			
Jim Peplinski	8,000	15.56	January 31, 2014	Nil	2,275	19,065	2,724
	8,000	19.85	January 31, 2015	Nil			
J. Graham Weir	8,000	15.56	January 31, 2014	Nil	2,275	19,065	2,724
	8,000	19.85	January 31, 2015	Nil			
Grant A. Zawalsky	8,000	15.56	January 31, 2014	Nil	2,275	19,065	2,724
	8,000	19.85	January 31, 2015	Nil			

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 common shares on the Toronto Stock Exchange on December 31, 2012 (being \$8.38) 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 dividends paid by us (or our predecessors) since the right was granted.
- (4) Calculated based on the closing price of our common shares on the Toronto Stock Exchange on December 31, 2012 (being \$8.38). No adjustment has been made to the number of share awards granted during the year for dividends.

### ***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, 2012 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2012.

<b>Name</b>	<b>Option-based awards – Value vested during the year <sup>(1)</sup></b> <b>(\$)</b>	<b>Share-based awards – Value vested during the year <sup>(2)</sup></b> <b>(\$)</b>	<b>Non-equity incentive plan compensation – Value earned during the year</b> <b>(\$)</b>
K. James Harrison	Nil	6,815	Nil
Kyle D. Kitagawa	Nil	4,430	Nil
Margaret A. McKenzie	Nil	4,430	Nil
Geoffrey C. Merritt	Nil	4,430	Nil
Jim Peplinski	Nil	4,430	Nil
J. Graham Weir	Nil	4,430	Nil
Grant A. Zawalsky	Nil	4,430	Nil

Notes:

- (1) Calculated based on the difference between the closing price of our common shares on the Toronto Stock Exchange as of December 30, 2011, which was the last trading date before the vesting date of January 1, 2012 and the grant price of the rights. No adjustment has been made to the grant price to give effect to dividends paid by us (or our predecessors) since the right was granted.
- (2) Calculated based on the closing price of the common shares on the Toronto Stock Exchange as of December 30, 2011 (being \$13.63), which was the last trading day before the vesting date of January 1, 2012. No adjustment has been made to the number of share awards to give effect to dividends paid since the share award was granted.

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

Directors (other than our 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 or share awards 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 our common shares, such individual shall be considered to be in compliance with our 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 our President and Chief Executive Officer and each of our independent directors as at December 31, 2012.

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	656,000	16.25	10,659,511	Yes
<b>Independent Directors:</b>					
K. James Harrison	4 x retainer	180,000	5.21	937,571	Yes
Kyle D. Kitagawa	4 x retainer	80,000	8.27	661,341	Yes
Margaret A. McKenzie <sup>(2)</sup>	4 x retainer	80,000	0.69	55,308	Yes
Geoffrey C. Merritt	4 x retainer	80,000	5.42	433,707	Yes
Jim Peplinski	4 x retainer	80,000	15.86	1,268,975	Yes
J. Graham Weir	4 x retainer	80,000	39.82	3,185,867	Yes
Grant A. Zawalsky	4 x retainer	80,000	2.97	237,992	Yes

Notes:

- (1) Based on the closing price of our common shares on the Toronto Stock Exchange on December 31, 2012 (being \$8.38).
- (2) In prior years, Ms. McKenzie has been in compliance with our ownership guidelines. Ms. McKenzie's ownership fell below the target ownership level as a result of the closing price of our common shares on December 31, 2012.

### **Meeting Attendances**

The following table outlines the attendance record of our directors in 2012.

Name	Board Meeting	Audit Committee	Governance and Nominating Committee	Compensation Committee	Reserves Committee	Audit and Reserves Committee	Governance and Compensation Committee	Fixed Cost Sub Committee
K. James Harrison	11/11	-	2/2	2/2	-	-	0/0	-
Craig H. Hansen	11/11	2/2	2/2	2/2	2/2	2/2	0/0	-
Kyle D. Kitagawa	11/11	2/2	-	-	2/2	2/2	-	4/4
Margaret A. McKenzie	11/11	2/2	2/2	-	-	2/2	-	-
Geoffrey C. Merritt	11/11	-	-	-	2/2	2/2	-	4/4
Jim Peplinski	11/11	-	-	2/2	2/2	-	0/0	-
J. Graham Weir	10/11	1/2	-	-	2/2	2/2	-	-
Grant A. Zawalsky	11/11	-	2/2	2/2	-	-	0/0	-

## EXECUTIVE COMPENSATION

### Statement of Executive Compensation

For the year ended December 31, 2012, 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;  
Randolph J. Doetzel, Vice President, Operations; and  
Robert T. Moriyama, Vice President, Enhanced Recovery

### 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 Governance***

Our governance and 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 governance and compensation committee is currently composed of three independent directors, Messrs. Peplinski (Chairman), Harrison and Zawalsky. Each is an independent member of our board and is knowledgeable about compensation design and administration. All of our governance and compensation committee members have served as a senior executive officer and/or director of numerous organizations and have direct experience in executive and corporate compensation programs. Reference should also be made to each member's biography found under "*Election of Directors*" above.

