

**ZARGON OIL & GAS LTD.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON MAY 30, 2018**

The annual 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 30, 2018 at 3:00 p.m. (Calgary time) to:

1. receive and consider our financial statements for the year ended December 31, 2017, 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.

If you are unable to attend the meeting in person, we request that you date and sign the enclosed form of proxy and deposit it with our transfer agent Computershare Trust Company of Canada, (i) by mail using the enclosed return envelope or (ii) by hand delivery to Computershare Trust Company of Canada, 8th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1. Alternatively, you may vote by telephone at 1-866-732-VOTE (8683) (toll free within North America) or 1-312-588-4290 (outside North America) or by internet using the 15 digit control number located at the bottom of your proxy at [www.investorvote.com](http://www.investorvote.com). All instructions are listed in the enclosed form of proxy. Your proxy or voting instructions must be received in each case no later than 3:00 p.m. (Mountain Time) on May 28, 2018 or, if the Meeting is adjourned, 48 hours (excluding Saturdays and holidays) before the beginning of any adjournment of the Meeting.

Only shareholders of record at the close of business on April 23, 2018 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 19 day of April, 2018.

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 Meeting to be held on May 30, 2018

### PROXIES

#### Solicitation of Proxies

This information circular - proxy statement is furnished in connection with the solicitation of proxies for use at our annual meeting to be held on May 30, 2018 at 3:00 p.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. Forms of proxy must be deposited with Computershare Trust Company of Canada, (i) by mail using the enclosed return envelope or (ii) by hand delivery to Computershare Trust Company of Canada, 8th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1. Alternatively, you may vote by telephone at 1-866-732-VOTE (8683) (toll free within North America) or 1-312-588-4290 (outside North America) or by internet using the 15 digit control number located at the bottom of your proxy at [www.investorvote.com](http://www.investorvote.com). All instructions are listed in the enclosed form of proxy. Your proxy or voting instructions must be received in each case no later than 3:00 p.m. (Mountain Time) on May 20, 2018 or, if the meeting is adjourned, 48 hours (excluding Saturdays and holidays) before the beginning 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. Shareholders can also 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 19, 2018 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 common 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 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 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 chair 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 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 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 19, 2018, there were 30,855,333 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 19, 2018, no person or company beneficially owns, or controls or directs, directly or indirectly, 10% or more of our issued and outstanding common shares.

As at April 19, 2018, our directors and executive officers as a group, beneficially owned, or controlled or directed, directly or indirectly, 3,112,274 common shares or approximately 10% of our issued and outstanding common shares and \$900,000 principal amount of our convertible debentures.

## **MATTERS TO BE ACTED UPON AT THE MEETING**

### **Election of Directors**

We currently have six (6) directors, being Craig H. Hansen, Kyle D. Kitagawa, Geoffrey C. Merritt, Jim Peplinski, Ron Wigham and Grant A. Zawalsky. Our board of directors has been fixed at six members and shareholders will be asked to elect the six directors referred to below. Each director elected will hold office until our next annual 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  
Kyle D. Kitagawa  
Geoffrey C. Merritt


Jim Peplinski  
Ron Wigham  
Grant A. Zawalsky


In the event that a vacancy among such nominees occurs 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 19, 2018 in respect of 2018 and as at April 17, 2017 in respect of 2017:


Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed <sup>(1)</sup>		Stock Options/ Share Awards		Total Market Value of Securities Owned <sup>(2)(3)</sup>	
			2018	2017	2018	2017	2018	2017
<b>Craig H. Hansen</b> Calgary, Alberta	61	1992	2,394,274/ \$900,000	2,479,030/ \$900,000	184,175	79,675	\$2,025,309	\$2,660,111
	Mr. Hansen has been our President and its predecessor, Zargon Energy Trust, since 1993. Mr. Hansen obtained a B.Sc. (Hons.) in Chemical Engineering from the University of Alberta in 1978 and is a professional engineer registered with APEGGA. Mr. Hansen was employed with Dome Petroleum Ltd. (1978-1980) and NRG Engineering Ltd. (1980-1984). He founded C.H. Hansen Engineering Ltd., an engineering consulting company, which provided reservoir, exploitation, and acquisition engineering services during the period 1984 through 1993. Mr. Hansen is a member of the board of directors of the Canadian Association of Petroleum Producers (CAPP).							

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed		Stock Options/ Share Awards		Total Market Value of Securities Owned <sup>(2)(3)</sup>	
			2018	2017	2018	2017	2018	2017
<b>Kyle D. Kitagawa</b> Calgary, Alberta	57	2001	71,753	200,853	70,850	21,500	\$33,724	\$142,606
	Mr. Kitagawa is the Chair of our Board and brings over 25 years of 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 businessperson since 2003. In addition, Mr. Kitagawa serves as Chairman of CES Energy Solutions Corp., a public oilfield service company.							
	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: - Board Chair - Audit and Reserves Committee - Special Committee of the Board (Chair)							

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed		Stock Options/ Share Awards		Total Market Value of Securities Owned <sup>(2)(3)</sup>	
			2018	2017	2018	2017	2018	2017
<b>Geoffrey C. Merritt</b> Calgary, Alberta	63	2009	95,978	94,319	74,100	25,400	\$45,110	\$66,966
	<p>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 Corporation, a public oil and gas company. 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., a public natural gas company.</p> <p>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.</p> <p>Member of:</p> <ul style="list-style-type: none"> <li>- Audit and Reserves Committee</li> <li>- Special Committee of the Board</li> </ul>							

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed		Stock Options/ Share Awards		Total Market Value of Securities Owned <sup>(2)(3)</sup>	
			2018	2017	2018	2017	2018	2017
<b>Jim Peplinski</b> Calgary, Alberta	57	1997	268,749	254,790	74,100	25,400	\$126,312	\$180,901
	<p>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.</p> <p>Member of:</p> <ul style="list-style-type: none"> <li>- Governance and Compensation Committee (Chair)</li> <li>- Special Committee of the Board</li> </ul>							

