ZARGON ENERGY TRUST

Notice of
Annual and Special Meeting of Unitholders
to be held on Wednesday, April 22, 2009

The Annual and Special Meeting of the unitholders of Zargon Energy Trust will be held in the Strand/Tivoli Room of the Metropolitan Conference Centre, 333 – 4th Avenue S.W., Calgary, Alberta on Wednesday, April 22, 2009 at 3:00 p.m. (Calgary time) to:

1. receive and consider our financial statements for the year ended December 31, 2008, together with the report of the auditors;

2. fix the number of directors of Zargon Oil & Gas Ltd. to be elected at the meeting at seven members;

3. elect seven directors of Zargon Oil & Gas Ltd.;

4. appoint the auditors and to authorize the directors to fix their remuneration as such;

5. consider, and if thought advisable, to pass, an ordinary resolution approving a new trust unit rights incentive plan for Zargon Energy Trust; and

6. 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.

If you are unable to attend the meeting in person we request that you date and sign the enclosed form of proxy and mail it to or deposit it with Valiant Trust Company, Suite 310, 606 – 4th Street S.W., Calgary, Alberta T2P 1T1. In order to be valid and acted upon at the meeting, forms of proxy must be returned to the aforesaid address not less than 24 hours before the time for holding the meeting or any adjournment thereof.

Only unitholders of record at the close of business on March 18, 2009 will be entitled to vote at the meeting, unless that unitholder has transferred any units subsequent to that date and the transferee unitholder, not later than 10 days before the meeting, establishes ownership of the units and demands that the transferee's name be included on the list of unitholders.

DATED at Calgary, Alberta this 18th day of March, 2009.

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

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

ZARGON ENERGY TRUST

Information Circular - Proxy Statement
for the Annual and Special Meeting to be held on April 22, 2009

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 Wednesday, April 22, 2009 in the Strand/Tivoli Room of the Metropolitan Conference Centre, 333 – 4th Avenue S.W., Calgary, Alberta, and at any adjournment thereof. Forms of proxy must be addressed to and reach Valiant Trust Company, Suite 310, 606 – 4th Street S.W., Calgary, Alberta T2P 1T1, not less than 24 hours before the time for holding the meeting or any adjournment thereof. Only unitholders of record at the close of business on March 18, 2009 will be entitled to vote at the meeting, unless that unitholder has transferred any trust units subsequent to that date and the transferee unitholder, not later than 10 days before the meeting, establishes ownership of the trust units and demands that the transferee's name be included on the list of unitholders.

We have two outstanding types of securities that entitle holders to vote generally at meetings of unitholders, being trust units and special voting units. Each trust unit outstanding on the record date is entitled to one vote. A single special voting unit was issued to Valiant Trust Company as trustee under a voting and exchange trust agreement for the benefit of holders of exchangeable shares issued by our subsidiary, Zargon Oil & Gas Ltd. in connection with a plan of arrangement which was effective July 15, 2004. This special voting unit is entitled to the number of votes equal to the number of trust units for which each exchangeable share is exchangeable into on the record date. The trust units and the special voting unit vote together as a single class on all matters. Valiant Trust Company is required to vote the special voting unit in the manner that holders of exchangeable shares instruct, and to abstain from voting on the exchangeable shares for which Valiant Trust Company does not receive instructions.

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

The persons named in the enclosed form of proxy are officers of Zargon Oil & Gas Ltd. **As a unitholder you have the right to appoint a person, who need not be a unitholder, 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 Trust Units

The information set forth in this section is of significant importance to you if you do not hold your trust units in your own name. Only proxies deposited by unitholders whose names appear on our records as the registered holders of trust units can be recognized and acted upon at the meeting. If trust units are listed in your account statement provided by your broker, then in almost all cases those trust units will not be registered in your name on our records. Such trust units will likely be registered under the name of your broker or an agent of that broker. In Canada, the vast majority of such trust units 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. Trust units 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 trust units.

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 trust units are voted at the meeting. Often, the form of proxy supplied by your broker is identical to the form of proxy provided to registered unitholders. However, its purpose is limited to instructing the registered unitholder 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 to vote your trust units. They then tabulate the results of all instructions received and provide appropriate instructions respecting the voting of trust units 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 trust units directly at the meeting as the proxy must be returned to them well in advance of the meeting in order to have the trust units voted.

Voting By Holders Of Exchangeable Shares

Valiant Trust Company holds one special voting unit. This special voting unit is entitled to a number of votes at the meeting equal to the aggregate number of outstanding exchangeable shares. Each holder of exchangeable shares is entitled to give Valiant Trust Company voting instructions for a number of votes equal to the number of that holder's exchangeable shares. A voting direction is the means by which a holder of exchangeable shares may authorize the voting of your voting rights at the meeting. Valiant Trust Company will exercise each vote only as you directed on the voting direction. In the absence of your instructions to voting, Valiant Trust Company will not exercise your votes. You may also instruct Valiant Trust Company to give a proxy entitling your designee of the holder to vote personally the relevant number of votes or to grant to our management a proxy to vote those votes. The procedures for holders of exchangeable shares to instruct Valiant Trust Company about voting at the meeting are explained in the "*Voting Direction for Holders of Exchangeable Shares*" that has been provided to holders of exchangeable shares with this information circular – proxy statement.

Revocability of Proxy

You may revoke your proxy at any time prior to a vote. If you or the person you give your proxy attends 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 and employees who will not be remunerated therefor.

Exercise of Discretion by Proxy

The trust units 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 trust units will be voted on any poll in accordance with the specification so made. If you do not provide instructions your trust units 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 UNITS AND PRINCIPAL HOLDERS THEREOF

We are authorized to issue an unlimited number of trust units and an unlimited number of special voting units without nominal or par value which may be issued for such consideration as may be determined by our board of directors. As at March 18, 2009, there were 18,590,759 trust units and one special voting unit outstanding. As a holder of trust units you are entitled to one vote for each trust unit you own. As a holder of exchangeable shares you are effectively entitled to 1.48838 votes for each exchangeable share you own. As at March 18, 2009, there were 1,849,589 exchangeable shares issued and outstanding which are effectively entitled to 2,752,891 votes.

To the best of the knowledge of our directors and executive officers, as at March 18, 2009, the following persons or companies beneficially owned, or controlled or directed, directly or indirectly, trust units or exchangeable shares entitled to more than 10% of the votes which may be cast at the meeting:

Name	Number of Trust Units Beneficially Owned or Controlled or Directed	Percentage of Issued and Outstanding Trust Units (1)
Sentry Select Capital Corp.	2,755,608	12.9%

Note:

(1) The percentage of issued and outstanding trust units includes trust units issuable upon exchange of outstanding exchangeable shares. As at March 18, 2009, this information not being within our knowledge, has been obtained from an alternative monthly report dated August 11, 2008 and filed on SEDAR.

As at March 18, 2009, our directors and officers, as a group, beneficially owned, or controlled or directed, directly or indirectly, 843,282 trust units or approximately 4.5% of the issued and outstanding trust units and 540,434 exchangeable shares or approximately 29.2% of the issued and outstanding exchangeable shares or approximately 7.7% of the votes to be cast at the meeting.