The governance and compensation committee annually reviews and recommends the compensation of members of the executive team, specifically the CEO and the Vice Presidents, and granting of long term incentives. Recommendations regarding executive compensation and the granting of long term incentives are presented to the governance and compensation committee in January with the year end bonus recommendations being presented 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 Energy Sector ("**MTCS**") was used to assist the governance and compensation committee in its evaluation of compensation. The 2012 MTCS survey included data from 209 distinct participating organizations. MTCS 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;
- Barrel of Oil Equivalent/Day: 5,000 < 10,000

The purpose of reviewing the MTCS 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 governance and 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.

While our CEO and other executive's have a large proportion of their compensation "at risk", the quantum of the incentive compensation and the mix between short term and long term compensation is intended to discourage inappropriate risk taking and does not reward actions that could produce short term success at the cost of long term results.

In addition, pursuant to our insider trading policy, our directors, officers and employees are prohibited from selling any of our shares if such they do not own or have not fully paid for the shares to be sold, unless the director, officer or employee owns another security convertible into our shares and, within 10 days after the sale, such person exercises the conversion privilege, option or right and delivers the associated common share to the purchaser or transfers the convertible security, option or right, if transferable to the purchaser. Directors, officers and employees are also prohibited from buying or selling a call or put in respect of any of our securities.

Our CEO presents recommendations and rationale to our governance and 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 governance and 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 governance and 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 governance and 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 governance and 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, and advancement of our major projects to assess the operational effectiveness of the execution of our strategy, financial, regulatory and environmental compliance and other elements such as the strengthening of staff resources, processes and internal communication and individual performance. The measures described here are considered as subjective factors and are not defined in such a way as to limit the authority of the governance and compensation committee or to restrict the latitude they have to guide the compensation process.

### ***Base Salary***

In setting base salaries, our governance and compensation committee, consistent with our long term 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 January of each year, our Chief Executive Officer makes salary recommendations to our governance and 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, 2011 and December 31, 2012.

<b>Name and principal position</b>	<b>2011 Base Salary (\$)</b>	<b>2012 Base Salary (\$)</b>	<b>% Increase</b>
Craig H. Hansen President and CEO	316,092	328,000	3.8
Jason B. Dranchuk <sup>(1)</sup> Vice President, Finance and CFO	238,263	256,000	4.5
Brian G. Kergan Vice President, Corporate Development	240,840	251,000	4.2

<b>Name and principal position</b>	<b>2011 Base Salary (\$)</b>	<b>2012 Base Salary (\$)</b>	<b>% Increase</b>
Randolph J. Doetzel <sup>(2)</sup> Vice President, Operations	213,294	235,000	5.5
Robert T. Moriyama <sup>(3)</sup> Vice President, Enhanced Recovery	198,961	223,000	6.2

Notes:

- (1) In recognition of additional workload and responsibility, Mr. Dranchuk received a salary increase, effective April 1, 2011. The amount shown for 2011 has not been annualized.
- (2) Effective June 8, 2011, Mr. Doetzel was promoted to the position of Vice President, Operations and therefore received a salary increase. Prior to assuming his current position, Mr. Doetzel was our Production Manager, Williston Basin since July 6, 2009. The amount shown for 2011 has not been annualized.
- (3) Effective January 10, 2011, Mr. Moriyama commenced employment as our Vice President, Enhanced Recovery. The amount shown for 2011 has not been annualized.

Based on the MTCS 2012 fall update survey and referencing the exploration and production organizations producing less than 10,000 barrels of oil equivalent per day, MTCS had projected a 2012 salary increase of 4.7 percent (including zeros) for the average of this category. Our overall corporate increase for 2012 was 4.3 percent. The average salary increases for our executive officers was 4.7 percent.