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed		Stock Options/ Share Awards		Total Market Value of Securities Owned <sup>(2)(3)</sup>	
			2018	2017	2018	2017	2018	2017
Ron Wigham Calgary, Alberta	61	2015	247,700	247,700	65,000	15,000	\$116,419	\$175,867
	<p>Mr. Wigham is an independent businessperson and a director of Spur Petroleum Ltd., a private oil and gas company and Tourmaline Oil Corp., a public oil and gas company. In 2014 Mr. Wigham retired from the position of Vice-Chairman of Peters &amp; Co. Limited.</p> <p>Mr. Wigham received a B.A. Finance in 1978 from the Honors College, University of Oregon and LLB from the University of Victoria in 1981.</p> <p>Member of:</p> <ul style="list-style-type: none"> <li>- Audit and Reserves Committee (Chair)</li> <li>- Governance and Compensation Committee</li> <li>- Special Committee of the Board</li> </ul>							

Nominee for Election as Director	Age	Director Since	Securities Owned, Controlled or Directed		Stock Options/ Share Awards		Total Market Value of Securities Owned <sup>(2)(3)</sup>	
			2018	2017	2018	2017	2018	2017
Grant A. Zawalsky Calgary, Alberta	58	2000	33,820	32,161	74,100	25,400	\$15,895	\$22,834
	<p>Mr. Zawalsky is the Managing Partner of Burnet, Duckworth &amp; Palmer LLP. Barristers and Solicitors where he has been a partner since 1994.</p> <p>Mr. Zawalsky currently sits on the board of directors of a number of private and public companies, including NuVista Energy Ltd., PrairieSky Royalty Ltd. and Whitecap Resources Inc., and is Corporate Secretary of ARC Resources Ltd. and Bonavista Energy Corporation. Mr. Zawalsky is also a Governor of the Calgary Petroleum Club.</p> <p>Mr. Zawalsky holds a B.Comm and LL.B. from the University of Alberta and is a member of the Law Society of Alberta.</p> <p>Member of:</p> <ul style="list-style-type: none"> <li>- Governance and Compensation Committee</li> </ul>							

Notes:

- (1) "Securities Owned, Controlled or Directed" includes the aggregate principal amount of convertible debentures held by Mr. Hansen.
- (2) For 2018, the "Total Market Value of Securities Owned" was determined by adding: (i) the number of common shares held by the nominee as of April 19, 2018 multiplied by the closing price of our common shares on the Toronto Stock Exchange on such date (\$0.47); (ii) the number of common shares issuable upon exercise price of stock options held by the nominee multiplied by the difference between the exercise of the stock options and the closing price of our common shares on the Toronto Stock Exchange on such date; (iii) the number of common shares issuable upon exercise of share awards held by the nominee multiplied by the closing price of our common shares on the Toronto Stock Exchange on such date; and (iv) in the case of Mr. Hansen, the aggregate principal amount of convertible debentures held by Mr. Hansen. For calculation purposes, no adjustment has been made to the number of common shares issuable upon exercise of share awards to give effect to dividends paid since the share award was granted.
- (3) For 2017, the "Total Market Value of Securities Owned" was determined by adding: (i) the number of common shares held by the nominee as of April 17, 2017 multiplied by the closing price of our common shares on the Toronto Stock Exchange on such date (\$0.71); (ii) the number of common shares issuable upon exercise of stock options held by the

nominee multiplied by the difference between the exercise price of the stock options and the closing price of our common shares on the Toronto Stock Exchange on such date; (iii) the number of common shares issuable upon exercise of share awards held by the nominee multiplied by the closing price of our common shares on the Toronto Stock Exchange on such date; and (iv) in the case of Mr. Hansen, the aggregate principal amount of convertible debentures held by Mr. Hansen. For calculation purposes, no adjustment has been made to the number of common shares issuable upon exercise of share awards to give effect to dividends paid since the share award was granted.

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

To the knowledge of our directors and executive officers, none of our proposed directors is, as of the date hereof, or has been within ten years before the date hereof, a director, chief executive officer or chief financial officer of any company (including us), that was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "**Order**") that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer or was subject to an Order that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer.

Except as described herein, 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. Mr. Zawalsky was a director of Endurance Energy Ltd. ("**Endurance**"), a private corporation engaged in the exploration and production of natural gas in western Canada. Endurance filed for creditor protection under the *Companies' Creditors Arrangement Act* (Canada) on May 30, 2016. Mr. Zawalsky resigned as a director of Endurance on November 3, 2016 upon the sale of substantially all of the assets of Endurance.

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 an individual director voting policy which allows you to vote with respect to each individual director. The individual voting results will be reviewed by our governance and compensation committee and will be considered as part of the committee's overall review and assessment of the nominees recommended to the shareholders at the next annual meeting of shareholders.

Our board of directors has also adopted a majority voting policy, which provides that if a nominee for election as a director receives a greater number of votes "withheld" than votes "for" at a meeting of our shareholders, such nominee will offer his or her resignation as a director to our board of directors promptly following the meeting of shareholders at which the director was elected. In most cases, our board will accept the offer of resignation. The governance and compensation committee can, however, recommend retaining the director when there are extenuating circumstances. The committee will consider all relevant factors, including why shareholders withheld votes, the director's length of service, qualifications and contributions to us, share ownership, the current mix of skills and attributes of the directors on our board; the impact with respect to covenants in our agreements or plans, if any; and legal requirements, policies or guidelines (regulatory, securities or corporate laws, or stock exchange rules) for director numbers and qualifications. In any case, the board will disclose its decision, including an explanation of the process by which the decision was reached and, if applicable, the reasons for rejecting the tendered resignation, in a press



release within 90 days of the meeting. 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 Professional 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, 2017 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 non-management 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 non-management 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 response to the constraints on our business due to the commodity price environment, we reduced our directors' fees by 50% in 2015 and have maintained our fees at these levels. The following table sets forth the principal elements of the compensation plan for our outside directors for the year ended December 31, 2017.

