

**ZARGON OIL & GAS LTD.**

**NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS  
TO BE HELD ON MAY 15, 2014**

The annual general meeting of the shareholders of Zargon Oil & Gas Ltd. will be held in the Viking Room of the Calgary Petroleum Club, 319 – 5<sup>th</sup> Avenue S.W. Calgary, Alberta on May 15, 2014 at 10:00 a.m. (Calgary time) to:

1. receive and consider our financial statements for the year ended December 31, 2013, together with the report of the auditors;
2. elect six (6) directors;
3. appoint our auditors and authorize our directors to fix their remuneration as such; and
4. transact such other business as may properly be brought before the meeting or any adjournment thereof.

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

**Registered shareholders who are unable to attend the meeting in person are requested to complete, date and sign the enclosed form of proxy and return it to Valiant Trust Company, Attention: Proxy Department, Suite 310, 606 – 4<sup>th</sup> Street S.W., Calgary, Alberta T2P 1T1, or deliver it by fax to (403) 233-2857 at least 24 hours, excluding Saturdays, Sundays and holidays, before the meeting or any adjournment thereof.** Registered shareholders may also vote via the internet at <https://proxy.valiantrust.com/>. Votes by internet must be received by 10:00 a.m. (Calgary time) on May 14, 2014 or at least 24 hours prior to the time of any adjournment of the meeting. If a shareholder receives more than one proxy form because such shareholder owns our common shares registered in different names or addresses, each proxy form should be completed and returned. See the information circular - proxy statement for further instructions on internet voting.

Only shareholders of record at the close of business on April 8, 2014 will be entitled to vote at the meeting, unless that shareholder has transferred any common shares subsequent to that date and the transferee shareholder, not later than 10 days before the meeting, establishes ownership of the common shares and demands that the transferee's name be included on the list of shareholders entitled to vote at the meeting.

DATED at Calgary, Alberta this 8th day of April, 2014.

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

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

## ZARGON OIL & GAS LTD.

Information Circular - Proxy Statement  
for the Annual General Meeting to be held on May 15, 2014

### PROXIES

#### Solicitation of Proxies

This information circular - proxy statement is furnished in connection with the solicitation of proxies for use at our annual general meeting to be held on May 15, 2014 at 10:00 a.m. (Calgary time) in the Viking Room of the Calgary Petroleum Club, 319 – 5<sup>th</sup> Avenue S.W. Calgary, Alberta, and at any adjournment thereof. **The completed proxy form must be deposited at the offices of Valiant Trust Company, Attention: Proxy Department, Suite 310, 606 – 4<sup>th</sup> Street S.W., Calgary, Alberta T2P 1T1, or deliver it by fax to (403) 233-2857 at least 24 hours, excluding Saturdays, Sundays and holidays, before the meeting or any adjournment thereof.** Registered shareholders may also use the internet at <https://proxy.valianttrust.com/> to vote their shares. Shareholders will be prompted to enter the control number which is located on the form of proxy. Votes by internet must be received by 10:00 a.m. (Calgary time) on May 14, 2014 or at least 24 hours prior to the time of any adjournment of the meeting. The website may also be used to appoint a proxy holder to attend and vote at the meeting on the shareholder's behalf and to convey a shareholder's voting instructions. Solicitation of proxies will be primarily by mail, but some proxies may be solicited personally or by telephone, facsimile transmission or other electronic means by our officers, directors or employees at a nominal cost. The cost of solicitation will be borne by us.

Only shareholders of record at the close of business on April 8, 2014 will be entitled to vote at the meeting, unless that shareholder has transferred any common shares subsequent to that date and the transferee shareholder, not later than 10 days before the meeting, establishes ownership of the common shares and demands that the transferee's name be included on the list of shareholders entitled to vote at the meeting.

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

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

#### Advice to Beneficial Holders of Common Shares

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

In Canada, the vast majority of such common shares are registered under the name of CDS & Co., the registration name for The Canadian Depository for Securities Limited, which acts as nominees for many Canadian brokerage firms. Common shares held by your broker or their nominee can only be voted upon your instructions. Without specific instructions, your broker or their nominee is prohibited from voting your common shares. We do not know for whose benefit the common shares registered in the name of CDS & Co. are held. The majority of common shares held in the United States are registered in the name of Cede & Co., the nominee for the Depository Trust Company, which is the United States equivalent of CDS Clearing and Depository Services Inc.

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

Applicable regulatory policy requires your broker to seek voting instructions from you in advance of the meeting. Every broker has its own mailing procedures and provides its own return instructions, which you should carefully follow in order to ensure that your common shares are voted at the meeting. Often, the form of proxy supplied by your broker is identical to the form of proxy provided to registered shareholders. However, its purpose is limited to instructing the registered shareholder how to vote on your behalf.

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

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

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

### **Revocability of Proxy**

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

### **Persons Making the Solicitation**

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

## Exercise of Discretion by Proxy

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

## VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

We are authorized to issue an unlimited number of common shares without nominal or par value and 10,000,000 preferred shares without nominal or par value issuable in series. As at April 8, 2014, there were 30,126,515 common shares and no preferred shares outstanding. As a holder of common shares, you are entitled to one vote for each common share you own.

To the best of the knowledge of our directors and executive officers, as at April 8, 2014, no person or company beneficially owns, or controls or directs, directly or indirectly, 10% or more of our issued and outstanding common shares, except as set forth below:

Name	Number of Common Shares Beneficially Owned or Controlled or Directed, Directly or Indirectly	Percentage of Issued and Outstanding Common Shares
Franklin Resources, Inc. San Mateo, CA	5,448,587	18.10%

Note:

(1) Based on an alternative monthly report dated February 28, 2014 filed on SEDAR at [www.sedar.com](http://www.sedar.com).

As at April 8, 2014, our directors and executive officers, as a group, beneficially owned, or controlled or directed, directly or indirectly, 2,641,573 common shares or approximately 8.8% of our issued and outstanding common shares.

## MATTERS TO BE ACTED UPON AT THE MEETING

### Election of Directors

Our board of directors has been fixed at six members. At the meeting, shareholders will be asked to elect the six directors referred to below. Each director elected will hold office until our next annual general meeting or until his successor is duly elected or appointed, unless his office is earlier vacated.

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

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

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

The following information relating to the proposed nominees is based partly on our records and partly on information received by us from the nominees, and sets forth the names, ages and cities of residence of the persons proposed to be nominated for election as our directors, their committee memberships, the year in which each became a director of us (or a predecessor of us), the present occupations and brief biographies of such persons, and the number of our securities owned, controlled or directed, directly or indirectly, by each, as at April 8, 2014 in respect of 2013 and as at April 12, 2013 in respect of 2012:

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed		Incentive Rights <sup>(1)</sup>		Total Market Value of Securities Owned and Incentive Rights <sup>(2)(3)</sup>	
			2013	2012	2013	2012	2013	2012
K. James Harrison Oakville, Ontario	53	1995	134,382 <sup>(4)</sup>	111,882 <sup>(4)</sup>	19,300	22,000	\$1,268,890	\$846,393



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.