MATTERS TO BE ACTED UPON AT THE MEETING

Election of Directors

Directors will be elected at the meeting. Our board of directors presently consists of seven members. It is proposed that the board of directors will be fixed at seven members and the persons referred to below will be nominated at the meeting. Each director elected will hold office until the 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 fixing the board of directors at seven members, and in favour of the election as directors of the seven nominees set forth below:

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

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

The following information relating to the proposed nominees is based partly on our records and partly on information received by us from the nominees, and sets forth the names, ages and cities of residence of the persons proposed to be nominated for election as our directors, their committee memberships, the date on 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 and the number of trust unit incentive rights held as at March 18, 2009 in respect of 2008 and as of March 19, 2008 in respect of 2007:

Nominee for Election as Director	Age	Director Since	Trust Units/Exchangeable Shares Owned, Controlled or Directed		Trust Unit Incentive Rights		Total Market Value of Trust Units, Exchangeable Shares and Trust Unit Incentive Rights [1] $	
			2008	2007	2008	2007	2008	2007
K. James Harrison Oakville, Ontario Member of: - Compensation Committee - Governance and Nominating Committee	48	1995	5,547/ 24,327	47/ 24,727	40,000	27,300	$640,101	$702,666

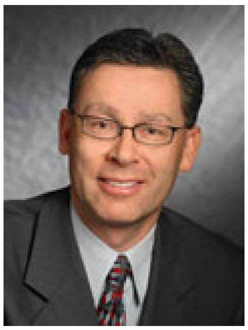
Mr. Harrison is our Chairman. He is the founder of K.J. Harrison & Partners Inc., a private client investment management firm in Toronto, Ontario. Prior to 2000, he was the Vice-Chairman and Chief Executive Officer of Connor Clark Ltd. He is a LL.B., M.B.A. graduate of the University of Western Ontario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

Nominee for Election as Director	Age	Director Since	2008	2007	2008	2007	2008	2007
Craig H. Hansen Calgary, Alberta	52	1992	513,354/ 256,860	363,943/ 277,560	216,000	192,000	$13,730,457	$15,409,953

Mr. Hansen is our President and Chief Executive Officer and has been our President since our initial public offering in 1993. 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 serves on the Board of Directors of Canadian Association of Petroleum Producers and is a member of the Board of Directors of Lockerbie & Hole Inc., one of Canada's largest construction firms, providing services to the industrial, civil, municipal and institutional market sectors.

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.

Nominee for Election as Director	Age	Director Since	Trust Units/Exchangeable Shares Owned, Controlled or Directed		Trust Unit Incentive Rights		Total Market Value of Trust Units, Exchangeable Shares and Trust Unit Incentive Rights [(1)] $	
			2008	2007	2008	2007	2008	2007
Kyle D. Kitagawa Calgary, Alberta Member of: - Audit Committee (Chairman) - Reserves Committee	48	2001	19,851/ 23,475	9,851/ 23,475	10,000	20,000	$839,942	$896,351



Mr. Kitagawa is the Managing Director, North River Capital Corp., a private corporation. Mr. Kitagawa brings over 20 years experience in commodity trading, equity investing, and structured finance in both energy and energy intensive industries. Prior to April 2003, he held senior executive positions in a global energy trading and capital corporation. Mr. Kitagawa serves on the board of ProspEx Resources Ltd. He is also the Chairman of Canadian Energy Services L.P., Livingston Energy 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.

Margaret A. McKenzie Calgary, Alberta Member of: - Audit Committee - Governance and Nominating Committee	47	2007	6,600/ Nil	4,600/ Nil	20,000	20,000	$101,178	$96,784

Ms. McKenzie is the Chief Financial Officer, Range Royalty Management Ltd. (general partner of Range Royalty Limited Partnership, a private royalty partnership) and Spur Resources Ltd. (a private oil and natural gas exploration and development company). 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 Trust (a public energy trust) and Endurance Energy Ltd. (a private oil and natural gas exploration and development company).

Nominee for Election as Director	Age	Director Since	Trust Units/Exchangeable Shares Owned, Controlled or Directed		Trust Unit Incentive Rights		Total Market Value of Trust Units, Exchangeable Shares and Trust Unit Incentive Rights [1] $	
			2008	2007	2008	2007	2008	2007
Jim Peplinski Calgary, Alberta Member of: - Compensation Committee (Chairman) - Reserves Committee	48	1997	42,398/ 59,026	Nil/ 59,026	10,000	20,000	$1,996,750	$1,682,069

Mr. Peplinski is the Executive Chairman, Humberview Group of Companies which owns Jim Peplinski's Leasemaster, nine automotive dealerships in Toronto and various real estate investments. He is also the VP Business Development, Calgary Flames Hockey Club as well as an investor and director of Wrangler West Energy Corp., a public oil and gas company.

J. Graham Weir Calgary, Alberta Member of: - Audit Committee - Reserves Committee (Chairman)	57	2004	83,669/ 159,329	80,369/ 159,329	7,700	11,000	$4,918,034	$6,152,241

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

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

Nominee for Election as Director	Age	Director Since	Trust Units/Exchangeable Shares Owned, Controlled or Directed		Trust Unit Incentive Rights		Total Market Value of Trust Units, Exchangeable Shares and Trust Unit Incentive Rights (1) $	
			2008	2007	2008	2007	2008	2007
Grant A. Zawalsky Calgary, Alberta Member of: - Governance and Nominating Committee (Chairman) - Compensation Committee	49	2000	25,000/ Nil	15,000/ Nil	10,000	20,000	383,250	$349,000

Mr. Zawalsky is a Partner, 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 Flagstone Energy Inc., NuVista Energy Ltd., Range Royalty Management Ltd. (general partner of Range Royalty Limited Partnership) and Spur Resources Ltd. and is Corporate Secretary of Bonavista Energy Trust, Echoex Ltd., Endurance Energy Ltd., Northpoint Energy Ltd. and Rock Energy Ltd. Mr. Zawalsky holds a B.Com and LL.B. from the University of Alberta and is a member of the Law Society of Alberta.

Note:

(1) The "Total Market Value of Trust Units, Exchangeable Shares and Trust Unit Incentive Rights" was determined by multiplying the number of trust units and the number of trust units issuable upon the exchange of our exchangeable shares held by the nominee as of March 18, 2009 in respect of 2008 and as of March 19, 2008 in respect of 2007 by the closing price of the trust units on the Toronto Stock Exchange on each such date ($15.33 and $21.04, respectively) and the number of trust units issuable upon exercise of the trust unit rights held multiplied by the difference between the closing price of the trust units on the Toronto Stock Exchange on each such date ($15.33 and $21.04, respectively) less the original grant price of the trust unit rights for in-the-money trust unit rights. No adjustment was made to the grant price to give effect to distributions paid since the right was granted.

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 unitholders' meeting represent less than a majority of the trust units voted and withheld, the nominee will submit his or her resignation promptly after the meeting, for the Governance and Nominating Committee's consideration. The Governance and Nominating Committee will make a recommendation to our board of directors after reviewing the matter, and our board of directors' decision to accept or reject the resignation offer will be disclosed to the public within 90 days of the applicable unitholders' 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 the unitholders and to authorize the directors to fix their remuneration as such. See "*Audit Committee Information*" in our annual information form for the year ended December 31, 2008 for additional information including a description of fees we paid to Ernst & Young LLP during the past 2 years.

Approval of New Trust Unit Incentive Plan

At the meeting, unitholders will be asked to consider and, if deemed advisable, approve the adoption by us of a new trust unit rights incentive plan, a copy of which is available on SEDAR at www.sedar.com. As part of a comprehensive review of our compensation policies, our board of directors has approved the adoption of the new trust unit rights incentive plan, subject to receipt of applicable unitholder approval. As of the date hereof, 1,519,775 rights to acquire trust units are outstanding under our current trust unit rights incentive plan. If the new trust unit rights incentive plan is approved, our existing plan will be discontinued and no further rights to acquire trust units will be granted thereunder. If the new trust unit rights incentive plan is not approved, our existing plan will remain in place.

The purpose of the new trust unit rights incentive plan is to provide certain directors, officers, consultants, employees and other service providers, as applicable, of us and any of our subsidiaries, partnerships, trusts or other controlled entities, with an opportunity to acquire rights to acquire our trust units as designated from time to time by our board of directors. This will provide an increased incentive for these persons to contribute to our future success and prosperity, thus enhancing the value of our trust units for the benefit of all of our unitholders.