<b>Compensation Element</b>	<b>Amount (\$)</b>
Board Retainer – Annual	10,000
Additional Chair Retainers – Annual:	
Board	12,500
Audit and Reserves	5,000
Governance and Compensation	2,500
Special Committee	2,500
Meeting Attendance Fee	500

Previously, directors were eligible to receive awards under our legacy share award plan. Pursuant to the rules of the Toronto Stock Exchange, our share award plan was required to be re-approved by our shareholders on or before May 15, 2016. We did not seek such approval and, as a result, we are no longer able to grant awards under the plan. The share award plan will remain in place until such time as all outstanding share awards granted thereunder have been settled, cancelled or expired (which we expect to occur in 2020).

In 2017, we adopted a stock option plan which was approved by our shareholders on May 30, 2017. The number of common shares issuable pursuant to the stock option plan to our directors who are also not an officer or full time employee of us is limited to a maximum of 1% of our outstanding shares and the value of stock options granted to any such director during a calendar year, calculated on the date of grant, cannot exceed \$100,000. In 2017, we granted an aggregate of 320,000 stock options to our outside directors. The stock options vest as to one-third annually commencing on December 31, 2017, have an average exercise price of \$0.72, and will expire on March 23, 2022.

As at December 31, 2017, our non-management directors held an aggregate of 111,400 share awards and 250,000 stock options, which represented approximately 1% of our issued and outstanding common shares as at such date. For information regarding the outstanding stock options and share awards held by our non-management directors as at December 31, 2017, see "*Directors Outstanding Option-based and Share-based Awards*" and "*Directors' 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 non-management directors during the year ended December 31, 2017. Directors' fees are paid on a quarterly basis.

Name	Board Retainer (\$)	Chair of Board Retainer (\$)	Committee Chair Retainer (\$)	Meeting Attendance Fees (\$)	Total Fees Earned (\$)
Kyle D. Kitagawa	10,000	6,250	5,000	10,500	31,750
Geoffrey C. Merritt	10,000	-	-	10,500	20,500
Jim Peplinski	10,000	-	2,500	10,500	23,000
Ron Wigham	10,000	-	2,500	9,500	22,000
Grant A. Zawalsky	10,000	-	-	9,000	19,000
K. James Harrison <sup>(1)</sup>	5,000	6,250	1,250	6,000	18,500

Note:

- (1) Mr. K. James Harrison retired from our board of directors on May 30, 2017.

### **Summary Compensation Table**

The following table sets forth information concerning the compensation for our non-management directors for the year ended December 31, 2017. 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 (\$)
Kyle D. Kitagawa	31,750	-	13,546	-	-	-	45,296
Geoffrey C. Merritt	20,500	-	13,546	-	-	-	34,046
Jim Peplinski	23,000	-	13,546	-	-	-	36,546
Ron Wigham	22,000	-	13,546	-	-	-	35,546
Grant A. Zawalsky <sup>(3)</sup>	19,000	-	13,546	-	-	-	32,546
K. James Harrison <sup>(4)</sup>	18,500	-	18,964	-	-	-	37,464

Notes:

- (1) No share-based awards were granted to our outside directors in 2017.
- (2) Based on the fair value of the applicable options. The fair value of each stock option is determined using the Black-Scholes option pricing model. During 2017, in the pricing model, the average risk free interest rate was 1%; volatility of 64%; an average expected life of three years; an estimated forfeiture rate of nil %; and dividends of nil per share. These options were granted on March 23, 2017 and were subject to shareholder approval. The necessary approval was obtained on May 30, 2017 and the fair value of the stock options has been calculated as of such date.
- (3) Mr. Zawalsky is the Managing Partner at the law firm of Burnet, Duckworth & Palmer LLP, which receives fees for the provision of legal services to us.
- (4) Mr. K. James Harrison retired from our board of directors on May 30, 2017.

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

The following table sets forth all outstanding option-based awards and share-based awards held by our non-management directors at December 31, 2017.

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised option-based awards (#)	Exercise price (\$)	Expiration date	Value of unexercised in-the-money option-based awards <sup>(1)</sup> (\$)	Number of share-based awards that have not vested (#)	Market or payout value of share-based awards that have not vested <sup>(2)</sup> (\$)	Market or payout value of vested share-based awards not paid out or distributed <sup>(2)</sup> (\$)
Kyle D. Kitagawa	50,000	0.72	March 23, 2022	-	8,800	4,048	5,842
Geoffrey C. Merritt	50,000	0.72	March 23, 2022	-	8,800	4,048	7,636
Jim Peplinski	50,000	0.72	March 23, 2022	-	8,800	4,048	7,038
Ron Wigham	50,000	0.72	March 23, 2022	-	7,500	3,450	3,450
Grant A. Zawalsky	50,000	0.72	March 23, 2022	-	8,800	4,048	7,636

Notes:

- (1) Calculated based on the difference between the closing price of our common shares on the Toronto Stock Exchange on December 29, 2017 (being \$0.46) and the exercise price of the stock options.
- (2) Calculated based on the closing price of our common shares on the Toronto Stock Exchange on December 29, 2017 (being \$0.46). 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 non-management directors the value of option-based awards and share-based awards which vested during the year ended December 31, 2017 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2017.

Name	Option-based awards – Value vested during the year <sup>(1)</sup> (\$)	Share-based awards – Value vested during the year <sup>(2)</sup> (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
Kyle D. Kitagawa	-	5,842	-
Geoffrey C. Merritt	-	7,636	-
Jim Peplinski	-	7,038	-
Ron Wigham	-	3,450	-
Grant A. Zawalsky	-	7,636	-

Notes:

- (1) Calculated based on the difference between the closing price of our common shares on the Toronto Stock Exchange on December 29, 2017 (being \$0.46) and the exercise price of the stock options.
- (2) Calculated based on the closing price of our common shares on the Toronto Stock Exchange on December 29, 2017 (being \$0.46), which was the last trading day before the vesting date of January 1, 2018. 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, stock options 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 cost base of his or 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 non-management directors as at December 31, 2017.