Member of:  
- Governance and  
Compensation Committee

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed		Incentive Rights <sup>(1)</sup>		Total Market Value of Securities Owned and Incentive Rights <sup>(2)(3)</sup>	
			2013	2012	2013	2012	2013	2012
<b>Craig H. Hansen</b> Calgary, Alberta	57	1992	1,820,868	1,374,399	87,900	94,000	\$16,407,617	\$10,184,105



Mr. Hansen has been our President and its predecessor, Zargon Energy Trust, since 1993. Mr. Hansen obtained a B.Sc. (Hons.) in Chemical Engineering from the University of Alberta in 1978 and is a professional engineer registered with APEGGA. Mr. Hansen was employed with Dome Petroleum Ltd. (1978-1980) and NRG Engineering Ltd. (1980-1984). He founded C.H. Hansen Engineering Ltd., an engineering consulting company, which provided reservoir, exploitation, and acquisition engineering services during the period 1984 through 1993. Mr. Hansen was a past member of the Board of Directors of the Canadian Association of Petroleum Producers (CAPP) where he served as the Chair of the Fiscal Executive Policy Group and the Audit Committee (2008-2013).

<b>Kyle D. Kitagawa</b> Calgary, Alberta	53	2001	78,919 <sup>(5)</sup>	78,919	15,800	19,900	\$755,322	\$594,640
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Mr. Kitagawa brings over 25 years experience in commodity trading, equity investing, and structured finance in energy and energy intensive industries. Prior to April 2003, he held senior executive positions in a global energy trading and capital corporation. Mr. Kitagawa has been an independent businessman since 2003. In addition, Mr. Kitagawa serves as Chairman of both Canadian Energy Services & Technology Corp. and Coral Hill Energy Ltd. Prior directorships included Advanced Mobile Power Systems, LLC., Esprit Exploration Ltd., Ferus Trust, Independent Energy Ltd., Invasion Energy Inc., Livingston Energy Ltd., Papier Masson Ltee., ProspEx Resources Ltd. and Wave Energy Ltd.

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

Member of:  
- Audit and Reserves  
Committee (Chairman)

<b>Geoffrey C. Merritt</b> Calgary, Alberta	59	2009	73,738	51,755	15,800	19,900	\$710,196	\$399,603
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Mr. Merritt has over 30 years of experience in the upstream oil and gas sector. He was the founder of Masters Energy Inc., a public exploration and production company, incorporated in 2003 and acquired by us in April 2009. From 1998 to 2003, Mr. Merritt was the President and CEO of Sunfire Energy. Prior to 1998, he was the Vice President and General Manager of the oil and gas division of Pembina Corporation. Mr. Merritt currently sits on the board of Perpetual Energy Inc.

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

Member of:  
- Audit and Reserves  
Committee

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed		Incentive Rights <sup>(1)</sup>		Total Market Value of Securities Owned and Incentive Rights <sup>(2)(3)</sup>	
			2013	2012	2013	2012	2013	2012
<b>Jim Peplinski</b> Calgary, Alberta	53	1997	266,929	219,929	15,800	19,900	\$2,392,890	\$1,607,092



Mr. Peplinski's main focus is commercial vehicle lessor Jim Peplinski Leasing Inc. He is also VP Business Development of the Calgary Flames Hockey Club as well as an investor in real estate and oil and gas.

Member of:  
- Governance and  
Compensation Committee  
(Chairman)

<b>Grant A. Zawalsky</b> Calgary, Alberta	54	2000	28,400	28,400	15,800	19,900	\$315,302	\$231,914
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Mr. Zawalsky is Managing Partner, Burnet, Duckworth & Palmer LLP (Barristers and Solicitors). Mr. Zawalsky has been a Partner of Burnet, Duckworth & Palmer LLP since 1994.

Mr. Zawalsky is also a member of the board of directors of a number of public and private companies including Endurance Energy Ltd., Mediterra Energy Corporation, NuVista Energy Ltd., Spur Resources Ltd., Whitecap Resources Inc. and Range Royalty Management Ltd. (the general partner of Range Royalty LP) and is Corporate Secretary of ARC Resources Ltd., Bonavista Energy Corporation, Northpoint Resources Ltd., RMP Energy Inc. and Rock Energy Ltd.

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

Member of:  
- Governance and  
Compensation Committee

Notes:

- (1) "Incentive Rights" includes incentive rights granted under the unit right incentive plans of Zargon Energy Trust which were assumed by us in connection with the reorganization of Zargon Energy Trust on January 1, 2011 and awards granted under our share award plan.
- (2) For 2013, the "Total Market Value of Securities Owned and Incentive Rights" was determined by multiplying the number of common shares held by the nominee as of April 8, 2014 by the closing price of our common shares on the Toronto Stock Exchange on such date (\$8.71), plus the number of common shares issuable upon exercise of share awards held multiplied by the closing price of our common shares on the Toronto Stock Exchange on such date, plus the number of common shares issuable upon exercise of incentive rights held multiplied by the difference between the closing price of our common shares on the Toronto Stock Exchange on such date (\$8.71) less the original grant price of the incentive rights for in-the-money incentive rights. For calculation purposes, no adjustment has been made to the number of common shares issuable upon exercise of share awards or the grant price of the incentive rights to give effect to distributions or dividends paid since the share award or incentive right was granted.
- (3) For 2012, the "Total Market Value of Securities Owned and Incentive Rights" was determined by multiplying the number of common shares held by the nominee as of April 12, 2013 by the closing price of our common shares on the

Toronto Stock Exchange on such date (\$7.18), plus the number of common shares issuable upon exercise of share awards held multiplied by the closing price of our common shares on the Toronto Stock Exchange on such date, plus the number of common shares issuable upon exercise of incentive rights held multiplied by the difference between the closing price of our common shares on the Toronto Stock Exchange on such date (\$7.18) less the original grant price of the incentive rights for in-the-money incentive rights. For calculation purposes, no adjustment has been made to the number of common shares issuable upon exercise of share awards or the grant price of the incentive rights to give effect to distributions or dividends paid since the share award or incentive right was granted.

- (4) Mr. Harrison has control or direction over 105,372 common shares in 2013 and had control or direction over 105,613 common shares in 2012 that are held by clients of K.J. Harrison & Partners Inc. For the purposes of calculating Mr. Harrison's "Total Market Value of Securities Owned and Incentive Rights" the 105,372 common shares in 2013 and the 105,613 common shares in 2012 have not been included.
- (5) Mr. Kitagawa, as a trustee, has control or direction over 100,000 common shares in 2013 that are held by North River Capital Corp. For the purposes of calculating Mr. Kitagawa's "Total Market Value of Securities Owned and Incentive Rights" the 100,000 common shares in 2013 have not been included.