Unless otherwise approved by our unitholders, 2,134,365 trust units will be reserved for issuance under the new trust unit rights incentive plan, which represents approximately 10% of our outstanding trust units as at March 18, 2009 (including trust units issuable upon exchange of outstanding exchangeable shares of Zargon Oil & Gas Ltd.). Notwithstanding the foregoing, unless otherwise approved by our unitholders, the aggregate number of rights granted under the new trust unit rights incentive plan will not exceed: (i) 2,134,365 trust units less the aggregate number of rights outstanding as of March 18, 2009 under our current trust unit rights incentive plan, which is currently 1,519,755 rights; plus (ii) the number of trust units for which rights have been granted under our current trust unit rights incentive plan that expire unexercised or are otherwise cancelled.

The aggregate number of rights granted to any single holder of rights under the new trust unit rights incentive plan may not exceed 2% of our 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 our subsidiaries, partnerships, trusts or other controlled entities exchangeable into our trust units which are the economical equivalent of our trust units including full voting rights) (the "Total Units"). The number of trust units: (a) issued to insiders, within a one year period; and (b) issuable to insiders, at any time under the new trust unit rights incentive plan, or when combined with all of our other securities based compensation arrangements, may not exceed 10% of the Total Units. The participation of non-management directors in the Plan is limited to 1% of the Total Units. In addition, each non-management director's participation is limited to an annual grant value of $100,000 or less, with the value of each grant calculated on the applicable grant date.

Rights granted under the new trust unit rights incentive plan may not be assigned or transferred other than for estate settlement purposes.

Subject to certain exceptions set forth in the new trust unit rights incentive plan, rights granted under the new trust unit rights incentive plan may be exercised within the later of: (a) a period of 5 years from the date upon which the rights were granted; (b) a period of 5 years from the date of grant plus 10 business days from the date that any black-out period imposed by our board of directors ends if a black-out period is in effect at the end of such 5 year period; and (c) the periods set forth in (a) and (b) above plus that number of days required such that period ends on business day if any of the periods referred to in (a) and (b) fall on a non-business day; provided that in no event may any rights be exercised after 6 years from the date of grant. Any rights which have not been exercised at the expiration of the exercise period will expire and become null and void. Notwithstanding the foregoing, rights may only be exercised after such rights have "vested" in accordance with the vesting schedule determined by our board of directors in its sole discretion.

The grant price per right granted under the new trust unit rights incentive plan shall be not less than the closing price of the trust units traded through the facilities of the Toronto Stock Exchange on the last trading day immediately preceding the grant date. In addition, the exercise price per right will be, at the election of the holder, either (i) the grant price or (ii) be calculated by deducting from the grant price all distributions when paid (whether payable in cash, in securities or in any other of our assets, but excluding a distribution of trust units pursuant to our trust indenture that is followed by a consolidation of the trust units pursuant to the trust indenture), made by us after the grant date where the aggregate amount of all distributions made in each calendar month represent a return of more than 0.833% of our recorded cost of oil and natural gas properties (excluding any ceiling test write downs and adjustments due to the conversion of exchangeable shares or any other fully paid exchangeable securities of our subsidiaries, partnerships, trusts or other controlled entities into trust units) less accumulated depreciation and depletion and any future income tax liability associated with such oil and natural gas properties at the end of the preceding quarter, on a per trust unit basis (calculated based on the outstanding trust units plus trust units reserved for issuance upon the exchange of outstanding exchangeable shares and other fully paid exchangeable securities of our subsidiaries, partnerships, trusts or other controlled entities). For greater certainty, where a grant date falls other than on the first day of a calendar month, the per trust unit amount of the distribution deducted from the grant price for that calendar month shall be pro-rated from the grant date to the end of such calendar month. In no event shall the exercise price be less than $1.00.

The new trust unit rights incentive plan shall be administered by our board of directors. However, subject to compliance with applicable laws, our board of directors of may delegate the administration of the new trust unit rights incentive plan (or any part thereof) to a committee of directors appointed from time to time by our board of directors or to our President and Chief Executive Officer pursuant to rules of procedure fixed by our board of directors. If the board delegates the administration of the new trust unit rights incentive plan (in whole or in part) to a committee or to the CEO, references in the new trust unit rights incentive plan to the "board of directors" are to such committee or CEO, where applicable.

We have the right to amend, modify or terminate the new trust unit rights incentive plan and any outstanding rights without unitholder approval subject to approval of the Toronto Stock Exchange. Notwithstanding the foregoing, the new trust unit rights incentive plan and any outstanding rights, may not be amended without unitholder approval to: (a) make any amendment to the new trust unit rights incentive plan to increase the number of trust units issuable on exercise of outstanding rights; (b) reduce the exercise price of any outstanding rights held by insiders; (c) extend the term of any outstanding rights beyond the original expiry date of such rights; (d) make any amendment to the new trust unit rights incentive plan that would permit a holder to transfer or assign rights to a new beneficial holder other than in the case of death of the holder; (e) any amendment to increase the number of trust units that may be issued to insiders above the restrictions contained in the new trust unit rights incentive plan; (f) any amendment to the limits on non-management directors contained in the new trust unit rights incentive plan; or (g) amend the amendment provisions of the new trust unit rights incentive plan to delete any of the foregoing matters requiring unitholder approval. In addition, no amendment to the new trust unit rights incentive plan or rights granted pursuant to the new trust unit rights incentive plan may be made without the consent of the holder, if it adversely alters or impairs any right previously granted to such holder under the new trust unit rights incentive plan.

Upon any holder of rights ceasing to be a director, officer, consultant or other service provider for any reason whatsoever, other than the death or disability of such holder, during the exercise period, all rights which have not vested at such date shall terminate and become null and void, and such holder of rights shall have until the earlier of: (a) 30 days from the date such holder of rights ceased to be a director, officer, consultant or other service provider plus 10 business days from the date that any black-out period ends if a black-out period is in effect at the end of such 30 day period; or (b) the end of the exercise period, to exercise the portions of any outstanding vested rights, and at the expiration of such 30 day period, any vested rights which have not been so exercised shall terminate and become null and void; provided that upon the termination of any employee for cause, our board of directors may, in its sole discretion, determine that all vested rights which have not been exercised shall immediately terminate and become null and void. Notwithstanding the foregoing, in the event that these provisions conflict with or are inconsistent with the express terms of a written employment agreement between an executive officer and, the terms of such executive employment agreement shall govern.

Upon the death of any individual holder of rights during the exercise period, all rights which have not vested at such date shall terminate and become null and void, and the executor, administrator or personal representative of such holder of rights shall have until the earlier of: (a) 6 months from the date of the death of such holder of rights; or (b) the end of the exercise period, to exercise those outstanding rights which had vested as at the date of death, and at the expiration of such 6 month period, any vested rights which have not been exercised shall terminate and become null and void.

The new trust unit rights incentive plan contains anti-dilution provisions which allow us to make such adjustments to the rights outstanding under the new trust unit rights incentive plan as our board of directors may consider appropriate in the circumstances.

Vesting of all unexercised rights may be exercised upon the effective date of a "change of control" (as defined in the new trust unit rights incentive plan) of us.

At the meeting, unitholders will be asked to consider and, if deemed advisable, to approve the following ordinary resolution to approve the adoption of the new trust unit rights incentive plan:

> "BE IT RESOLVED as an ordinary resolution of the unitholders of Zargon Energy Trust that the 2009 trust unit rights incentive plan, substantially as described in the information circular - proxy statement of Zargon Energy Trust dated March 18, 2009, be and the same is hereby approved and authorized."

In order for the foregoing resolution to be passed, it must be approved by a simple majority of the aggregate votes cast by unitholders who vote in person or by proxy at the meeting. The persons named in the enclosed form of proxy, if named as proxy, intend to vote for the approval of the new trust unit rights incentive plan.