Name	Ownership Guideline		Ownership Value	Guideline Met or Investment Required to Meet Guideline
	Multiple	Amount (\$)	Amount (\$) <sup>(1)(2)</sup>	
Craig H. Hansen	2 x base salary	490,000	1,034,936	Yes
<b>Non-management directors:</b>				
Kyle D. Kitagawa	4 x retainer	40,000	33,006	Yes
Geoffrey C. Merritt	4 x retainer	40,000	43,387	Yes
Jim Peplinski	4 x retainer	40,000	123,625	Yes
Ron Wigham	4 x retainer	40,000	113,942	Yes
Grant A. Zawalsky	4 x retainer	40,000	14,794	Yes

Notes:

- (1) Based on the closing price of our common shares on the Toronto Stock Exchange on December 29, 2017 (being \$0.46).
- (2) For the purposes of compliance with the policy, the value of these holdings is based on the greater of the cost to acquire the shares or the market price. As a result, the value presented may be less than the target although the guideline has been met.

## Meeting Attendances

The following table outlines the attendance record of our directors in 2017.

Name	Board Meeting	Audit and Reserves Committee	Governance and Compensation Committee	Special Committee of the Board
Craig H. Hansen <sup>(1)</sup>	8/8	6/6	3/3	7/7
Kyle D. Kitagawa	8/8	6/6	-	7/7
Geoffrey C. Merritt	8/8	6/6	-	7/7
Jim Peplinski	8/8	3/3	3/3	7/7
Ron Wigham	8/8	2/2	2/2	7/7
Grant A. Zawalsky <sup>(2)</sup>	8/8	-	3/3	7/7
K. James Harrison <sup>(3)</sup>	4/4	-	3/3	5/5

Notes:

- (1) Mr. Hansen attended the audit and reserves committee, governance and compensation committee and special committee meetings in his capacity as President and Chief Executive Officer of our company and not as a member of the committee.
- (2) Mr. Zawalsky attended the special committee meetings in his capacity as a member of our board of directors and not as a member of the committee.
- (3) Mr. K. James Harrison retired from our board of directors on May 30, 2017.

## EXECUTIVE COMPENSATION

### Statement of Executive Compensation

For the year ended December 31, 2017, our named executive officers ("**NEO**") were:

Craig H. Hansen,	President and Chief Executive Officer (" <b>CEO</b> ")
William T. Cromb	Interim Chief Financial Officer (" <b>Interim CFO</b> ")
Randolph J. Doetzel	Vice President, Operations
Christopher M. Hustad	Vice President, Development
Leslie E. Burden	Vice President, Land

### 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 non-management directors, Messrs. Peplinski (Chair), Wigham 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, the Interim CFO 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.

### ***Compensation Risks***

In establishing our executive compensation program our governance and compensation committee also considers the implication of the risks associated with our compensation program, including:

- The risk of executives taking inappropriate or excessive risks;
- The risk of inappropriate focus on achieving short term goals at the expense of long term return to shareholders;
- The risk of encouraging aggressive accounting practises; and
- The risk of excessive focus on financial returns and operational goals at the expense of regulatory, environmental and health and safety.

While no program can fully mitigate these risks we believe that many of these risks are mitigated by:

- Weighting our long term incentives towards share ownership and vesting our long term incentives over a number of years;
- Establishing a uniform incentive program for all executive officers and employees;
- Avoiding narrowly focused performance goals which may encourage loss of focus on providing long term shareholder return and retaining adequate discretion to ensure that our governance and compensation committee and board retain their business judgment in assessing actual performance; and
- Establishing a strong "tone at the top" for accounting, regulatory, environmental and health and safety compliance.

### *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 executives with shareholders and helps retain executive talent. Our employee savings plan further aligns our executives with shareholders and allows executives 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 executives 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 development 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. During the past year the committee did not use any formal benchmarking process when considering compensation.

### ***Base Salary***

In setting base salaries, our governance and compensation committee, consistent with our long term policy, has targeted our executive's base salaries at a competitive range for comparable organizations in the oil and gas industry. Salaries reflect market conditions and levels of responsibility. Salaries of senior executive officers are determined utilizing salary survey information from comparator companies. In January of each year, our Chief Executive Officer makes salary recommendations to our governance and compensation committee, which in turn makes its own recommendation to our board of directors. Due to economic conditions, salary rollbacks were introduced during 2015 and salaries continue to be maintained at the 2015 levels.

### ***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. Due to the commodity price environment, our 2017 overall corporate targeted bonus amount was set at zero and consequently no bonuses were paid to our NEOs for the year ended December 31, 2017. Our board of directors, however, approved a retention bonus pool of \$0.07 million for our staff, excluding officers, which was payable in May of 2017, provided the employee remained with us until May 31, 2017.

### ***Incentive Plans***

The governance and compensation committee's objectives for our long term compensation program include 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.

We formerly had a share award plan. Pursuant to the rules of the Toronto Stock Exchange, our share award plan was required to be re-approved by our shareholders on or before May 15, 2016. We did not seek such approval and as a result, we are no longer able to grant awards under the plan. The share award plan will remain in place until such time as all outstanding share awards granted thereunder have been settled, cancelled or expired (which we expect to occur in 2020).

### ***Stock Option Plan***

In 2017 we adopted a stock option plan (the "**Plan**") which is our only active long-term incentive plan. A copy of the Plan was filed under our profile on the SEDAR website at [www.sedar.com](http://www.sedar.com) on April 26, 2017.

#### *Purpose of the Plan*

The principal purposes of the Plan are: (i) to retain and attract qualified directors, officers, consultants, employees and other service providers ("**Employees**") that we require; and (ii) to promote a proprietary interest in us by such Employees and to encourage such persons to remain in our employ or service and put forth maximum efforts for the success of our affairs and business.

#### *Overview*

The Plan is administered by our governance and compensation committee (the "**Committee**") provided that our board has the authority to appoint itself or another committee of the board to administer the Plan. In the event that the board appoints itself or another committee to administer the Plan, all references below to the Committee will be deemed to be a reference to the board or such other committee. In addition, the Committee may delegate to one or more of its members, to our President and Chief Executive Officer, our Interim Chief Financial Officer, or to one or more agents, such administrative duties as it may deem advisable, and the Committee or any person to whom it has



delegated duties as aforesaid may employ one or more persons to render advice with respect to any responsibility that our board or such person may have under the Plan.