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

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

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

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

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



## Appointment of Auditors

Management is soliciting proxies, in the accompanying form of proxy, in favour of the appointment of the firm of Ernst & Young LLP, Chartered Accountants, as our auditors, to hold office until the next annual meeting of our shareholders and to authorize the directors to fix their remuneration as such. See "*Audit and Reserves Committee Information*" in our annual information form for the year ended December 31, 2013 for additional information including a description of fees we paid to Ernst & Young LLP during the past two years.

## DIRECTORS COMPENSATION

### Compensation of Directors

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

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

In 2011, a peer group review was conducted by our governance and nominating committee, with the results indicating that our directors' compensation is competitive with our peers.

In 2012, our board committees were restructured to more equitably distribute responsibilities, and to improve costs and efficiencies. As a result, we consolidated our audit committee and reserves committee into our audit and reserves committee and our governance and nominating committee and our compensation committee into our governance and compensation committee.

The following table sets forth the principal elements of the compensation plan for our outside directors for the year ended December 31, 2013.

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

Note:

(1) In April 2013, the meeting attendance fee paid to our outside directors was reduced from \$1,500 per meeting to \$1,000 per meeting.

Outside directors are eligible to receive awards under our share award plan which became effective on January 1, 2011. Participation of each non-management director in the share award plan is limited to the lesser of (a) 1% of our issued and outstanding common shares; and (b) an annual equity award value of \$100,000, with the value of each award calculated at the time of grant. See "*Executive Compensation – Executive Compensation Discussion and Analysis – Incentive Plans – Share Award Plan*" for a description of our share award plan. On March 14, 2013 our Chairman of the board was granted 2,000 share awards and our other outside directors were granted 1,300 share

awards each pursuant to our share award incentive plan. These share awards vest equally over a four year period commencing on January 1, 2014 and expire on March 14, 2018. On May 31, 2013 our Chairman of the board was granted 5,300 share awards and our other outside directors were granted 3,900 share awards each pursuant to our share award incentive plan. These share awards vest equally over a four year period commencing on January 1, 2014 and expire on May 31, 2018.

Our outside directors were eligible to receive incentive rights under the trust unit rights incentive plans of Zargon Energy Trust which were assumed by us in connection with the reorganization of Zargon Energy Trust on January 1, 2011. These rights continue to vest in accordance with their original terms except that the holders of such rights are entitled to receive our common shares in lieu of trust units. No new rights will be granted under such plans and they will terminate when all outstanding rights granted under these plans have been exercised or expired.

As at December 31, 2013, our outside directors held an aggregate of 146,300 incentive rights and share awards, which represented approximately 0.5% of our issued and outstanding common shares as at such date. For information regarding the outstanding incentive rights and share awards held by our independent directors as at December 31, 2013, 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, 2013. Directors' fees are paid on a quarterly basis.

Name	Board Retainer (\$)	Chair of Board Retainer (\$)	Committee Chair Retainer (\$)	Meeting Attendance Fees (\$)	Total Fees Earned (\$)
K. James Harrison	20,000	25,000	Nil	13,500	58,500
Kyle D. Kitagawa	20,000	Nil	10,000	21,500	51,500
Margaret A. McKenzie <sup>(1)</sup>	20,000	Nil	Nil	21,500	41,500
Geoffrey C. Merritt	20,000	Nil	Nil	21,500	41,500
Jim Peplinski	20,000	Nil	5,000	13,500	38,500
J. Graham Weir <sup>(2)</sup>	10,000	Nil	Nil	7,500	17,500
Grant A. Zawalsky	20,000	Nil	Nil	13,500	33,500

Notes:

- (1) Ms. McKenzie will not be standing for re-election at the meeting.
- (2) Mr. Weir retired from our board of directors on May 15, 2013.

### Summary Compensation Table

The following table sets forth information concerning the compensation for our independent directors for the year ended December 31, 2013. Please refer to "*Executive Compensation*" for details regarding the compensation paid to our President and Chief Executive Officer, who is also one of our directors.

Name	Fees earned (\$)	Share-based awards <sup>(1)</sup> (\$)	Option-based awards <sup>(2)</sup> (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
K. James Harrison	58,500	33,825	Nil	Nil	Nil	Nil	92,325
Kyle D. Kitagawa	51,500	24,011	Nil	Nil	Nil	Nil	75,511
Margaret A. McKenzie	41,500	24,011	Nil	Nil	Nil	Nil	65,511
Geoffrey C. Merritt	41,500	24,011	Nil	Nil	Nil	Nil	65,511
Jim Peplinski	38,500	24,011	Nil	Nil	Nil	Nil	62,511
J. Graham Weir <sup>(3)</sup>	17,500	Nil	Nil	Nil	Nil	Nil	17,500
Grant A. Zawalsky <sup>(4)</sup>	33,500	24,011	Nil	Nil	Nil	Nil	57,511

Notes:

- (1) The value disclosed represents the fair value of these awards on the grant date using a fair value pricing model valued on the grant date. The fair value calculation includes weighted average assumptions such as a forfeiture rate and an expected life of the share based awards. No adjustment has been made to the number of share awards granted during the year for dividends.
- (2) No option-based awards were granted to our outside directors in 2013.
- (3) Mr. Weir retired from our board of directors on May 15, 2013.
- (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.

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

The following table sets forth all option-based awards and share-based awards outstanding held by our independent directors at December 31, 2013.

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised incentive rights <sup>(1)</sup> (#)	Incentive right exercise price <sup>(2)</sup> (\$)	Incentive rights expiration date	Value of unexercised in-the-money incentive rights <sup>(3)</sup> (\$)	Number of shares that have not vested (#)	Market or payout value of share-based awards that have not vested <sup>(4)</sup> (\$)	Market or payout value of vested share-based awards not paid out or distributed <sup>(4)</sup> (\$)
K. James Harrison	8,000 8,000	15.56 19.85	January 31, 2014 January 31, 2015	Nil Nil	9,800	82,614	12,645
Kyle D. Kitagawa	8,000 8,000	15.56 19.85	January 31, 2014 January 31, 2015	Nil Nil	6,825	57,535	8,219
Margaret A. McKenzie	8,000 8,000	15.56 19.85	January 31, 2014 January 31, 2015	Nil Nil	6,825	57,535	8,219
Geoffrey C. Merritt	8,000 8,000	15.56 19.85	January 31, 2014 January 31, 2015	Nil Nil	6,825	57,535	8,219
Jim Peplinski	8,000 8,000	15.56 19.85	January 31, 2014 January 31, 2015	Nil Nil	6,825	57,535	8,219
Grant A. Zawalsky	8,000 8,000	15.56 19.85	January 31, 2014 January 31, 2015	Nil Nil	6,825	57,535	8,219

Notes:

- (1) Our outside directors were eligible to receive incentive rights under the trust unit rights incentive plans of Zargon Energy Trust which were assumed by us in connection with the reorganization of Zargon Energy Trust on January 1, 2011. These rights continue to vest in accordance with their original terms except that the holders of such rights are entitled to receive our common shares in lieu of trust units.
- (2) Pursuant to the trust unit rights incentive plans, holders of rights have the option to elect to have the exercise price per right reduced to account for distributions paid on the trust units and dividends paid on our common shares subsequent to the grant date, provided that certain performance benchmarks are achieved. For calculation purposes no adjustment has been made to the exercise price to give effect to distributions or dividends paid since the right was granted.
- (3) Calculated based on the difference between the closing price of our common shares on the Toronto Stock Exchange on December 31, 2013 (being \$8.43) less the original grant price of the incentive rights for in-the-money incentive rights. For calculation purposes, no adjustment has been made to the grant price to give effect to distributions or dividends paid since the right was granted.
- (4) Calculated based on the closing price of our common shares on the Toronto Stock Exchange on December 31, 2013 (being \$8.43). No adjustment has been made to the number of share awards granted for dividends.

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

The following table sets forth for each of our independent directors the value of option-based awards and share-based awards which vested during the year ended December 31, 2013 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2013.

<b>Name</b>	<b>Option-based awards – Value vested during the year <sup>(1)</sup></b> <b>(\$)</b>	<b>Share-based awards – Value vested during the year <sup>(2)</sup></b> <b>(\$)</b>	<b>Non-equity incentive plan compensation – Value earned during the year</b> <b>(\$)</b>
K. James Harrison	Nil	8,380	Nil
Kyle D. Kitagawa	Nil	5,447	Nil
Margaret A. McKenzie	Nil	5,447	Nil
Geoffrey C. Merritt	Nil	5,447	Nil
Jim Peplinski	Nil	5,447	Nil
J. Graham Weir	Nil	5,447	Nil
Grant A. Zawalsky	Nil	5,447	Nil

Notes:

- (1) Calculated based on the difference between the closing price of our common shares on the Toronto Stock Exchange as of December 31, 2012, which was the last trading date before the vesting date of January 1, 2013 and the grant price of the rights. No adjustment has been made to the grant price to give effect to distributions or dividends paid since the right was granted.
- (2) Calculated based on the closing price of our common shares on the Toronto Stock Exchange as of December 30, 2012 (being \$8.38), which was the last trading day before the vesting date of January 1, 2013. No adjustment has been made to the number of share awards to give effect to dividends paid since the share award was granted.

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

Directors (other than our President and Chief Executive Officer) are expected to own common shares having a market value of at least four times the amount of their annual board retainer. New directors are required to attain the minimum ownership level within a period of two years from the date of their election. Our President and Chief Executive Officer is expected to own common shares having a market value of at least two times his annual base salary.

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

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

The following table sets out the ownership levels of our President and Chief Executive Officer and each of our independent directors as at December 31, 2013.

Name	Ownership Guideline		Ownership Value		Guideline Met or Investment Required to Meet Guideline
	Multiple	Amount (\$)	Multiple	Amount (\$) <sup>(1)</sup>	
Craig H. Hansen	2 x base salary	662,560	22.94	15,197,621	Yes
<b>Independent Directors:</b>					
K. James Harrison	4 x retainer	80,000	14.16	1,132,840	Yes
Kyle D. Kitagawa	4 x retainer	80,000	8.32	665,287	Yes
Margaret A. McKenzie <sup>(2)</sup>	4 x retainer	80,000	0.70	55,638	Yes
Geoffrey C. Merritt	4 x retainer	80,000	7.77	621,611	Yes
Jim Peplinski	4 x retainer	80,000	28.13	2,250,211	Yes
Grant A. Zawalsky	4 x retainer	80,000	2.99	239,412	Yes

Notes:

- (1) Based on the closing price of our common shares on the Toronto Stock Exchange on December 31, 2013 (being \$8.43).
- (2) Ms. McKenzie's ownership fell below the target ownership level as a result of the closing price of our common shares on December 31, 2013.

### **Meeting Attendances**

The following table outlines the attendance record of our directors in 2013.

Name	Board Meeting	Audit and Reserves Committee	Governance and Compensation Committee
K. James Harrison	7/7	-	3/3
Craig H. Hansen <sup>(1)</sup>	7/7	10/10	3/3
Kyle D. Kitagawa	7/7	10/10	-
Margaret A. McKenzie	7/7	10/10	-
Geoffrey C. Merritt	7/7	10/10	-
Jim Peplinski	7/7	-	3/3
J. Graham Weir <sup>(2)</sup>	2/3	3/4	-
Grant A. Zawalsky	7/7	-	3/3

Note:

- (1) Mr. Hansen attended the audit and reserves committee and governance and compensation meetings in his capacity as President and Chief Executive Officer of our company and not as a member of the committee.
- (2) Mr. Weir retired from our board of directors on May 15, 2013.

## EXECUTIVE COMPENSATION

### Statement of Executive Compensation

For the year ended December 31, 2013, our named executive officers ("**NEO**") were:

Craig H. Hansen, President and Chief Executive Officer ("**CEO**");  
Jason B. Dranchuk, Vice President, Finance and Chief Financial Officer ("**CFO**");  
Brian G. Kergan, Vice President, Corporate Development;  
Randolph J. Doetzel, Vice President, Operations; and  
Robert T. Moriyama, Vice President, Enhanced Recovery

### Executive Compensation Discussion and Analysis

#### *Compensation Objectives and Philosophy*

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

Our compensation philosophy is based on the following fundamental principles:

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

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

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

## ***Compensation Governance***

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

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

The governance and compensation committee annually reviews and recommends the compensation of members of the executive team, specifically the CEO and the Vice Presidents, and granting of long term incentives. Recommendations regarding executive compensation and the granting of long term incentives are presented to the governance and compensation committee in January with the year end bonus recommendations being presented in February.

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

Aggregate compensation for each executive officer is designed to be competitive. The Mercer Total Compensation Survey for the Energy Sector ("**MTCS**") was used to assist our governance and compensation committee in its evaluation of compensation. The 2013 MTCS survey included data from distinct participating organizations.

The purpose of reviewing the MTCS data was to:

- Understand the competitiveness of current pay and bonus levels for each executive position relative to companies of similar size; and
- Establish as a basis for developing salary adjustments and short and long term incentive awards for the governance and compensation committee's approval.

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

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

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

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

security, option or right, if transferable to the purchaser. Directors, officers and employees are also prohibited from buying or selling a call or put in respect of any of our securities.

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

In determining annual bonuses, raises and other compensation, our governance and compensation committee considers overall corporate performance, performance across a number of operating measures such as production and reserves per share, finding and developments costs and recycle ratio, and advancement of our major projects to assess the operational effectiveness of the execution of our strategy, financial, regulatory and environmental compliance and other elements such as the strengthening of staff resources, processes and internal communication and individual performance. The measures described here are considered as subjective factors and are not defined in such a way as to limit the authority of the governance and compensation committee or to restrict the latitude they have to guide the compensation process.