DIRECTORS COMPENSATION

Compensation of Directors

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

The main objectives of our compensation plan for directors are to attract and retain the services of the most qualified individuals and to compensate our directors in a manner that is commensurate with the risks and responsibilities assumed in board and committee membership and at a level that is similar to the compensation paid to directors of a peer group of oil and gas royalty trusts. In addition, our philosophy of using compensation to foster a culture of ownership also extends to our director compensation policies. Our board believes it is important that directors demonstrate their commitment to our stewardship through trust unit ownership. As a result, in 2006, our board of directors approved a requirement that all independent directors be required to hold trust units or exchangeable shares with the total value aggregating not less than four times their annual retainer. New directors have two years from being appointed to the board to comply with this policy. See "*Trust Unit Ownership Guidelines*" below.

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

The following table sets forth the principal elements of the compensation plan for the year ended December 31, 2008.

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

Our outside directors are also eligible to receive rights granted under our trust unit rights incentive plan, provided that the aggregate number of rights granted to independent directors cannot exceed 1% of the issued and outstanding trust units (plus the number of trust units that may be issued on the exchange of any outstanding exchangeable shares). If the new trust unit rights incentive plan is approved by our unitholders at the meeting, future participation of non-management directors in the Plan is limited to 1% of the Total Units. In addition, each non-management director’s participation is limited to an annual grant value of $100,000 or less, with the value of each grant calculated on the applicable grant date.

Upon appointment to the Chairman of our board of directors on November 1, 2007, Mr. Harrison was granted a one-time grant of 30,000 trust unit rights to acquire trust units pursuant to our trust unit rights incentive plan. The right to purchase these units was granted in four instalments (6,000 trust unit rights in 2007 and 24,000 trust unit rights in 2008). There were no other trust unit rights to acquire trust units granted to the outside directors in 2008.

As at December 31, 2008, our outside directors held an aggregate of 131,000 trust unit incentive rights, which represented 0.7% of the issued and outstanding trust units as at such date. For information regarding the outstanding rights held by our independent directors, 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, 2008. Directors' fees are paid on a quarterly basis.

Name	**Board Retainer ($)**	**Chair of Board Retainer ($)**	**Committee Chair Retainer ($)**	**Meeting Attendance Fees ($)**	**Total Fees Earned ($)**
K. James Harrison	Nil	45,000	Nil	21,000	66,000
Kyle D. Kitagawa	20,000	Nil	10,000	24,000	54,000
James J. Lawson (1)	10,000	Nil	Nil	9,000	19,000
John O. McCutcheon (2)	20,000	Nil	Nil	15,000	35,000
Margaret A. McKenzie	20,000	Nil	Nil	25,500	45,500
Jim Peplinski	20,000	Nil	5,000	18,000	43,000
J. Graham Weir	20,000	Nil	5,000	22,500	47,500
Grant A. Zawalsky	20,000	Nil	5,000	22,500	47,500

Notes:

(1) Mr. Lawson did not stand for re-election at our annual unitholders meeting held on April 23, 2008.

(2) Mr. McCutcheon resigned from our board of directors effective December 17, 2008.

Summary Compensation Table

The following table sets forth information concerning the compensation paid to our independent directors for the year ended December 31, 2008. Please refer to "*Executive Compensation*" for details regarding the disclosure paid to our President and Chief Executive Officer, who is also one of our directors.

Name	**Fees earned ($)**	**Share-based awards ($)**	**Option-based awards (1) ($)**	**Non-equity incentive plan compensation ($)**	**Pension value ($)**	**All other compensation ($)**	**Total ($)**
K. James Harrison	66,000	Nil	50,635	Nil	Nil	Nil	116,635
Kyle D. Kitagawa	54,000	Nil	Nil	Nil	Nil	Nil	54,000
James J. Lawson (2)	19,000	Nil	Nil	Nil	Nil	Nil	19,000
John O. McCutcheon (3)	35,000	Nil	Nil	Nil	Nil	Nil	35,000
Margaret A. McKenzie	45,500	Nil	Nil	Nil	Nil	Nil	45,500
Jim Peplinski	43,000	Nil	Nil	Nil	Nil	Nil	43,000
J. Graham Weir	47,500	Nil	Nil	Nil	Nil	Nil	47,500
Grant A. Zawalsky (4)	47,500	Nil	Nil	Nil	Nil	Nil	47,500

Notes:

(1) Pursuant to our trust unit rights incentive plan, Mr. Harrison was granted rights to acquire a total of 24,000 trust units in 2008, 8,000 trust unit rights were granted on March 17, 2008 at a price of $22.10, 8,000 trust unit rights were granted on May 21, 2008 at a price of $26.00 and 8,000 trust unit rights were granted on August 19, 2008 at a price of $21.55. Each trust unit right grants vests in three parts, one-third as of January 1, 2009, one-third as of January 1, 2010 and the remaining one-third on January 1, 2011. The value disclosed represents the fair value of these rights using the Black-Scholes pricing model valued on the grant date.

(2) Mr. Lawson did not stand for re-election at our annual unitholders meeting held on April 23, 2008.

(3) Mr. McCutcheon resigned from our board of directors effective December 17, 2008.

(4) 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 and Zargon Oil & Gas Ltd.

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 for the year ended December 31, 2008.

	Option-based Awards				Share-based Awards	
Name	**Number of securities underlying unexercised trust unit rights (#)**	**Trust unit right exercise price (1) ($)**	**Trust unit right expiration date**	**Value of unexercised in-the-money trust unit right (2) ($)**	**Number of shares or units of shares that have not vested (#)**	**Market or payout value of share-based awards that have not vested ($)**
K. James Harrison	3,400 3,300 3,300 6,000 8,000 8,000 8,000	22.00 27.40 31.09 22.75 22.10 26.00 21.55	January 31, 2010 January 31, 2010 January 31, 2010 January 31, 2012 January 31, 2013 January 31, 2013 January 31, 2013	Nil Nil Nil Nil Nil Nil Nil	N/A	N/A
Kyle D. Kitagawa	10,000 3,400 3,300 3,300	17.70 22.00 27.40 31.09	January 31, 2009 January 31, 2010 January 31, 2010 January 31, 2010	Nil Nil Nil Nil	N/A	N/A
Margaret A. McKenzie	5,000 5,000 5,000 5,000	24.61 27.91 26.65 22.75	January 17, 2012 January 31, 2012 January 31, 2012 January 31, 2012	Nil Nil Nil Nil	N/A	N/A
Jim Peplinski	10,000 3,400 3,300 3,300	17.70 22.00 27.40 31.09	January 31, 2009 January 31, 2010 January 31, 2010 January 31, 2010	Nil Nil Nil Nil	N/A	N/A
J. Graham Weir	3,300 2,200 2,200 3,300	17.70 22.00 27.40 31.09	January 31, 2009 January 31, 2010 January 31, 2010 January 31, 2010	Nil Nil Nil Nil	N/A	N/A
Grant A. Zawalsky	10,000 3,400 3,300 3,300	17.70 22.00 27.40 31.09	January 31, 2009 January 31, 2010 January 31, 2010 January 31, 2010	Nil Nil Nil Nil	N/A	N/A

Notes:

(1) Pursuant to our trust unit rights incentive plan, holders of rights have the option to elect to have the exercise price per right reduced to account for distributions paid on our trust units subsequent to the grant date, provided that certain performance benchmarks are achieved. No adjustment was made to the grant price to give effect to distributions paid since the right was granted.

(2) Calculated based on the difference between the closing price of the trust units on the Toronto Stock Exchange on December 31, 2008 (being $17.44) less the original grant price of the trust unit rights for in-the-money trust unit rights. No adjustment was made to the grant price to give effect to distributions paid since the right was granted.

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

The following table sets forth for each of our independent directors the value of option-based awards and share-based awards which vested during the year ended December 31, 2008 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2008.