Under the terms of the Plan, any Employee may be granted stock options. In determining the Employee to whom stock options may be granted ("**Optionees**") and the number of common shares to be granted, the Committee may take into account such factors as it shall determine in its sole discretion.

#### *Exercise Price*

The exercise price of any stock option granted pursuant to the Plan must be fixed by the Committee when the stock option is granted, provided that such price may not be less than the "market price" of our common shares on the date of the grant. "Market Price", on any date, is defined in the Plan, as the volume weighted average trading price of our common shares on the Toronto Stock Exchange for the five trading days prior to the date of grant (or, if our common shares are not then listed and posted for trading on the Toronto Stock Exchange, such price as is required by such stock exchange in Canada on which our common shares are listed and posted for trading as may be selected for such purpose by our board of directors) and provided that in the event that our common shares are not listed and posted for trading on any stock exchange in Canada, the "Market Price" shall be determined by our board in its sole discretion.

#### *Limitation on Common Shares Reserved*

The Plan provides that the maximum number of common shares reserved for issuance from time to time pursuant to outstanding stock options shall not exceed 8.0% of the aggregate number of our issued and outstanding common shares less common shares reserved for issuance under outstanding share awards under our legacy share award plan.

Any increase in the number of common shares outstanding (whether as a result of the exercise of stock options or otherwise) will result in an increase in the number of common shares that may be issued on exercise of stock options. In addition, if any stock options expire, terminate or are cancelled for any reason without the common shares issuable thereunder having been issued in full, any such unissued common shares shall be available for granting further stock options under the Plan.

#### *Limitations on Stock Options*

The aggregate number of common shares issuable pursuant to the Plan to any single holder of stock options shall not exceed 5% of our outstanding common shares.

In accordance with the rules of the Toronto Stock Exchange, the number of common shares issued to "insiders" (as that term is defined by the applicable rules of the Toronto Stock Exchange) within one year pursuant to the Plan, and issuable to insiders at any time, under the Plan or when combined with all of our other security based compensation arrangements, shall not exceed 10% of the outstanding common shares. In determining the number of common shares issuable within one year for this purpose, the number of common shares shall be determined on the basis of the number of common shares that are outstanding immediately prior to the common share issuance, excluding any common shares issued pursuant to share compensation arrangements over the preceding one-year period.

The number of common shares issuable pursuant to the Plan to our directors who are also not an officer or full-time employee of us is limited to a maximum of 1% of our outstanding common shares and the value of stock options granted to any such director during a calendar year, as calculated on the date of grant, shall not exceed \$100,000.

#### *Vesting*

The Committee has the sole discretion to determine the time during which stock options will vest and the method of vesting, or that no vesting restriction shall exist either before or after the date of grant.

### *Expiry Dates*

All stock options granted pursuant to the Plan will expire on a date determined by the Committee at the time of the grant provided that no stock option may be exercised beyond five years from the time of the grant. Any stock options which have not been exercised by the expiry date shall expire and become null and void.

If the expiry date of any stock option falls within any blackout period imposed by our board, then the expiry date of such stock options will be extended to the date that is ten business days following the end of the blackout period. Unless approved by our board, no stock options may be exercised by an Optionee during a blackout period.

### *Exercise of Stock Options*

Optionees may exercise stock options from time to time by delivering a written notice of exercise specifying the number of common shares with respect to which the stock option is being exercised and accompanied by payment in full of the exercise price of the common shares then being purchased. In addition, Optionees have the right (the "**Put Right**") to request that we purchase each of their vested stock options for a price equal to the difference, if positive, between the "current market price" of our common shares and the exercise price of the option. "Current market price" is defined in the Plan as the closing price of our common shares on the last trading day prior to the day of the notice of exercise of the Put Right is provided. We have the discretion to not accept any exercise of the Put Right.

The Plan does not contain any provisions for financial assistance by us in respect of any stock options granted thereunder.

### *Change of Control*

In the event of a change of control, the vesting date for all common shares awarded pursuant to all stock options that have not yet vested as of such time shall vest immediately prior to the effective time of the change of control. Each Optionee will have the right to exercise all of their stock options which will vest pursuant to a change of control conditional on the completion of the Change of Control (such stock options to be deemed to be exercised prior to the effective time of the Change of Control) (a "**Conditional Exercise**"). All stock options not exercised or Conditionally Exercised immediately prior to the effective time of the change of control shall be and shall be deemed to have been cancelled immediately prior to the effective time of the change of control and shall be of no further force or effect. If for any reason such change of control is not effected, the Conditional Exercise will become null and void.

Under the Plan, a "change of control" means:

- (a) a successful "take-over bid" as defined in Multilateral Instrument 62-104 or any replacement or successor provisions ("**MI 62-104**"), which is not exempt from the take-over bid requirements of MI 62-104, pursuant to which the "offeror" as a result of such take-over bid, beneficially owns, directly or indirectly, in excess of 50% of the outstanding common shares;
- (b) the issuance to or acquisition by any person, or group of persons acting in concert, of directly, or indirectly, including through an arrangement, merger or other form of reorganization of us, of common shares which in the aggregate total 50% or more of the then issued and outstanding common shares;
- (c) 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);

at provided that notwithstanding the application of any of the foregoing, a "change of control" shall be deemed to not have occurred if a majority of our board, 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 of the Plan.

### *Anti-Dilution*

The Plan contains anti-dilution provisions which allow our board to make such adjustments to the plan, to any stock options as our board of directors may, in its sole discretion, consider appropriate in the circumstances to prevent dilution or enlargement of the rights granted to employees thereunder.