### **Base Salary**

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

The following table summarizes base salaries paid to our NEOs for the years ended December 31, 2012 and December 31, 2013.

<b>Name and principal position</b>	<b>2012 Base Salary (\$)</b>	<b>2013 Base Salary (\$)</b>	<b>% Increase</b>
Craig H. Hansen President and CEO	328,000	331,280	1.0
Jason B. Dranchuk Vice President, Finance and CFO	256,000	258,560	1.0
Brian G. Kergan Vice President, Corporate Development	251,000	253,510	1.0
Randolph J. Doetzel Vice President, Operations	235,000	237,350	1.0
Robert T. Moriyama Vice President, Enhanced Recovery	223,000	225,230	1.0

Our overall corporate increase for 2013 was 3.1 percent. The average salary increases for our NEOs was 1.0 percent.



## ***Bonuses***

Our governance and compensation committee approves targeted amounts of annual bonuses for each of our executive officers. If all targets are met, this methodology results in an amount that roughly aligns with industry benchmarking data. For 2013, our overall corporate targeted bonus amount was set at 24.3 percent of total salaries. The 2013 actual bonus (paid in February 2014) was 23.0 percent (including executives) of total salaries.

Predetermined target bonuses for our executive officers range from 30 percent to 40 percent of annual salary. Actual bonuses paid as a percentage of the 2013 actual salary paid are then adjusted from the target based on the achievement of overall corporate, team and an individual's specific contribution and performance.

The following table summarizes bonuses paid to our NEOs for the years ended December 31, 2012 and December 31, 2013.

<b>Name and principal position</b>	<b>2012 Bonus (\$)</b>	<b>2013 Bonus (\$)</b>	<b>2013 Bonus as a % of 2013 Base Salary <sup>(1)</sup></b>
Craig H. Hansen President and CEO	108,240	122,574	37.0
Jason B. Dranchuk Vice President, Finance and CFO	73,920	83,709	32.4
Brian G. Kergan Vice President, Corporate Development	76,100	82,074	32.4
Randolph J. Doetzel Vice President, Operations	58,162	71,205	30.0
Robert T. Moriyama Vice President, Enhanced Recovery	66,231	67,659	30.0

Note:

(1) 2013 bonus amounts were paid in February 2014.

## ***Incentive Plans***

In anticipation of our conversion from a trust to a corporation, our compensation committee reviewed and re-designed the longer term aspects of our executive compensation program.

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

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

As a result, our compensation committee recommended that our board of directors approve a five year share award plan which would provide for awards of common shares that would vest in quarters over a four year period and expire on the fifth anniversary of the date of grant. This share award plan was approved by our shareholders in December 2010 and became effective January 1, 2011. In connection with the reorganization of Zargon Energy Trust, we assumed the trust unit rights incentive plans of Zargon Energy Trust and outstanding incentive rights granted under these plans continue to vest in accordance with their original terms except that the holders of such rights are entitled to receive our common shares in lieu of trust units. No new rights will be granted under such plans and they will terminate when all outstanding rights granted under these plans have been exercised or expired. There are 390,550 common shares currently reserved for issuance under these former plans.

Our executive management participate in our share award plan and the terms and conditions of share awards granted under the plan are determined by our governance and compensation committee. Previous grants are taken into account when considering new grants. Share awards for executives are generally approved annually and are granted in March, subject to the imposition of trading blackout periods, in which case share awards scheduled for grant will be granted subsequent to the end of the blackout period. Additional one time grants may also be awarded throughout the year to reward exemplary performance.

During 2013, an aggregate of 81,200 share awards were granted to our NEOs. These share awards vest equally over a four year period commencing on January 1, 2014 and expire on March 14, 2018. On March 13, 2014, an aggregate of 83,080 share awards were granted to our NEOs pursuant to our share award incentive plan. These share awards will vest in quarters every January 1 over a four year period commencing on January 1, 2015 and will expire on March 13, 2019.

#### *Share Award Plan*

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

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

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

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

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

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

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

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

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

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

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

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

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

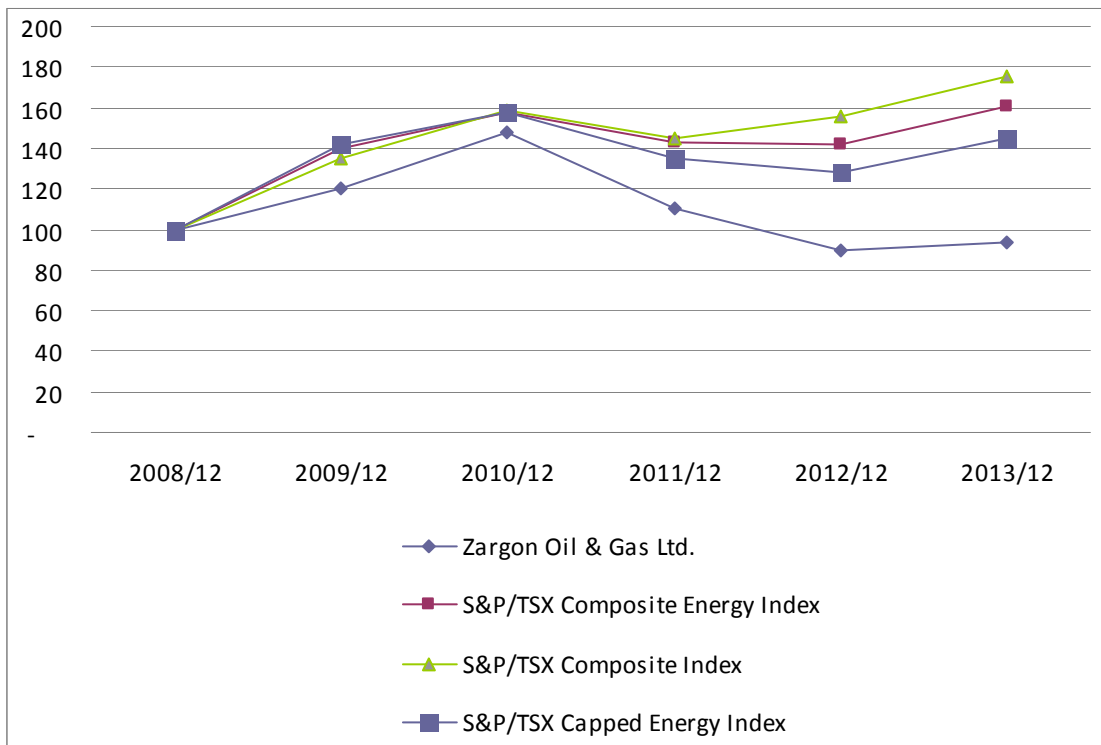
issued to insiders above the restriction contained in the plan; or (f) amend the amending provisions of the plan to delete any of (a) through (e).