Name	Option-based awards – Value vested during the year (1) ($)	Share-based awards – Value vested during the year ($)	Non-equity incentive plan compensation – Value earned during the year ($)
K. James Harrison	1,786	N/A	N/A
Kyle D. Kitagawa	1,166	N/A	N/A
Margaret A. McKenzie	527	N/A	N/A
Jim Peplinski	1,166	N/A	N/A
J. Graham Weir	1,166	N/A	N/A
Grant A. Zawalsky	1,166	N/A	N/A

Note:

(1) Calculated based on the difference between the closing price of the trust units on the Toronto Stock Exchange on the vesting date and the grant price of the rights on the vesting date. No adjustment was made to the grant price to give effect to distributions paid since the right was granted.

Trust Unit Ownership Guidelines

All of our independent directors are required to hold trust units or exchangeable shares with the total value aggregating not less than four times their annual retainer and, in the case of our Chief Executive Officer not less than two times his base salary. New directors have two years from being appointed to our board of directors to comply with this policy. Once a director has acquired an adequate number of trust units or exchangeable shares to comply with the policy and continues to hold those units or exchangeable shares the director will be deemed to be in compliance with the policy regardless of the current market value of the director's holdings.

The following table sets out the ownership levels of the Chief Executive Officer and each of our current independent directors as at December 31, 2008.

Name	Ownership Guideline		Ownership Value(1)		Guideline Met or Investment Required to Meet Guideline
	Multiple	Amount ($)	Multiple	Amount ($)(2)	
Craig H. Hansen	2 x base salary	590,000	26 times	15,370,866	Yes
Independent Directors:					
K. James Harrison	4 x retainer	180,000	3.9 times	706,164	Yes
Kyle D. Kitagawa	4 x retainer	80,000	9.5 times	759,882	Yes
Margaret A. McKenzie	4 x retainer	80,000	1.4 times	115,104	Yes
Jim Peplinski	4 x retainer	80,000	27.7 times	2,218,101	Yes
J. Graham Weir	4 x retainer	80,000	67.4 times	5,393,040	Yes
Grant A. Zawalsky	4 x retainer	80,000	3.3 times	261,600	Yes

Notes:

(1) Includes trust units and trust units issuable upon the exchange of our exchangeable shares held by the director.

(2) Based on the closing price of the trust units on the Toronto Stock Exchange on December 31, 2008 (being $17.44).

Meeting Attendances

The following table outlines the attendance record of our directors in 2008.

Name	Board of Directors Meeting Attendance Attended/Total	Committee Meeting Attendance Attended/Total
K. James Harrison	10/10	4/4
Craig H. Hansen	10/10	11/11
Kyle D. Kitagawa	10/10	6/6
James J. Lawson (1)	3/4	3/3
John O. McCutcheon (2)	8/10	2/3
Margaret A. McKenzie	10/10	7/7
Jim Peplinski	9/10	3/4
J. Graham Weir	9/10	6/6
Grant A. Zawalsky	10/10	5/5

Notes:
(1) Mr. Lawson did not stand for re-election at our annual unitholders meeting held on April 23, 2008.
(2) Mr. McCutcheon resigned from our board of directors effective December 17, 2008.

EXECUTIVE COMPENSATION

Statement of Executive Compensation

For the year ended December 31, 2008, our named executive officers were:

Craig H. Hansen, President and Chief Executive Officer;
Brent C. Heagy, Executive Vice President and Chief Financial Officer;
Henry J. Baird, Vice President, Exploitation;
Brian G. Kergan, Vice President, Corporate Development and Reserves; and
Daniel A. Roulston, Executive Vice President, Engineering

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 trust unit incentive rights, a significant component of executive compensation. This approach is based on the assumption that the performance of our unit 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 unitholder interests – we align the goals of our executives with maximizing long term unitholder 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 unitholders' interests and with the execution of our business strategy;
- to evaluate executive performance on the basis of key measurements that correlate to long term unitholder value; and
- to tie compensation directly to those measurements and rewards based on achieving and exceeding predetermined objectives.

Compensation Decision-Making Process

The purpose of the Compensation Committee is to assist our board of directors in fulfilling its responsibilities by monitoring our compensation plans and practises and ensuring their congruence with our objectives and goals by assessing and making recommendations regarding compensation, benefits, short and long term incentive programs and employee retention.

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

All members of our Compensation Committee are independent directors.

Analysis of Compensation Practices of Competitors

Aggregate compensation for each executive officer is designed to be competitive. The Mercer Total Compensation Survey for the Petroleum Industry ("Mercer") was used to assist the Compensation Committee in its evaluation of compensation. The Mercer survey included data from 36 companies with an average of 101 employees and an average production rate of 17,522 barrels of oil equivalent per day ("Group 2") and 46 companies with an average of 23 employees and an average production rate of 2,920 barrels of oil equivalent per day ("Group 3/4"). Our 2007 statistics were 49 employees and approximately 8,600 barrels of oil equivalent per day, which placed us between the Group 2 and Group 3/4 categories.

The purpose of reviewing the Mercer data was to:

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

Elements of Compensation Plan

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

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

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

Base Salary

In setting the base salaries, the Compensation Committee, consistent with our long time policy, has targeted our executive's base salaries at a competitive range for comparable organizations in the oil and gas industry. Salaries reflect market conditions and levels of responsibility. Salaries of senior executive officers are determined utilizing salary survey information from comparator companies. In February of each year, our Chief Executive Officer makes salary recommendations to the 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, 2007 and December 31, 2008.

Name and principal position	2007 Base Salary ($)	2008 Base Salary ($)	% Increase
Craig H. Hansen President and CEO	280,669	295,000	5.1
Brent C. Heagy Executive Vice President and CFO	212,000	227,000	7.1
Henry J. Baird Vice President, Exploitation	195,000	205,000	5.1
Brian G. Kergan Vice President, Corporate Development and Reserves [1]	185,000	205,000	10.3

Name and principal position	2007 Base Salary ($)	2008 Base Salary ($)	% Increase
Daniel A. Roulston Executive Vice President, Engineering	210,000	221,000	5.2

Note:

(1) Mr. Kergan's 2008 base salary of $196,000 was approved by the Compensation Committee in February of 2008, however, he received a mid year salary increase of $9,000 to bring his 2008 base salary as of December 31, 2008 to a total of $205,000.

Based on the average for the Mercer median data for Group 2 and Group 3/4, Mercer had forecast an average annual base salary increase in 2008 of 6.3%. Our overall corporate increase was 6.2% but the average salary increases for our executive officer's was 6.5%. With the salary increase, base salaries in 2008 for our executive officers, generally reached the 50th percentile (median) of the comparable Group 2 and Group 3/4 companies.

Bonuses

Our Compensation Committee approves targeted amounts of annual bonuses for each of our executive officer's. The overall targeted bonus amount is determined based on market research prepared by Mercer. The Compensation Committee has traditionally benchmarked the overall bonus target as the average of the 50th and 75th percentile (Group 2 and Group 3/4 companies), however in 2008, Mercer changed the classification methodology and as a result the benchmark is now based on the average of the 50th and 75th percentile of organizations producing under 10,000 barrels of oil equivalent per day, which results in us aiming for performance better than average compared to its peers. If all targets are met, this methodology results in an amount that roughly aligns with industry benchmarking data. In 2008, our overall corporate targeted bonus amount was set at 24.1% of total salaries. The 2008 actual bonus was 23.4% of total salaries.

Predetermined target bonuses for our executive officer's range from 30 percent to 40 percent of annual salary. Actual bonuses paid as a percentage of 2008 salary are then adjusted from the target based on the achievement of overall corporate, team and an individual's specific contribution and performance.

The following table summarizes bonuses paid to our executive officer's for the years ended December 31, 2007 and December 31, 2008.