***Bonuses***

Our governance and 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 MTCS. The governance and compensation committee benchmarks the overall bonus target as the average of the organizations producing less than 10,000 barrels of oil equivalent per day. If all targets are met, this methodology results in an amount that roughly aligns with industry benchmarking data. For 2012, our overall corporate targeted bonus amount was set at 24.7 percent of total salaries. The 2012 actual bonus (paid in February 2013) was 20.6 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 the 2012 actual salary paid 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 officers' for the years ended December 31, 2011 and December 31, 2012.

<b>Name and principal position</b>	<b>2011 Bonus (\$)</b>	<b>2012 Bonus (\$)</b>	<b>2012 Bonus as a % of 2012 Base Salary <sup>(1)</sup></b>
Craig H. Hansen President and CEO	80,603	108,240	33.0
Jason B. Dranchuk <sup>(2)</sup> Vice President, Finance and CFO	68,798	73,920	28.9
Brian G. Kergan Vice President, Corporate Development	67,962	76,100	30.3
Randolph J. Doetzel <sup>(3)</sup> Vice President, Operations	49,191	58,162	24.8

Name and principal position	2011 Bonus (\$)	2012 Bonus (\$)	2012 Bonus as a % of 2012 Base Salary <sup>(1)</sup>
Robert T. Moriyama <sup>(4)</sup> Vice President, Enhanced Recovery	55,958	66,231	29.7

Notes:

- (1) 2012 bonus amounts were paid in February 2013.
- (2) In recognition of additional workload and responsibility, Mr. Dranchuk received a salary increase, effective April 1, 2011. The amount shown for 2011 has not been annualized.
- (3) Effective June 8, 2011, Mr. Doetzel was promoted to the position of Vice President, Operations and therefore received a salary increase. Prior to assuming his current position, Mr. Doetzel was our Production Manager, Williston Basin since July 6, 2009. The amounts shown for 2011 have not been annualized.
- (4) Effective January 10, 2011, Mr. Moriyama commenced employment as our Vice President, Enhanced Recovery. The amount shown for 2011 has not been annualized.

***Incentive Plans***

In anticipation of our conversion from a trust to a corporation, our compensation committee, at the time, reviewed and re-designed 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 share award plan was approved by our shareholders in December 2010 and became effective January 1, 2011. 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 were 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 626,775 common shares currently reserved for issuance under these former plans.

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 governance and compensation committee. Previous grants are taken into account when considering new grants. Share awards for executives are generally approved annually and are granted in January, 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. Additional one time grants may also be awarded throughout the year to reward exemplary performance.

On January 12, 2012, an aggregate of 54,000 share awards were granted to our executive management pursuant to our share award incentive plan. On June 30, 2012, our CFO was granted an additional one time grant of 5,000 share awards pursuant to our share award incentive plan. These share awards provide for the awards of common shares which will vest in quarters every January 1 over a four year period commencing on January 1, 2013 and will expire on January 12, 2017.

On March 14, 2013, an aggregate of 81,200 share awards were granted to our executive management pursuant to our share award incentive plan. These share awards provide for the awards of common shares which will vest in quarters every January 1 over a four year period commencing on January 1, 2014 and will expire on March 14, 2018.

## *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 governance and compensation committee believes that the plan aligns the interests of our executive officers' with shareholders.

In accordance with its terms, our board of directors has delegated the authority to administer the share award plan to our governance and compensation committee. The governance and 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 governance and compensation committee).

If a holder is prohibited from trading in our securities as a result of the imposition by us of a trading blackout and the issue date of a share award held by such holder falls within the trading blackout period, then the expiry date for the common shares will be extended to the date that is ten business days following the end of the blackout period.

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 governance and 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.

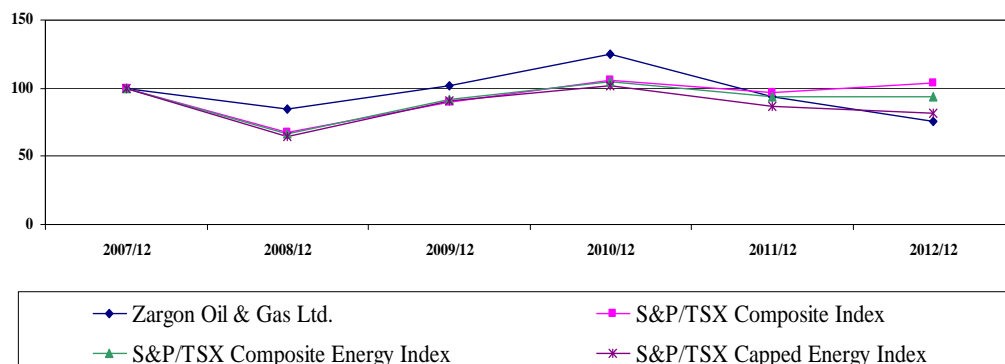
The share award plan and any share awards granted thereunder may be amended, modified or terminated by our board of directors without approval of our shareholders subject to any required approval of the Toronto Stock Exchange. Our governance and compensation committee may also vary the vesting dates 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 governance and 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 2012. These amounts are included in the "All Other Compensation Category" on the Summary Compensation Table below.