**Employee Savings Plan**

We also have an employee savings plan whereby all employees, including executive officers, are encouraged to contribute up to a maximum of 10% of their salary to the employee savings plan. The contributions by employees are equally matched by us. The funds are used to purchase common shares in the open market. Since the plan is available to all employees it has been successful in encouraging employees to become shareholders and promoting the principle of alignment with shareholders. Our governance and compensation committee considers this program to be competitive. There is no other form of retirement or savings program. All of our executive officer's participated in the program in 2013. These amounts are included in the "All Other Compensation Category" in the Summary Compensation Table below.

**Performance Graph**

The following graph illustrates our five year cumulative securityholder return assuming an initial investment of \$100 in each of us (and our predecessor, Zargon Energy Trust) and the S&P/TSX Composite Index, the S&P/TSX Composite Energy Index and the S&P/TSX Capped Energy Index on December 31, 2008, with all distributions and dividends reinvested.



	2008/12	2009/12	2010/12	2011/12	2012/12	2013/12
Zargon Energy Trust/Zargon Oil & Gas Ltd.	100	120	148	111	89	93
S&P/TSX Composite Index <sup>(1)</sup>	100	135	159	145	155	176
S&P/TSX Composite Energy Index <sup>(2)</sup>	100	139	158	142	142	161
S&P/TSX Capped Energy Index <sup>(3)</sup>	100	142	158	135	128	145

Notes:

- (1) The S&P/TSX Composite Index was previously called the TSE 300 Index.
- (2) The S&P/TSX Composite Energy Index was previously called TSX Oil and Gas Producers Index.
- (3) The S&P/TSX Capped Energy Index replaces the S&P/TSX Canadian Energy Trust Index, which was used previously by the Company, as this index has been discontinued.

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

### Compensation of Named Executive Officers

The following table sets forth the information concerning the compensation for our CEO and CFO and our three most highly compensated executive officers, other than the CEO and CFO, for the year ended December 31, 2013, whose total compensation was more than \$150,000.

Name and principal position	Year	Salary (\$)	Share-based awards <sup>(1)</sup> (\$)	Option-based awards <sup>(2)</sup> (\$)	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation <sup>(3)</sup> (\$)	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
Craig H. Hansen President and CEO	2013	331,280	107,520	N/A	122,574	N/A	N/A	44,171	605,545
	2012	328,000	190,200	N/A	108,240	N/A	N/A	50,046	676,486
	2011	316,092	167,120	N/A	80,603	N/A	N/A	45,640	609,455
Jason B. Dranchuk Vice President, Finance and CFO	2013	258,560	78,848	N/A	83,709	N/A	N/A	35,988	457,105
	2012	256,000	202,880	N/A	73,920	N/A	N/A	34,838	567,638
	2011	238,263	246,717	N/A	68,798	N/A	N/A	32,949	586,727
Brian G. Kergan Vice President, Corporate Development	2013	253,510	78,848	N/A	82,074	N/A	N/A	36,736	451,168
	2012	251,000	126,800	N/A	76,100	N/A	N/A	35,591	489,491
	2011	240,840	225,456	N/A	67,962	N/A	N/A	34,460	568,718
Randolph J. Doetzel Vice President, Operations <sup>(4)</sup>	2013	237,350	71,680	N/A	71,205	N/A	N/A	34,204	414,439
	2012	235,000	126,800	N/A	58,162	N/A	N/A	34,136	454,098
	2011	213,294	112,236	N/A	49,191	N/A	N/A	31,720	406,441
Robert T. Moriyama Vice President, Enhanced Recovery <sup>(5)</sup>	2013	225,230	78,848	N/A	67,569	N/A	N/A	33,618	405,265
	2012	223,000	126,800	N/A	66,231	N/A	N/A	31,657	447,688
	2011	198,961	76,760	N/A	55,958	N/A	N/A	28,206	359,885

Notes:

- (1) The value disclosed represents the fair value of these awards on the grant date using a fair value pricing model valued on the grant date. The fair value calculation includes weighted average assumptions such as a forfeiture rate and an expected life of the share based awards. No adjustment has been made to the number of share awards granted during the year for dividends.
- (2) In connection with the reorganization of Zargon Energy Trust on January 1, 2011, all outstanding incentive rights granted under Zargon Energy Trust's unit right incentive plans were assumed by us. These rights continue to vest in accordance with their original terms except that the holders of such rights are entitled to receive our common shares in lieu of trust units. No new rights will be granted under such plans and they will terminate when all outstanding rights granted under these plans have been exercised or expired.
- (3) The amounts in this column represent perquisites and other taxable benefits.
- (4) Effective June 8, 2011, Mr. Doetzel was promoted to the position of Vice President, Operations and received a salary increase. Prior to assuming his current position, Mr. Doetzel had been our Production Manager, Williston Basin since July 6, 2009. The amounts shown for 2011 have not been annualized.
- (5) Effective January 10, 2011, Mr. Moriyama commenced employment as our Vice President, Enhanced Recovery. The amounts shown for 2011 have not been annualized.

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

The following table sets forth for each NEO all option-based awards and share-based awards outstanding at December 31, 2013.

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised incentive rights <sup>(1)</sup> (#)	Incentive right exercise price <sup>(2)</sup> (\$)	Incentive rights expiration date	Value of unexercised in-the-money incentive rights <sup>(3)</sup> (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested <sup>(4)</sup> (\$)	Market or payout value of vested share-based awards not paid out or distributed <sup>(4)</sup> (\$)
Craig H. Hansen	25,000 25,000	15.56 19.85	January 31, 2014 January 31, 2015	Nil Nil	36,250	305,588	65,332
Jason B. Dranchuk	11,500 12,500	15.56 19.85	January 31, 2014 January 31, 2015	Nil Nil	33,050	278,612	81,349
Brian G. Kergan	17,000 17,000	15.56 19.85	January 31, 2014 January 31, 2015	Nil Nil	28,100	236,883	64,911
Randolph J. Doetzel	8,000 9,000	15.80 19.85	January 31, 2014 January 31, 2015	Nil Nil	24,100	203,163	42,993
Robert T. Moriyama	Nil	Nil	Nil	Nil	24,900	209,907	37,935

Notes:

- (1) In connection with the reorganization of Zargon Energy Trust on January 1, 2011, all outstanding incentive rights granted under Zargon Energy Trust's unit right incentive plans were assumed by us. These rights continue to vest in accordance with their original terms except that the holders of such rights are entitled to receive our common shares in lieu of trust units. No new rights will be granted under such plans and they will terminate when all outstanding rights granted under these plans have been exercised or expired.
- (2) Pursuant to the trust unit rights incentive plans, holders of rights have the option to elect to have the exercise price per right reduced to account for distributions paid on the trust units and dividends paid on our common shares subsequent to the grant date, provided that certain performance benchmarks are achieved. For calculation purposes no adjustment has been made to the exercise price to give effect to distributions or dividends paid since the right was granted.
- (3) Calculated based on the difference between the closing price of our common shares on the Toronto Stock Exchange on December 31, 2013 (being \$8.43) less the original grant price of the incentive rights for in-the-money incentive rights. For calculation purposes, no adjustment has been made to the grant price to give effect to distributions or dividends paid since the right was granted.
- (4) Calculated based on the closing price of our common shares on the Toronto Stock Exchange on December 31, 2013 (being \$8.43). No adjustment has been made to the number of share awards for dividends.