### *Early Termination Events*

Pursuant to the Plan, unless otherwise determined by our board or unless otherwise provided in an option agreement pertaining to a particular grant or any written employment or consulting agreement governing an Optionee's role as an Employee, the following provisions shall apply in the event that an Optionee ceases to be an Employee:

- (i) Termination – If an Optionee ceases to be an Employee for any reason whatsoever, including termination without cause, other than the death or disability of the Employee (as contemplated under (ii)), there shall be no further vesting of any of such Optionee's stock options following the cessation date and all outstanding stock option agreements under which stock options have been made to such Optionee shall be terminated and all rights to receive common shares thereunder shall be forfeited by the Optionee effective as of the earlier of (a) the date that is 30 days from the cessation date plus any black-out extension term if a black-out is in effect at the end of such 30 day period; and (b) the expiry date otherwise relating to such stock option.
- (ii) Termination Upon Death or Disability – Upon the death or disability of an Optionee, there shall be no further vesting of any of such Optionee's stock options following the cessation date and all outstanding stock option agreements under which stock options have been made to such Optionee shall be terminated and all rights to receive common shares thereunder shall be forfeited by the Optionee effective as of the earlier of (a) the date that is six months from the cessation date and (b) the expiry date otherwise relating to such stock option.

### *Assignment*

Except in the case of death, the right to receive common shares pursuant to a stock option may only be exercised by an Optionee personally. Except as otherwise provided in the Plan, no assignment, sale, transfer, pledge or charge of a stock option, whether voluntary, involuntary, by operation of law or otherwise, vests any interest or right in such stock option 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 stock option shall terminate and be of no further force or effect.

### *Amendment and Termination of Plan*

The Plan and any stock options granted pursuant thereto may, subject to any required approval of the Toronto Stock Exchange, be amended, modified or terminated without the approval of shareholders. Notwithstanding the foregoing, the Plan or any stock options may not be amended without shareholder approval to:

- (a) make any amendment to the Plan to increase the percentage of common shares issuable on exercise of outstanding stock options above the current limit;
- (b) extend the expiry date of any outstanding stock options;
- (c) make any reduction in the exercise price of a stock option or permit a reduction in the exercise price of a stock option by the cancellation and immediate re-issue of stock options or other entitlements;
- (d) change participants eligible to receive stock options under the Plan;

- (e) make any amendment to the Plan that would permit a holder to transfer or assign stock options to a new beneficial holder other than in the case of death of the holder;
- (f) any amendment to increase the number of common shares that may be issued to a single holder above the restriction contained in the Plan;
- (g) any amendment to the limits on non-employee directors participation contained in the Plan;
- (h) any amendment to increase the number of common shares that may be issued to an insider above the restrictions contained in the Plan; or
- (i) an amendment to amend the amending provision of the Plan.

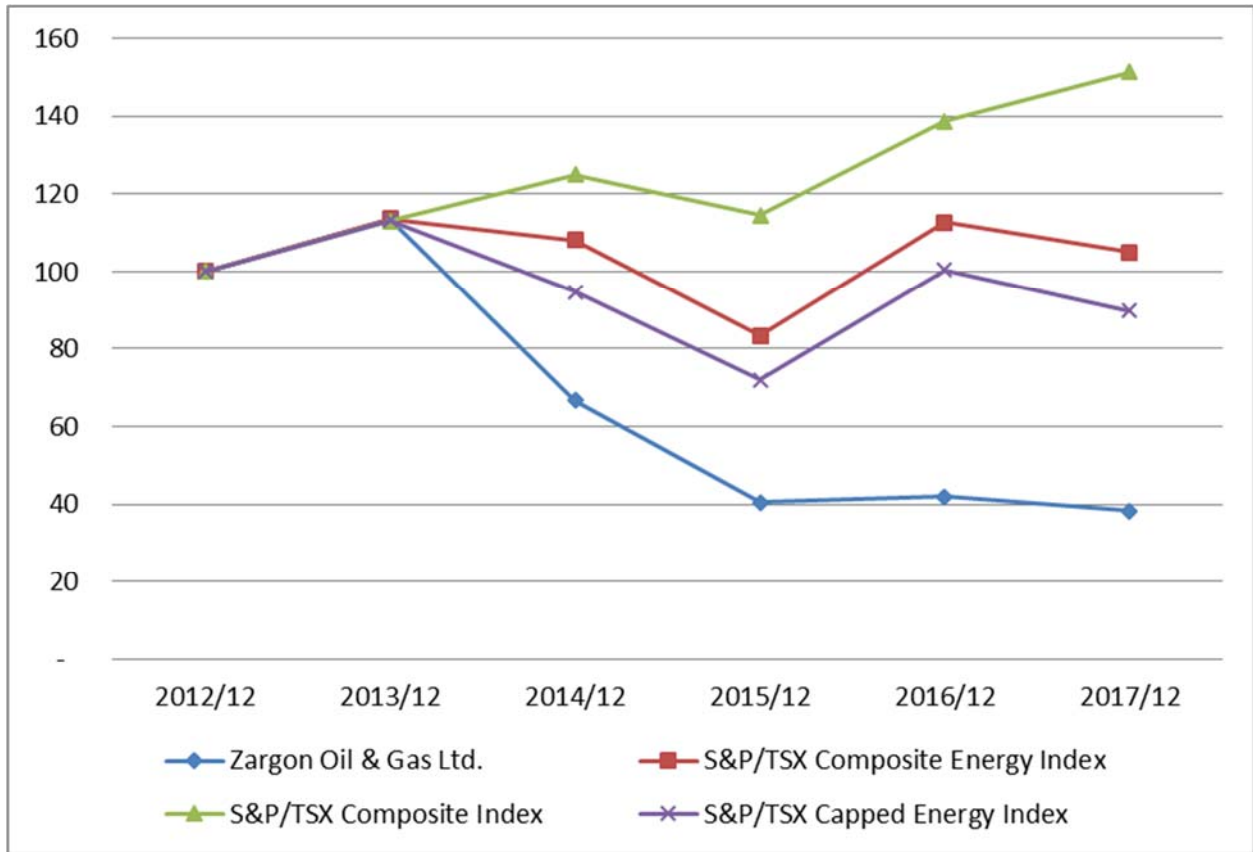
In addition, no amendment to the Plan or stock options granted pursuant to the Plan may be made without the consent of the Optionee, if it adversely alters or impairs any stock option previously granted to such Optionee under the Plan.