## Performance Graph

The following graph illustrates our five year cumulative securityholder return, as measured by the closing price of our common shares at the end of each financial year, assuming an initial investment of \$100 on December 31, 2007, compared to the S&P/TSX Composite Index, the S&P/TSX Composite Energy Index and the S&P/TSX Capped Energy Index, with all distributions and dividends reinvested.



	2007/12	2008/12	2009/12	2010/12	2011/12	2012/12
Zargon Oil & Gas Ltd.	100	85	102	125	94	76
S&P/TSX Composite Index <sup>(1)</sup>	100	67	90	106	97	104
S&P/TSX Composite Energy Index <sup>(2)</sup>	100	66	92	105	94	94
S&P/TSX Capped Energy Index <sup>(3)</sup>	100	64	91	102	87	82

### 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 Index replaces the S&P/TSX Canadian Energy Trust Index, which was used previously by the Company, as this index has been discontinued.

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 dividends on a per share 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 our common shares.

## Compensation of Named Executive Officers

The following table sets forth the information concerning the compensation for our CEO and 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 and CFO, for the year ended December 31, 2012, whose total compensation was more than \$150,000 (each a NEO and collectively, NEO's).

Name and principal position	Year	Salary (\$)	Share-based awards <sup>(1)</sup> (\$)	Option-based awards <sup>(1,2)</sup> (\$)	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation <sup>(3)</sup> (\$)	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
Craig H. Hansen President and CEO	2012	328,000	190,200	N/A	108,240	N/A	N/A	50,046	676,486
	2011	316,092	167,120	N/A	80,603	N/A	N/A	45,640	609,455
	2010	306,888	N/A	144,440	90,812	N/A	N/A	49,653	591,793
Jason B. Dranchuk Vice President, Finance and CFO <sup>(4)</sup>	2012	256,000	202,880	N/A	73,920	N/A	N/A	34,838	567,638
	2011	238,263	246,717	N/A	68,798	N/A	N/A	32,949	586,727
	2010	188,632	N/A	72,220	59,589	N/A	N/A	27,931	348,372
Brian G. Kergan Vice President, Corporate Development <sup>(5)</sup>	2012	251,000	126,800	N/A	76,100	N/A	N/A	35,591	489,491
	2011	240,840	225,456	N/A	67,962	N/A	N/A	34,460	568,718
	2010	225,310	N/A	98,219	93,717	N/A	N/A	32,847	450,093
Randolph J. Doetzel Vice President, Operations <sup>(6)</sup>	2012	235,000	126,800	N/A	58,162	N/A	N/A	34,136	454,098
	2011	213,294	112,236	N/A	49,191	N/A	N/A	31,720	406,441
	2010	185,250	N/A	51,998	39,062	N/A	N/A	27,990	304,300
Robert T. Moriyama Vice President, Enhanced Recovery <sup>(7)</sup>	2012	223,000	126,800	N/A	66,231	N/A	N/A	31,657	447,688
	2011	198,961	76,760	N/A	55,958	N/A	N/A	28,206	359,885

Notes:

- (1) The value disclosed represents the fair value of these rights on the grant date using the Black Scholes pricing model valued on the grant date, a methodology chosen due to its wide spread use in the energy industry. The Black Scholes fair value calculation includes weighted average assumptions such as a forfeiture rate, a volatility factor of expected market price, a risk-free interest rate and an expected life of the share based awards and option based awards. No adjustment has been made to the number of share awards granted during the year for dividends.
- (2) 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.
- (3) The amounts in this column represent perquisites and other taxable benefits.
- (4) 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. In recognition of additional workload and responsibility, Mr. Dranchuk received a salary increase, effective April 1, 2011. The amounts shown for 2010 and 2011 have not been annualized.
- (5) The 2010 "Annual incentive plans" amount includes a special bonus of \$25,000 paid to Mr. Kergan for his involvement in the acquisition of certain properties and the successful execution of our property disposition package.
- (6) Effective June 8, 2011, Mr. Doetzel was promoted to the position of Vice President, Operations and therefore received a salary increase. Prior to assuming his current position, Mr. Doetzel was our Production Manager, Williston Basin since July 6, 2009. The amounts shown for 2011 have not been annualized.
- (7) Effective January 10, 2011, Mr. Moriyama commenced employment as our Vice President, Enhanced Recovery. The amounts shown for 2011 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, 2012.