Name and principal position	2007 Bonus ($)	2008 Bonus ($)	2008 Bonus as a % of 2008 Base Salary
Craig H. Hansen President and CEO	74,407	107,970	36.6
Brent C. Heagy Executive Vice President and CFO (1)	67,893	78,953	34.8
Henry J. Baird Vice President, Exploitation	42,413	59,378	29.0
Brian G. Kergan Vice President, Corporate Development and Reserves (1) (2)	20,604	62,727	31.3
Daniel A. Roulston Executive Vice President, Engineering	53,655	69,132	31.3

Notes:

(1) The 2008 bonus amount does not include the special bonus of $20,000 that both Mr. Heagy and Mr. Kergan received for the successful completion of the acquisitions of Rival Energy Ltd. and Newpact Energy Corp.

(2) Brian G. Kergan commenced employment on August 16, 2007.

Trust Unit Rights Incentive Plan

Our trust unit incentive plan is designed to encourage ownership and entrepreneurship on the part of the senior management and other employees. The Compensation Committee believes that the plan aligns the interests of our executive officer's with unitholders by linking a component of executive compensation to the longer term performance of the trust units.

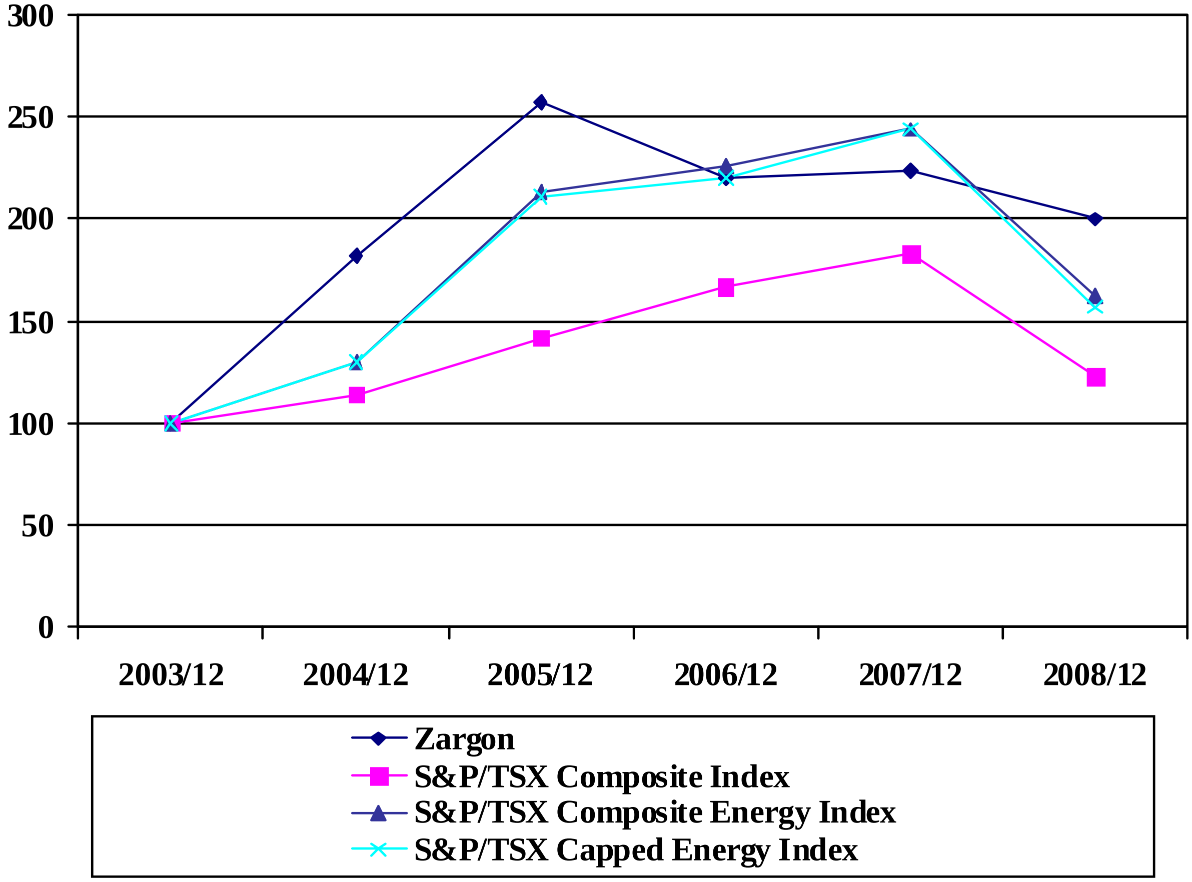
Executive management participate in the trust unit incentive plan. Subject to regulatory requirements, the terms and conditions of rights granted under the trust unit incentive plan are determined by our board of directors based on recommendations from the Compensation Committee. Trust unit incentive rights for executives are generally approved annually and are granted in four equal tranches after the release of our annual and quarterly results, subject to the imposition of trading black-out periods, in which case rights scheduled for grant will be granted subsequent to the end of the black-out period. Rights granted in 2008 vest over three years from the date of grant and expire five years from the date of grant.

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 trust units in the open market. Since the plan is available to all employees it has been successful in encouraging employees to become unitholders and promoting the principle of alignment with unitholders. The 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 2008. These amounts are included in the "*All Other Compensation*" on the Summary Compensation Table below.

Performance Graph

The following graph illustrates our five year cumulative shareholder return, as measured by the closing price of our trust units at the end of each financial year, assuming an initial investment of $100 on December 31, 2003, compared to the S&P/TSX Composite Index, the S&P/TSX Composite Energy Index and the S&P/TSX Capped Energy Trust Index, with all dividends and distributions reinvested**.**



	2003/12	2004/12	2005/12	2006/12	2007/12	2008/12
Zargon Energy Trust (1)	100	182	257	220	224	200
S&P/TSX Composite Index (2)	100	114	142	167	183	123
S&P/TSX Composite Energy Index (3)	100	130	213	226	244	162
S&P/TSX Capped Energy Index (4)	100	130	211	220	244	157

Notes:

(1) The Zargon Energy Trust Unitholder Return has been adjusted for the effective exchange of common shares for trust units in connection with the arrangement completed on July 15, 2004.

(2) The S&P/TSX Composite Index was previously called the TSE 300 Index.

(3) The S&P/TSX Composite Energy Index was previously called TSX Oil and Gas Producers Index.

(4) The S&P/TSX Capped Energy Trust Index was previously called the S&P/TSX Canadian Energy Trust Index.

Compensation for management is based on the achievement of certain pre-determined criteria at the beginning of each fiscal year. These criteria include capital efficiency measures (such as finding, development and acquisition costs), meeting of sustainability objectives (such as production, reserves and distributions on a per unit 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 trust units, especially near the end of 2008 with the impact of the decline of commodity prices and the overall impact on equity markets from the global decline in the economy and the related credit crisis.

Compensation of Named Executive Officers

The following table sets forth for the year ended December 31, 2008 information concerning the compensation paid to our Chief Executive Officer and Chief Financial Officer and the three most highly compensated executive officers (or the three most highly compensated individuals acting in a similar capacity), other than the CEO and CFO, at the end of the year ended December 31, 2008 whose total compensation was more than $150,000 (each a NEO and collectively, NEO's).

