



**Governance and Compensation Committee**

**Mandate and Terms of Reference**

**Approved by the Board of Directors**

**May 14, 2012**

## ZARGON OIL & GAS LTD.

### GOVERNANCE AND COMPENSATION COMMITTEE

#### MANDATE AND TERMS OF REFERENCE

##### **Role and Objective**

The Governance and Compensation Committee (the "**Committee**") is appointed by the Board of Directors (the "**Board**") of Zargon Oil & Gas Ltd. ("**Zargon**" or the "**Corporation**"), to which the Board has delegated its responsibility by reviewing matters relating to the corporate governance of the Corporation and the human resource policies and compensation of the directors, officers and employees of the Corporation and its subsidiaries in the context of the budget and business plan of the Corporation.

##### **Membership of the Committee**

1. The Committee will be comprised of at least three (3) directors of the Corporation or such greater number as the Board may determine from time to time and a majority of the members of the Committee shall be "independent" (as such term is defined for purposes of National Policy 58-201 – Corporate Governance Guidelines).
2. The Board may from time to time designate one of the members of the Committee to be the Chair of the Committee.

##### **Mandate and Responsibilities of the Committee**

3. The Committee shall, in addition to any other duties and responsibilities specifically delegated to it by the Board, generally assume responsibility for developing the approach of the Corporation to matters concerning corporate governance and compensation and, from time to time, shall review and make recommendations to the Board as to such matters. Specifically, the Committee will have the authority and responsibility for:
  - (a) Governance Matters:
    - (i) Provide oversight and recommendations in each of the following areas of activity that will in no way limit or detract from Board and management responsibilities in these matters:
      - (A) Adoption of a corporate strategy and a strategic planning process;
      - (B) Adoption, on an annual basis, of corporate objectives;

- (C) Identification of the Corporation's principal business risks and the system to manage such risks;
  - (D) Senior management succession planning, including the appointment, training and monitoring thereof;
  - (E) The disclosure policy for the Corporation.
- (ii) To review, and to recommend to the Board for approval, the composition, membership and mandates of the Board Committees, with a view that Board Committees be generally composed of outside Directors, a majority of whom are independent Directors.
  - (iii) To develop, for the review and approval of the Board, the corporate governance guidelines outlining the duties and responsibilities of the Board.
  - (iv) To review, and to recommend to the Board for approval, the mandate of the Board.
  - (v) To review, for approval of the Board, the position description outlining the duties and responsibilities of the Chairman of the Board and the President and Chief Executive Officer ("CEO"), as prepared by them and to review their performance at least annually.
  - (vi) To act as the Committee and review at least annually, with the Chairman of the Board and the CEO, the make-up and size of the Board and recommend to the Board all nominees to the Board. The Committee will also develop, for Board approval, the guidelines for the nominating process which shall include, without limitation, 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.
  - (vii) To ensure that an appropriate orientation and education program is provided to new Board members.
  - (viii) To develop, for the review and approval of the Board, the Code of Business Conduct for the Corporation and all of the subsidiaries thereof.
  - (ix) Annually, to conduct with the Chairman of the Board and the CEO, an assessment of the effectiveness of the Board and the

Committees of the Board, and to report on such assessment to the full Board.

- (x) To consider, with the Chairman of the Board, any requests by individual Directors to engage outside advisors at the expense of the Corporation.
  - (xi) To review, and recommend to the Board for approval, the corporate governance report, including a description of the Corporation's system of corporate governance, for inclusion in the Information Circular of the Corporation.
  - (xii) To consider any other matters which would assist the Directors to meet their corporate governance responsibilities, including adherence to any appropriate governance guidelines established by the securities regulatory authorities in Canada or other regulatory bodies, and to this end, monitor, on a continuous basis, regulatory law and guidelines in respect of governance matters.
- (b) Compensation Matters:
- (i) Approve the compensation of the senior officers of the Corporation, including new appointments of senior officers, terminations and severance arrangements, annual compensation packages and related terms of employment, bonuses and employment contracts.
  - (ii) Approve the terms of short term incentive plans, if any, including performance measurements used.
  - (iii) Approve the terms of long term incentive plans, if any, annual grant awards under the plan and the nature of the awards.
  - (iv) When and as desired, engage an independent compensation consultant to report and assess the appropriateness and competitiveness of the Corporation's employee compensation programs, practices and arrangements. The independent consultant's report will be reviewed with the CEO.
  - (v) Annually, to review the adequacy and form of compensation of the Directors to ensure the compensation realistically reflects the responsibilities and risk involved in being an effective Director and make appropriate recommendations to the Board for approval.
  - (vi) Review annually with the CEO and Chairman of the Corporation the compensation arrangements relevant to their performance and the performance of individual senior officers.

- (vii) Review and recommend disclosure provided in publicly circulated documents in respect of compensation information.
- (viii) The Committee shall ensure that a measurement process is in place against which performance of the senior officers can be measured.

### **Meeting and Administrative Matters**

1. Meetings of the Committee should be scheduled to take place at least three (3) times per year. Special meetings may be convened as required upon the request of the Committee Chairman or the CEO. The CEO shall attend meetings of the Committee, unless otherwise excused from all or part of any such meeting by the Chairman;
2. A majority of the members of the Committee shall constitute a quorum. No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. Meetings may occur via telephone or teleconference;
3. Any members of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a director. The Board of directors may fill vacancies on the Committee by appointment from among its members. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, each member of the Committee shall hold such office until the close of the next annual meeting of shareholders following appointment as a member of the Committee;
4. The Committee may invite such officers, directors and employees of the Corporation as it may see fit from time to time to attend at meetings of the Committee and assist thereat in the discussion and consideration of the matters being considered by the Committee;
5. The time at which and place where the meetings of the Committee shall be held and the calling of meetings and the procedure in all respects at such meetings shall be determined by the Committee, unless otherwise determined by the by-laws of the Corporation or by resolution of the Board;
6. Unless otherwise designated by the Board, the members of the Committee shall elect a Chairman from among the members and the Chairman shall preside at all meetings of the Committee. The Chairman of the Committee shall have a second and deciding vote in the event of a tie. In the absence of the Chairman, the members of the Committee shall appoint one of their members to act as Chairman. Notwithstanding the foregoing, in all circumstances the Chairman must be an outside director, unrelated to the Corporation;

7. Minutes of the Committee will be recorded and maintained and circulated to directors who are not members of the Committee or otherwise made available at a subsequent meeting of the Board;
8. Agendas, approved by the Chair, will be circulated to Committee members along with background information on a timely basis prior to the Committee meetings;
9. The Committee may obtain information from any employee of the Corporation and the Corporation's agents that it may require to carry out this mandate. The Committee may retain persons having special expertise and may obtain independent professional advice to assist in fulfilling its responsibilities at the expense of the Corporation, as determined by the Committee;
10. Any issues arising from these meetings that bear on the relationship between the Board and management should be communicated to the Chairman of the Board by the Committee Chair; and
11. Review annually the Committee Mandate and Terms of Reference and recommend any changes to the Board.