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 <sup>(4)</sup> (\$)	Market or payout value of vested share-based awards not paid out or distributed <sup>(4)</sup> (\$)
Craig H. Hansen	12,000	22.10	January 31, 2013	Nil	21,000	175,980	16,760
	12,000	26.00	January 31, 2013	Nil			
	12,000	21.55	January 31, 2013	Nil			
	25,000	15.56	January 31, 2014	Nil			
	25,000	19.85	January 31, 2015	Nil			
Jason B. Dranchuk	4,500	22.10	January 31, 2013	Nil	24,475	205,101	23,674
	4,500	26.00	January 31, 2013	Nil			
	4,000	21.55	January 31, 2013	Nil			
	11,500	15.56	January 31, 2014	Nil			
	12,500	19.85	January 31, 2015	Nil			
Brian G. Kergan	6,000	22.10	January 31, 2013	Nil	17,800	149,164	21,788
	6,000	26.00	January 31, 2013	Nil			
	6,000	21.55	January 31, 2013	Nil			
	17,000	15.56	January 31, 2014	Nil			
	17,000	19.85	January 31, 2015	Nil			
Randolph J. Doetzel	8,000	15.80	January 31, 2014	Nil	13,900	116,482	10,894
	9,000	19.85	January 31, 2015	Nil			
Robert T. Moriyama <sup>(5)</sup>	Nil	Nil	Nil	Nil	13,000	108,940	8,380

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 dividends.
- (3) Calculated based on the difference between the closing price of the common shares on the Toronto Stock Exchange on December 31, 2012 (being \$8.38) 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 dividends paid by us (or our predecessors) since the right was granted.
- (4) Calculated based on the closing price of our common shares on the Toronto Stock Exchange on December 31, 2012 (being \$8.38). No adjustment has been made to the number of share awards granted during the year for dividends.
- (5) Effective January 10, 2011, Mr. Moriyama commenced employment as our Vice President, Enhanced Recovery.

### *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, 2012.

<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 <sup>(3)</sup></b>
Equity compensation plans approved by securityholders <sup>(1)(2)</sup>			
- Common Share Rights	626,775	\$19.47	Nil
- Share Award Plan	322,450	N/A	1,170,043
Equity compensation plans not approved by securityholders	Nil	Nil	Nil
<b>Total</b>	<b>949,225</b>		<b>1,170,043</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".
- (3) The number of common shares reserved for issuance from time to time pursuant to outstanding share awards granted and outstanding under our share award plan may not exceed the lesser of: (a) a number of common shares equal to 5% of our aggregate number of issued and outstanding common shares; and (b) a number of common shares equal to 10% of our aggregate number of issued and outstanding common shares less common shares reserved for issuance under our legacy trust unit 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, 2012 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2012.

<b>Name</b>	<b>Option-based awards – Value vested during the year <sup>(1)</sup></b> <b>(\$)</b>	<b>Share-based awards – Value vested during the year <sup>(2)</sup></b> <b>(\$)</b>	<b>Non-equity incentive plan compensation – Value earned during the year</b> <b>(\$)</b>
Craig H. Hansen	Nil	27,260	108,240
Jason B. Dranchuk	Nil	38,505	73,920
Brian G. Kergan	Nil	35,438	76,100
Randolph J. Doetzel	Nil	17,719	58,162
Robert T. Moriyama	Nil	13,630	66,231

Notes:

- (1) Calculated based on the difference between the closing price of our common shares on the Toronto Stock Exchange as of December 30, 2011, which was the last trading date before the vesting date of January 1, 2012 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) Calculated based on the closing price of the common shares on the Toronto Stock Exchange as of December 30, 2011 (being \$13.63), which was the last trading day before the vesting date of January 1, 2012. No adjustment has been made to the number of share awards to give effect to dividends paid since the share award was granted.