### ***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 named executive officers (other than Mr. Cromb) participated in the program in 2017. 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, 2012, with all distributions and dividends reinvested.



	2012/12	2013/12	2014/12	2015/12	2016/12	2017/12
Zargon Oil & Gas Ltd.	100	113	67	40	42	38
S&P/TSX Composite Index	100	113	125	115	139	151
S&P/TSX Composite Energy Index	100	114	108	83	113	105
S&P/TSX Capped Energy Index	100	113	95	72	100	90

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 ("NEO")

The following table sets forth the information concerning the compensation for our CEO, our Interim CFO and each of our three most highly compensated executive officers, other than the CEO and Interim CFO, whose total compensation for the year ended December 31, 2017 was more than \$150,000 and who were serving as our executive officers at the end of 2017.

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	2017	245,000	-	31,156	-	-	-	36,486	312,642
	2016	245,000	-	-	-	-	-	35,950	280,950
	2015	260,484	154,000	-	-	-	-	37,544	452,028
William T. Cromb <sup>(4)</sup> Interim CFO	2017	212,929	-	31,156	-	-	-	-	244,085
	2016	25,003	-	-	-	-	-	-	25,003
	2015	-	-	-	-	-	-	-	-
Randolph J. Doetzel Vice President, Operations	2017	217,887	-	31,156	-	-	-	32,379	281,422
	2016	217,887	-	-	-	-	-	31,919	249,806
	2015	238,062	53,200	-	-	-	-	34,007	325,269
Christopher M. Hustad Vice President, Development	2017	199,344	-	31,156	-	-	-	31,630	262,130
	2016	199,344	-	-	-	-	-	31,114	230,458
	2015	217,802	44,800	-	-	-	-	32,951	295,553
Leslie E. Burden Vice President, Land	2017	191,880	-	21,674	-	-	-	26,917	240,470
	2016	191,880	-	-	-	-	-	23,784	215,664
	2015	209,647	44,800	-	-	-	-	32,087	286,534

### 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) Based on the grant date fair value of the applicable stock options. The fair value of each stock option is determined on the date of grant using the Black-Scholes option pricing model. During 2017, in the pricing model, the average risk free interest rate was 1%; volatility of 64%; an average expected life of three years; an estimated forfeiture rate of nil %; and dividends of nil per share. These options were granted on March 23, 2017 and were subject to shareholder approval. The necessary approval was obtained on May 30, 2017 and the fair value of the stock options has been calculated as of such date.
- (3) The amounts in this column represent perquisites and other taxable benefits.
- (4) Mr. Cromb was appointed as our Interim Chief Financial Officer on November 30, 2016.

**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, 2017.

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised option-based awards (#)	Exercise price (\$)	Expiration date	Value of unexercised in-the-money option-based awards (\$)	Number of share-based awards that have not vested (#)	Market or payout value of share-based awards that have not vested <sup>(1)</sup> (\$)	Market or payout value of vested share-based awards not paid out or distributed <sup>(1)</sup> (\$)
Craig H. Hansen	115,000	0.72	March 23, 2022	-	32,225	14,824	21,827
William Cromb	115,000	0.72	March 23, 2022	-	-	-	-
Randolph J. Doetzel	115,000	0.72	March 23, 2022	-	13,275	6,107	-
Christopher M. Hustad	115,000	0.72	March 23, 2022	-	10,925	5,026	13,697
Leslie E. Burden	80,000	0.72	March 23, 2022	-	11,100	5,106	7,958

Notes:

- (1) Calculated based on the difference between the closing price of our common shares on the Toronto Stock Exchange on December 29, 2017 (being \$0.46) and the exercise price of the stock options.
- (2) Calculated based on the closing price of our common shares on the Toronto Stock Exchange on December 29, 2017 (being \$0.46). No adjustment has been made to the number of share awards for dividends.

**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, 2017 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2017.

Name	Option-based awards – Value vested during the year <sup>(1)</sup> (\$)	Share-based awards – Value vested during the year <sup>(2)</sup> (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
Craig H. Hansen	-	18,506	-
William Cromb	-	-	-
Randolph J. Doetzel	-	9,380	-
Christopher M. Hustad	-	7,937	-
Leslie E. Burden	-	7,683	-

Note:

- (1) Calculated based on the difference between the closing price of our common shares on the Toronto Stock Exchange on December 29, 2017 (being \$0.46) and the exercise price of the stock options.
- (2) Calculated based on the closing price of our common shares on the Toronto Stock Exchange as of December 30, 2016 (being \$0.78), which was the last trading day before the vesting date of January 1, 2017. No adjustment has been made to the number of share awards to give effect to dividends paid since the share award was granted.

## Securities Authorized for Issuance Under Equity Compensation Plans

The following sets forth information in respect of securities authorized for issuance under our equity compensation plans as at December 31, 2017.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by securityholders			
Share Award Plan <sup>(1)(2)</sup>	363,150	N/A	Nil
Stock Option Plan <sup>(3)</sup>	1,250,000	0.72	850,964
Total	1,613,150		850,964

Notes:

- (1) Our share award plan expired in 2016 and we are no longer able to grant awards under that plan. However the share award plan will remain in place until such time as all outstanding share awards granted thereunder have been settled, cancelled or expired.
- (2) During the year ended December 31, 2017, we issued 194,445 common shares pursuant to share awards settled during the year.
- (3) Our stock option plan was approved by our shareholders on May 30, 2017. The total number of common shares available for stock option grants at December 31, 2017 was 2,464,114 common shares (8% of our issued and outstanding common shares as at December 31, 2017 less 363,150 common shares reserved for issuance for outstanding share awards as at December 31, 2017 and the 1,250,000 stock options outstanding as at December 31, 2017).

The table below gives details about the number of shares issuable under our stock option plan at the end of 2017. Our option plan was put in place in 2017 and we have no other form of active long term incentive plan.