### ***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, 2013.

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans <sup>(2)</sup></b>
Equity compensation plans approved by securityholders <sup>(1)</sup>			
- Common Share Rights	390,900	\$18.06	Nil
- Share Award Plan	562,665	N/A	941,721
Equity compensation plans not approved by securityholders	Nil	Nil	Nil
<b>Total</b>	<b>953,565</b>		<b>941,721</b>

Notes:

- (1) In connection with the reorganization of Zargon Energy Trust on January 1, 2011, all outstanding incentive rights granted under Zargon Energy Trust's unit right incentive plans were assumed by us. These rights continue to vest in accordance with their original terms except that the holders of such rights are entitled to receive our common shares in lieu of trust units. No new rights will be granted under such plans and they will terminate when all outstanding rights granted under these plans have been exercised or expired.
- (2) The number of common shares reserved for issuance from time to time pursuant to outstanding share awards under our share award plan may not exceed the lesser of: (a) a number of common shares equal to 5% of our aggregate number of issued and outstanding common shares; and (b) a number of common shares equal to 10% of our aggregate number of issued and outstanding common shares less common shares reserved for issuance under our legacy trust unit incentive plans.

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

The following table sets forth for each executive officer, the value of option-based awards and share-based awards which vested during the year ended December 31, 2013 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2013.

<b>Name</b>	<b>Option-based awards – Value vested during the year <sup>(1)</sup></b> <b>(\$)</b>	<b>Share-based awards – Value vested during the year <sup>(2)</sup></b> <b>(\$)</b>	<b>Non-equity incentive plan compensation – Value earned during the year</b> <b>(\$)</b>
Craig H. Hansen	Nil	48,185	122,574
Jason B. Dranchuk	Nil	57,194	83,709
Brian G. Kergan	Nil	42,738	82,074
Randolph J. Doetzel	Nil	31,844	71,205
Robert T. Moriyama	Nil	29,330	67,569

Notes:

- (1) Calculated based on the difference between the closing price of our common shares on the Toronto Stock Exchange as of December 31, 2012, which was the last trading date before the vesting date of January 1, 2013 and the grant price of the rights. No adjustment has been made to the grant price to give effect to distributions or dividends paid since the right was granted.
- (2) Calculated based on the closing price of our common shares on the Toronto Stock Exchange as of December 30, 2012 (being \$8.38), which was the last trading day before the vesting date of January 1, 2013. No adjustment has been made to the number of share awards to give effect to dividends paid since the share award was granted.

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

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

### ***Employment Contracts***

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

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

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

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



	<b>Termination Event</b>	
	<b>Change of Control Provision <sup>(1)</sup></b>	<b>Change of Control Provision and Good Reason <sup>(1)</sup></b>
Craig H. Hansen President and CEO	<p>A retiring allowance equal to one and a half (1.5) times the executive's then annual base salary plus an additional one-twelfth (1/12th) of the executive's then annual base salary for each full year of service after the start date, up to a maximum payment of two (2) times the executive's then annual base salary;</p> <p>An additional retiring allowance equal to twenty (20%) percent of the amount calculated pursuant to the retiring allowance to compensate the executive for the loss of employment benefits; and</p> <p>An additional retiring allowance equal to the average of the last three (3) annual bonuses (or averaged over such lesser period of time as the executive has been employed with us) multiplied by one (1) plus an additional one-twelfth (1/12th) for each full year of service after the start date up to a maximum of two (2) times.</p>	
Jason B. Dranchuk Vice President, Finance and CFO  Brian G. Kergan Vice President, Corporate Development  Randolph J. Doetzel Vice President, Operations  Robert T. Moriyama Vice President, Enhanced Recovery		<p>A retiring allowance equal to one (1) times the executive's then annual base salary plus an additional one-twelfth (1/12th) of the executive's then annual base salary for each full year of service after the start date, up to a maximum payment of two (2) times the executive's then annual base salary;</p> <p>An additional retiring allowance equal to twenty (20%) percent of the amount calculated pursuant to the retiring allowance to compensate the executive for the loss of employment benefits; and</p> <p>An additional retiring allowance equal to the average of the last three (3) annual bonuses (or averaged over such lesser period of time as the executive has been employed with us) multiplied by one (1) plus an additional one-twelfth (1/12th) for each full year of service after the start date up to a maximum of two (2) times.</p>

Note:

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

The following table sets forth the estimated incremental payments (rounded to the nearest thousand dollars) that would be made to each of our NEO's assuming that a change of control event (as described in the table above) occurred on December 31, 2013.

Name	Severance Period (months)	Salary (\$)	Benefits and Perquisites (\$) <sup>(1)</sup>	Bonus (\$)	Incentive Rights <sup>(2)</sup> (\$)	Share Awards <sup>(3)</sup> (\$)	Total Incremental Payment (\$)
Craig H. Hansen	24	662,560	132,512	207,611	Nil	370,920	1,373,603
Jason B. Dranchuk	23	495,573	99,115	144,662	Nil	359,961	1,099,311
Brian G. Kergan	18	380,265	76,053	113,068	Nil	301,794	871,180
Randolph J. Doetzel	16	316,467	63,293	79,359	Nil	246,156	705,275
Robert T. Moriyama	14	262,768	52,554	73,795	Nil	247,842	636,959

Notes:

- (1) The amounts in this column represent compensation for the loss of employment benefits.
- (2) On the effective date of the change of control, any unvested incentive rights vest and become immediately exercisable. Calculated based on the difference between the closing price of our common shares on the Toronto Stock Exchange on December 31, 2013 (being \$8.43) less the original grant price of the incentive rights for in-the-money incentive rights. For calculation purposes, no adjustment has been made to the grant price to give effect to distributions or dividends paid since the right was granted.
- (3) On the effective date of the change of control, any unvested share awards vest and become immediately exercisable. The amounts shown in the table includes the in-the-money value of unvested share awards, which is calculated based on the closing price of our common shares on the Toronto Stock Exchange on December 31, 2013 (being \$8.43). No adjustment has been made to the number of share awards for dividends.

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

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

All of our directors and officers are covered by the policy and the amount of insurance applies collectively to all. The term of the policy is from December 1, 2013 to December 1, 2014.