***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.

	Termination Event	
	Change of Control Provision <sup>(1)</sup>	Change of Control Provision and Good Reason <sup>(1)</sup>
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</p>	

	Termination Event	
	Change of Control Provision <sup>(1)</sup>	Change of Control Provision and Good Reason <sup>(1)</sup>
	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.	
Jason B. Dranchuk Vice President, Finance and CFO  Brian G. Kergan Vice President, Corporate Development  Randolph J. Doetzel Vice President, Operations  Robert T. Moriyama Vice President, Enhanced Recovery		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;  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  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.

Note:

(1) On February 5, 2009, our compensation committee, at the time, approved amendments to our existing executive employment agreements. At that time, Mr. Hansen was permitted to retain his previously approved executive employment arrangement, which included a single-trigger, change of control provision. All subsequent executive employment agreements were approved with a double-trigger, change of control provision.

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, 2012.

Name	Severance Period (months)	Salary (\$)	Benefits and Perquisites (\$) <sup>(1)</sup>	Bonus (\$)	Incentive Rights <sup>(2)</sup>	Share Awards <sup>(3)</sup>	Total Incremental Payment (\$)
Craig H. Hansen	24	656,000	131,200	233,046	Nil	192,740	1,212,986
Jason B. Dranchuk	22	469,333	93,867	123,632	Nil	228,774	915,606
Brian G. Kergan	17	355,583	71,117	100,479	Nil	170,952	698,131
Randolph J. Doetzel	15	293,750	58,750	61,006	Nil	127,376	540,882
Robert T. Moriyama	13	241,583	48,317	66,186	Nil	117,320	473,406

Notes:

(1) The amounts in this column represent compensation for the loss of employment benefits.

- (2) On the effective date of the change of control, any unvested incentive rights vest and become immediately exercisable. Calculated based on the difference between the closing price of the common shares on the Toronto Stock Exchange on December 31, 2012 (being \$8.38) 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 dividends paid by us (or our predecessors) since the right was granted.
- (3) On the effective date of the change of control, any unvested share awards vest and become immediately exercisable. The amounts shown in the table includes the in-the-money value of unvested share awards, which is calculated based on the closing price of our common shares on the Toronto Stock Exchange on December 31, 2012 (being \$8.38). No adjustment has been made to the number of share awards granted during the year for dividends.

### ***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 term of the policy is from December 1, 2012 to December 1, 2013.

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.

The Chairman of our board is Mr. K. James Harrison, is an independent director. The primary responsibilities of our Chairman include:

- ensuring that our board is organized properly, functions effectively and meets its obligations and responsibilities in all aspects of its work;
- coordinating the affairs of the board and ensuring effective relations with directors, officers, securityholders, other stakeholders and the public; and
- interacting with our CEO to ensure that the wishes of the board are communicated.

Our independent board members hold regularly scheduled meetings, generally immediately following regularly scheduled board meetings at which members of management are not in attendance. Since the beginning of our most recently completed financial year, our independent directors have held three such 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	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. and 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 and reserves 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**

In 2012, the committees of our board were restructured to more equitably distribute responsibilities, and to improve costs and efficiencies. As a result, we consolidated our audit committee and reserves committee into our audit and reserves committee and our governance and nominating committee and our compensation committee into our governance and compensation committee. Our audit and reserves committee also had a fixed cost sub-committee whose mandate was to examine our fixed operating and general and administrative cost structure. All committee



members 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 at [www.zargon.ca](http://www.zargon.ca).

### ***Audit and Reserves Committee***

The members of the audit and reserves committee are: Mr. Kitagawa (Chairman), Ms. McKenzie, Mr. Merritt 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;
- meeting with the external auditors independently of our management;
- 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 Compensation Committee***

The members of the governance and nominating committee are: Mr. Peplinski (Chair), Mr. Zawalsky and Mr. Harrison. The governance and compensation 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;
- assessing, at least annually, the effectiveness of the board and its committees;
- 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.

### ***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 four 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 at [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 compensation 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 Compensation Committee*" for a summary of the committee's mandate. The governance and compensation committee is composed entirely of independent directors. In accordance with the mandate of the governance and compensation 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 compensation 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 compensation 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, 2012, 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, except as is disclosed herein.

## **ADDITIONAL INFORMATION**

We undertake to provide, upon request, a copy of our 2012 annual financial report, containing financial information in the management's discussion and analysis of financial condition and results of operations and the 2012 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 and reserves committee and the fees paid to Ernst & Young LLP in 2012. 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 and special 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: April 12, 2013