Name and principal position	Year	Salary ($)	Share-based awards ($)	Option-based awards[1] ($)	Non-equity incentive plan compensation ($)		Pension value ($)	All other compensation[2]	Total compensation ($)
					Annual incentive plans	Long-term incentive plans			
Craig H. Hansen President and Chief Executive Officer	2008 2007 2006	295,000 273,556 260,000	N/A N/A N/A	75,953 164,009 214,672	107,970 74,407 68,182	N/A N/A N/A	N/A N/A N/A	42,894 42,180 40,654	521,817 554,152 583,508
Brent C. Heagy Executive Vice President and Chief Financial Officer [3]	2008 2007 2006	227,000 212,000 200,000	N/A N/A N/A	42,141 72,164 94,456	98,953 67,893 63,636	N/A N/A N/A	N/A N/A N/A	31,098 25,281 23,332	399,192 377,338 381,424
Henry J. Baird Vice President, Exploitation [4]	2008 2007 2006	205,000 195,000 84,000	N/A N/A N/A	37,976 68,337 89,081	59,378 42,413 Nil	N/A N/A N/A	N/A N/A N/A	26,845 22,138 10,201	329,199 327,888 183,282
Brian G. Kergan Vice President, Corporate Development and Reserves [3] [5]	2008 2007	200,500 69,375	N/A N/A	37,976 64,917	82,767 20,604	N/A N/A	N/A N/A	24,379 8,330	345,622 163,226
Daniel A. Roulston Executive Vice President, Engineering	2008 2007 2006	221,000 210,000 200,000	N/A N/A N/A	42,141 72,164 94,456	69,132 53,655 54,545	N/A N/A N/A	N/A N/A N/A	32,332 24,130 22,706	364,605 359,949 371,707

Notes:

(1) The value disclosed represents the fair value of these rights using the Black-Scholes pricing model valued on the grant date.

(2) The amounts in this column represent perquisites and other taxable benefits.

(3) The 2008 Annual Incentive Plan amount includes a special bonus of $20,000 paid to each of Mr. Heagy and Mr. Kergan for the successful completion of the Rival Energy Ltd. and Newpact Energy Corp. corporate acquisitions.

(4) Henry J. Baird commenced employment on June 1, 2006 at 80% full time. On January 1, 2007, Mr. Baird increased his employment to 100%.

(5) Brian G. Kergan commenced employment on August 16, 2007.

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 the end of the year ended December 31, 2008.

	Option-based Awards				Share-based Awards	
Name	**Number of securities underlying unexercised trust unit rights (#)**	**Trust unit right exercise price [1] ($)**	**Trust unit rights expiration date**	**Value of unexercised in-the-money trust unit rights [2] ($)**	**Number of shares or units of shares that have not vested (#)**	**Market or payout value of share-based awards that have not vested ($)**
Craig H. Hansen	20,000	22.00	January 31, 2010	Nil	N/A	N/A
	20,000	27.40	January 31, 2010	Nil		
	20,000	31.09	January 31, 2010	Nil		
	15,000	29.93	January 23, 2011	Nil		
	15,000	31.10	January 31, 2011	Nil		
	15,000	33.05	January 31, 2011	Nil		
	15,000	24.90	January 31, 2011	Nil		
	15,000	24.61	January 17, 2012	Nil		
	15,000	27.91	January 31, 2012	Nil		
	15,000	26.65	January 31, 2012	Nil		
	15,000	22.75	January 31, 2012	Nil		
	12.000	22.10	January 31, 2013	Nil		
	12,000	26.00	January 31, 2013	Nil		
	12,000	21.55	January 31, 2013	Nil		
Brent C. Heagy	7,000	19.25	January 31, 2009	Nil	N/A	N/A
	8,800	22.00	January 31, 2010	Nil		
	8,800	27.40	January 31, 2010	Nil		
	8,800	31.09	January 31, 2010	Nil		
	6,600	29.93	January 23, 2011	Nil		
	6,600	31.10	January 31, 2011	Nil		
	6,600	33.05	January 31, 2011	Nil		
	6,600	24.90	January 31, 2011	Nil		
	6,600	24.61	January 17, 2012	Nil		
	6,600	27.91	January 31, 2012	Nil		
	6,600	26.65	January 31, 2012	Nil		
	6,600	22.75	January 31, 2012	Nil		
	6,800	22.10	January 31, 2013	Nil		
	6,600	26.00	January 31, 2013	Nil		
	6,600	21.55	January 31, 2013	Nil		
Henry J. Baird	9,000	31.10	January 31, 2011	Nil	N/A	N/A
	8,000	33.05	January 31, 2011	Nil		
	2,000	24.90	January 31, 2011	Nil		
	4,150	24.61	January 17, 2012	Nil		
	6,250	27.91	January 31, 2012	Nil		
	6,250	26.65	January 31, 2012	Nil		
	4,150	22.75	January 31, 2012	Nil		
	6,000	22.10	January 31, 2013	Nil		
	6,000	26.00	January 31, 2013	Nil		
	6,000	21.55	January 31, 2013	Nil		
Brian G. Kergan	12,500	26.65	January 31, 2012	Nil	N/A	N/A
	12,500	22.75	January 31, 2012	Nil		
	6,000	22.10	January 31, 2013	Nil		
	6,000	26.00	January 31, 2013	Nil		
	6,000	21.55	January 31, 2013	Nil		

	Option-based Awards				Share-based Awards	
Daniel A. Roulston	11,000 8,800 8,800 8,800 6,600 6,600 6,600 6,600 6,600 6,600 6,600 6,600 6,800 6,600 6,600	17.70 22.00 27.40 31.09 29.93 31.10 33.05 24.90 24.61 27.91 26.65 22.75 22.10 26.00 21.55	January 31, 2009 January 31, 2010 January 31, 2010 January 31, 2010 January 23, 2011 January 31, 2011 January 31, 2011 January 31, 2011 January 17, 2012 January 31, 2012 January 31, 2012 January 31, 2012 January 31, 2013 January 31, 2013 January 31, 2013	Nil Nil Nil Nil Nil Nil Nil Nil Nil Nil Nil Nil Nil Nil Nil	N/A	N/A

Notes:

(1) Pursuant to our trust unit rights incentive plan, holders of rights have the option to elect to have the exercise price per right reduced to account for distributions paid on our trust units subsequent to the grant date, provided that certain performance benchmarks are achieved. No adjustment was made to the grant price to give effect to distributions paid since the right was granted.

(2) Calculated based on the difference between the closing price of the trust units on the Toronto Stock Exchange on December 31, 2008 (being $17.44) less the original grant price of the trust unit rights for in-the-money trust unit rights. No adjustment was made to the grant price to give effect to distributions paid since the right was granted.

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, 2008.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by securityholders	1,653,525	$25.57	159,584
Equity compensation plans not approved by securityholders	Nil	Nil	Nil
Total	1,653,525		159,584

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, 2008 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2008.

Name	Option-based awards – Value vested during the year[(1)] ($)	Share-based awards – Value vested during the year ($)	Non-equity incentive plan compensation – Value earned during the year ($)
Craig H. Hansen	8,546	N/A	107,970
Brent C. Heagy	3,756	N/A	98,953
Henry J. Baird	Nil	N/A	59,378
Brian G. Kergan	1,302	N/A	82,767

Name	Option-based awards – Value vested during the year[1] ($)	Share-based awards – Value vested during the year ($)	Non-equity incentive plan compensation – Value earned during the year ($)
Daniel A. Roulston	3,756	N/A	69,132

Note:

(1) Calculated based on the difference between the closing price of the trust units on the Toronto Stock Exchange on the vesting date and the grant price of the rights on the vesting date. No adjustment was made to the grant price to give effect to distributions paid since the right 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 "*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 the 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 or Zargon Oil & Gas Ltd.;

- a successful "take-over bid" as defined in the *Securities Act* (Alberta), as amended, or any successor legislation thereto, pursuant to which the "offeror" would as a result of such take-over bid, if successful, beneficially own in excess of 50% or more of our then issued and outstanding Total Units;

- the issuance to or acquisition by any person, or group of persons acting in concert, of units or exchangeable shares which in the aggregate total 50% or more of our then issued and outstanding Total Units;

- a change in ownership of Zargon Oil & Gas Ltd. the effect of which is that a sufficient number of its voting shares taken on a fully diluted basis, necessary to elect a majority of directors to our board of directors are not beneficially held or under the direction or control of us;

- the sale of all or substantially all of the assets of Zargon Oil & Gas Ltd.; and

- our termination of the Zargon Energy Trust,

provided that, notwithstanding the application of any of the foregoing, a "Change of Control" shall be deemed to not have occurred:

- pursuant to an arrangement, merger or other form or reorganization of us where the holders of our outstanding voting securities or interests immediately prior to the completion of the reorganization will hold more than 90% of the outstanding voting securities or interests of the continuing entity upon completion of the reorganization, or if a majority of our board of directors determines that in substance the arrangement, merger or reorganization has occurred or the circumstances are such that a change of control should be deemed to not have occurred.