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

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

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

### Board of Directors

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

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

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

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

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

<u>Director</u>	<u>Names of Other Issuers</u>
K. James Harrison	None
Kyle D. Kitagawa	Canadian Energy Services & Technology Corp.
Geoffrey C. Merritt	Perpetual Energy Inc.
Jim Peplinski	None
Grant A. Zawalsky	NuVista Energy Ltd. and Whitecap Resources Inc.

### Board Mandate

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

The board of directors is responsible for the stewardship of us and our subsidiaries and partnerships. 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 our best interests. In general terms, the board will:

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

Without limiting the generality of the foregoing, our 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 our business, which plans must:
  - be designed to achieve our principal objectives;
  - identify the principal strategic and operational opportunities and risks of our 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 our business and take all reasonable steps to ensure the implementation of the appropriate systems to manage these risks;
- approve our annual operating and capital plans;
- approve acquisitions and dispositions in excess of which require approval pursuant to expenditure limits established by the board;
- approve the establishment of credit facilities; and
- approve issuances of additional common shares or other instruments to the public.

### *Monitoring and Acting*

- monitor our progress towards achieving our goals, and to revise and alter our 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;
- approve our dividend policy;
- ensure systems are in place for the implementation and integrity of our 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 our business;
- in consultation with the CEO, appoint our officers and approve the terms of each officer's employment;
- develop a system under which succession to senior management positions will occur in a timely manner;
- approve any proposed significant change in our management organization structure;
- approve all retirement plans for our officers and employees;
- in consultation with the CEO, establish our disclosure policy;
- generally provide advice and guidance to management; and
- approve all matters relating to a takeover bid for our securities.

### *Finances and Controls*

- review our systems to manage the risks of our business and, with the assistance of management, our auditors and others (as required), evaluate the appropriateness of such systems;
- monitor the appropriateness of our capital structure;
- ensure that our financial performance is properly reported to shareholders, other security holders and regulators on a timely and regular basis;
- in consultation with the CEO, establish the ethical standards to be observed by all of our officers and employees 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 us and our 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 us;

- recommend to our shareholders a firm of chartered accountants to be appointed as our auditors;
- ensure our 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 us (including our annual and quarterly financial statements) is accurate and complete and represents fairly our financial position and performance including review and approval of annual and quarterly financial statements.

#### *Governance and Nominating*

- in consultation with the Chairman of our board of directors, 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 our board;
- appointing from amongst the directors an audit and reserves committee and such other committees of the board as the board deems appropriate;
- defining the mandate of each committee of the board;
- ensuring that processes are in place and are utilized to assess the effectiveness of the Chairman of our board, the board as a whole, each committee of the board and each director;
- establishing a system to enable any director to engage an outside adviser at our expense;
- annually reviewing the composition of our 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 our directors.

#### *Delegation*

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

#### *Composition*

- the board should be composed of at least 6 individuals elected by the shareholders at the annual general meeting;
- a majority of board members should be independent (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 us 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 governance and compensation committee following:
  - a change in personal circumstances which would reasonably interfere with the ability to serve as a Director; and
  - a change in personal circumstances which would reasonably reflect poorly on us (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 Chairman of our board;
- 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 our activities 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 our expense.

### **Board Committees**

In 2012, the committees of our board were restructured to more equitably distribute responsibilities, and to improve costs and efficiencies. As a result, we consolidated our audit committee and reserves committee into our audit and reserves committee and our governance and nominating committee and our compensation committee into our governance and compensation committee. All committee members are independent directors. Our board has accepted overall responsibility for health, safety and environment and no separate committees have been established to deal with these issues. The full text of the mandates of each committee is available on our website at [www.zargon.ca](http://www.zargon.ca).

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

The members of the audit and reserves committee currently are: Mr. Kitagawa (Chair), Ms. McKenzie and Mr. Merritt. Following the meeting, we anticipate reconstituting our audit and reserves committee to consist of Mr. Kitagawa (Chair), Mr. Merritt and Mr. Peplinski. The committee's mandate includes:

- reviewing our annual audited consolidated financial statements and the auditors' report thereon prior to submission to the board for approval;
- reviewing the quarterly consolidated financial statements prior to submission to the board for approval;
- reviewing the scope of external and internal audits;
- reviewing and discussing accounting and reporting policies and changes in accounting principles;
- reviewing our internal control systems and procedures;
- meeting with the external auditors independently of our management;
- reviewing management's recommendations for the appointment of the independent engineer;
- reviewing the terms of the independent engineers' engagement and the appropriateness and reasonableness of the proposed fees;
- reviewing the scope and methodology of the independent engineers' evaluation;
- reviewing any significant new discoveries, additions, revisions and acquisitions;
- reviewing assumptions and consistency with prior years;
- reviewing any problems experienced by the independent engineer in preparing the reserves report, including any restrictions imposed by management or significant issues on which there was a disagreement with management; and
- reviewing all public disclosure documents containing reserves information prior to its release, including, the annual report, the annual information form and management's discussion and analysis.

## ***Governance and Compensation Committee***

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

- assessing our corporate governance practises and making recommendations to the board with respect to corporate governance practises;
- establishing a nomination process and making recommendations to the board with respect to the nomination of directors;
- assessing, at least annually, the effectiveness of the board and its committees;
- determining compensation and terms of employment for executives, including the granting of shares and incentive programs;
- approving our benefit plans; and
- assessing, at least annually, the compensation and terms of employment of the Chairman, President and Chief Executive Officer.

## **Orientation and Continuing Education**

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

## **Ethical Business Conduct**

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

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

## **Position Descriptions**

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

## **Nomination of Directors**

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

board. In seeking nominees the governance and compensation committee encourages input from all members of the board and may use the services of professional recruiters if required.

### **Board Assessment**

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

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

Except as disclosed herein, there were no material interests, direct or indirect, of our insiders, proposed nominees for election as directors, or any associate or affiliate of such insiders or nominees since January 1, 2013, or in any proposed transaction, which has affected or would materially affect us or any of our subsidiaries.

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

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

### **ADDITIONAL INFORMATION**

We undertake to provide, upon request, a copy of our 2013 annual financial report, containing financial information in the management's discussion and analysis of financial condition and results of operations and the 2013 audited financial statements, as well as a copy of our annual information form, subsequent interim financial statements and this information circular - proxy statement. Our annual information form also contains disclosure relating to our audit and reserves committee and the fees paid to Ernst & Young LLP in 2013. Copies of these documents may be obtained on request without charge from the Vice President, Finance and Chief Financial Officer of Zargon Oil & Gas Ltd. at 700, 333 – 5<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3B6, telephone (403) 264-9992 or by accessing the disclosure documents available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at [www.sedar.com](http://www.sedar.com) or on our website at [www.zargon.ca](http://www.zargon.ca).

### **OTHER MATTERS**

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

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

Dated: April 8, 2014