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

Termination Event	Applies to	Arrangement
Change of Control and Termination without cause or Constructive Dismissal or Involuntary Relocation	Craig H. Hansen President and Chief Executive Officer	Base Salary: to receive 18 months of base salary plus one months base salary for each full year of service to a maximum total retiring allowance of 24 months. Bonus Consideration: to receive the average of the last three annual bonuses divided by 12 and multiplied by the total number of months under the allotted retiring allowance. Benefits Plans: to receive a payment, less required withholdings, equal to twenty percent of the retiring allowance.
	Brent C. Heagy Executive Vice President and Chief Financial Officer Henry J. Baird Vice President, Exploitation Brian G. Kergan Vice President, Corporate Development and Reserves (1) (2)	Base Salary: to receive 12 months base salary plus one months base salary for each full year of service to a maximum total retiring allowance of 24 months. Bonus Consideration: to receive the average of the last three annual bonuses divided by 12 and multiplied by the total number of months under the allotted retiring allowance. Benefits Plans: to receive a payment, less required withholdings, equal to twenty percent of the retiring allowance.
	Daniel A. Roulston Executive Vice President, Engineering (3)	Base Salary: to receive 18 months base salary as a retiring allowance. Bonus Consideration: to receive the average of the last three annual bonuses divided by 12 and multiplied by the total number of months under the allotted retiring allowance. Benefits Plans: to receive a payment, less required withholdings, equal to twenty percent of the retiring allowance. Incentive Rights: vesting is accelerated on the effective date of the change of control.

Note:
(1) Mr. Kergan's employment contract was executed on February 5, 2009.
(2) Mr. Kergan commenced employment on August 16, 2007; therefore, the calculation of the bonus payable would take into consideration Mr. Kergan's commencement date and adjusted accordingly.
(3) Mr. Roulston entered into a new employment contract on February 5, 2009.

The following table sets forth the estimated incremental payments (rounded to the nearest thousand dollars) that would be made to each of the executive officer's assuming that a change of control event (as described in the table above) occurred on December 31, 2008.

Name	Severance Period (months)	Salary ($)	Benefits and Perquisites ($)	Bonus ($)	Incentive Rights	Total Incremental Payment ($)
Craig H. Hansen	24	590,000	118,000	167,000	Nil	875,000
Brent C. Heagy	16	302,000	60,000	102,000	Nil	464,000
Henry J. Baird	14	239,000	48,000	48,000	Nil	335,000
Daniel A. Roulston	24	442,000	88,000	118,000	Nil	648,000

Note:

(1) On the effective date of the change of control, any unvested incentive rights vest and become immediately exercisable. The amounts shown in the table includes the in-the-money value of unvested incentive rights, which is calculated based on the difference between the closing price of the trust units on the Toronto Stock Exchange on December 31, 2008 (being $17.44) and the exercise price of such rights on December 31, 2008. No adjustment was made to the grant price to give effect to distributions paid since the right was granted.

Liability Insurance of Directors and Officers

We maintain directors' and officers' liability insurance coverage in the amount of $20 million for losses to Zargon Oil & Gas Ltd. if it is 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 directors and/or officers acting in such capacity for Zargon Oil & Gas Ltd.

All of our directors and officers are covered by the policy and the amount of insurance applies collectively to all. The cost of this insurance in 2008 was $93,900 per annum.

In addition, Zargon Oil & Gas has 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).

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Board of Directors

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

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

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

Director	Names of Other Issuers
Craig H. Hansen	Lockerbie & Hole Inc.
K. James Harrison	None
Kyle D. Kitagawa	ProspEx Resources Ltd. and Canadian Energy Services LP
Margaret A. McKenzie	Bonavista Petroleum Ltd., administrator of Bonavista Energy Trust
Jim Peplinski	Wrangler West Energy Corp.
J. Graham Weir	Pulse Data Inc.
Grant A. Zawalsky	NuVista Energy Ltd.

Board Mandate

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

The Board of Directors of Zargon Oil & Gas Ltd. is responsible for the stewardship of Zargon Oil & Gas Ltd., the other subsidiaries, partnerships and trusts of Zargon Energy Trust and Zargon Energy Trust to the extent delegated under the Trust Indenture (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 trust units, exchangeable 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 distribution 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 unitholders, 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 the Corporation;
- recommend to unitholders 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 the Corporation's financial position and performance including review and approval of annual and quarterly financial statements.

Governance and Nominating

- in consultation with the Chairman of the Board, develop a position description for the Chairman of the Board;
- selecting nominees for election to the board;
- facilitate the continuity, effectiveness and independence of the board by, amongst other things:
- appointing a Chairman of the Board;

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

Delegation

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

Composition

- the board should be composed of at least 6 individuals elected by the unitholders and exchangeable 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 Committee following:
  - change in personal circumstances which would reasonably interfere with the ability to serve as a Director; and
  - change in personal circumstances which would reasonably reflect poorly on Zargon (for example, finding by a Court of fraud, or conviction under Criminal Code or securities legislation).

Meetings

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

Authority

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

Board Committees

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

Audit Committee

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

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

Compensation Committee

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

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

Reserves Committee

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

- reviewing management's recommendations for the appointment of the independent engineer;
- reviewing the terms of the independent engineers' engagement and the appropriateness and reasonableness of the proposed fees;
- reviewing the scope and methodology of the independent engineers' evaluation;
- reviewing any significant new discoveries, additions, revisions and acquisitions;
- reviewing assumptions and consistency with prior years;
- reviewing any problems experienced by the independent engineer in preparing the reserve 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 reserve information prior to its release, including, the annual report, the annual information form and management's discussion and analysis.

Governance and Nominating Committee

The members of the Governance and Nominating Committee are: Mr. Zawalsky (Chair), Mr. Harrison and Ms. McKenzie. The Governance and Nominating Committee's mandate includes:

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

Orientation and Continuing Education

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

Ethical Business Conduct

Our board has adopted a Code of Business Conduct, a copy of which is available to review at *www.sedar.com*. It is intended that annually each employee, officer and director confirms in that he or she has read, understood and complied with the Code. Any reports of variance from the Code will be reported to the board.

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

Position Descriptions

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

Nomination of Directors

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

Board Assessment

We commenced an annual formal process of assessing the board and its committees or the individual directors in 2005 under the direction of the Governance and Nominating Committee and have conducted annual reviews since 2005.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as disclosed herein, there were no material interests, direct or indirect, of our insiders, proposed nominees for election as directors, or any associate or affiliate of such insiders or nominees since January 1, 2008, or in any proposed transaction, which has affected or would materially affect us or any of our subsidiaries.

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

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

ADDITIONAL INFORMATION

We undertake to provide, upon request, a copy of our 2008 annual report, containing financial information in the management's discussion and analysis of financial condition and results of operations and the 2008 audited financial statements sections, as well as a copy of our annual information form, subsequent interim financial statements and this information circular - proxy statement. Our annual information form also contains disclosure relating to our audit committee and the fees paid to Ernst & Young LLP in 2008. Copies of these documents may be obtained on request without charge from the Executive Vice President and Chief Financial Officer of Zargon Oil & Gas Ltd. at 700, 333 – 5th 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*.

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 have been approved by our directors.

Dated: March 18th, 2009