	As of December 31, 2017
Number of stock options available for grant under the stock option plan	2,100,964
Number of stock options granted in 2017 under the stock option plan	1,340,000
2017 Burn Rate <sup>(1)</sup>	4%

Note:

- (1) The burn rate is calculated by dividing the number of stock options granted during 2017 by the weighted average number of common shares outstanding during 2017 of 30,801,431.

## 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 our current NEOs (other than Mr. Cromb, our Interim CFO with whom we have entered into a consulting agreement) pursuant to which we have agreed to make a lump-sum payment to each executive in the event of termination without cause or following a "change of control" in certain circumstances. 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 these NEOs in the event of a change of control.

	<b>Termination Event</b>
	<b>Change of Control Provision</b>
Craig H. Hansen President and CEO <sup>(1)(2)</sup>	<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>
Randolph J. Doetzel Vice President, Operations <sup>(2)</sup>	<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>

	<b>Termination Event</b>
	<b>Change of Control Provision</b>
Christopher M. Hustad Vice President, Development <sup>(2)</sup>	A retiring allowance equal to one-half (1/2) 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 one (1) times the executive's then annual base salary;
Leslie E. Burden Vice President, Land <sup>(2)</sup>	An additional retiring allowance equal to twenty (20%) percent of the amount calculated pursuant to the retiring allowance to compensate the executive for the loss of employment benefits; and  An additional retiring allowance equal to the average of the last three (3) annual bonuses (or averaged over such lesser period of time as the executive has been employed with us) multiplied by one (1) plus an additional one-twelfth (1/12th) for each full year of service after the start date up to a maximum of two (2) times.

Notes:

- (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.
- (2) For the purpose of calculating the termination payments, the executive's base salary will not be adjusted for the salary reductions that were put in place in 2015.

The following table sets forth the estimated incremental payments (rounded to the nearest thousand dollars) that would be made to each of our current NEOs, assuming that a change of control event (as described in the table above) occurred on December 31, 2017.

Name	Severance Period (months)	Salary <sup>(1)</sup> (\$)	Benefits and Perquisites <sup>(2)</sup> (\$)	Bonus (\$)	Share Awards and Stock Options <sup>(3)</sup> (\$)	Total Incremental Payment (\$)
Craig H. Hansen	24	675,812	135,162	-	36,651	847,625
William T. Cromb	-	-	-	-	-	-
Randolph J. Doetzel	20	403,495	80,699	-	6,107	490,301
Christopher M. Hustad	10	184,578	36,916	-	18,722	240,215
Leslie E. Burden	10	177,667	35,533	-	13,064	226,264

Notes:

- (1) For the purpose of calculating the termination payments to our executives, the executive's base salary will not be adjusted for the salary reductions put in place in 2015.
- (2) The amounts in this column represent compensation for the loss of employment benefits.
- (3) On the effective date of the change of control, any unvested share awards and stock options vest and become immediately exercisable. The amounts shown in the table includes the in-the-money value of unvested share awards and stock options, which is calculated based on the closing price of our common shares on the Toronto Stock Exchange on December 29, 2017 (being \$0.46) and the exercise price of the stock options as applicable. 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, 2017 to December 1, 2018.

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. Kitagawa, Merritt, Peplinski, Wigham and Zawalsky are independent. Mr. Hansen is not considered independent as he is our President and Chief Executive Officer.

The Chair of our board is Mr. Kyle D. Kitagawa, an independent director. The primary responsibilities of our Chair 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 non-management 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>
Kyle D. Kitagawa	CES Energy Solutions Corp.
Geoffrey C. Merritt	Perpetual Energy Inc.
Jim Peplinski	None
Ron Wigham	Tourmaline Oil Corp.
Grant A. Zawalsky	NuVista Energy Ltd., PrairieSky Royalty 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 professional 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 Chair of our board of directors, develop a position description for the Chair 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 Chair 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 Chair 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 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 Chair 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 Chair 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 Interim 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 non-management 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).

In August of 2015, we announced the formation of the special committee of the board, organized to examine alternatives that would maximize shareholder value.

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

The members of the audit and reserves committee currently are: Mr. Wigham (Chair) Mr. Kitagawa and Mr. Merritt. 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 compensation committee currently are: Mr. Peplinski (Chair), Mr. Zawalsky and Mr. Wigham. 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 President and Chief Executive Officer.

### ***Special Committee***

The members of the special committee currently are: Mr. Kitagawa (Chair), Mr. Merritt, Mr. Wigham and Mr. Peplinski. The committee's mandate is to examine alternatives that would maximize shareholder value in a manner that would recognize our fundamental inherent value related to our long-life, low-decline conventional oil assets and the significant long term oil potential related to the Little Bow ASP project. This ongoing strategic and financial review includes, but is not limited to a strategic financing, merger or other business combination, the sale of us or a portion of our business or assets or any combination thereof, as well as the continued execution of its business plan.

### **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 Chair, the President and Chief Executive Officer and Chair of each of our 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 our 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 non-management 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.

## ***Diversity***

In response to the capital markets' desire for more clarity and information, our board has adopted a policy regarding board diversity. Our board believes that board nominations should be made on the basis of the skills, knowledge, experience and character of individual candidates and the requirements of the board at the time. We are committed to a meritocracy and believe that considering the broadest group of individuals who have the skills, knowledge, experience and character required to provide the leadership needed to achieve our business objectives, without reference to their age, gender, race, ethnicity or religion, is in our best interests and all of our stakeholders. Our board recognizes benefits of diversity within the board but has not set quotas or targets. We currently do not have any women directors.

## **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.

Our governance and compensation committee has established the following "skills matrix" outlining the skills and experience which they believe are required by the members of our board of directors. This skills matrix is reviewed annually by the committee and updated as necessary. The committee also annually reviews the skills and experience of our current directors and assesses the knowledge and character of all nominees to our board of directors to ensure general compliance with the skills matrix. In seeking nominees our governance and compensation committee also maintains an "evergreen list" of potential board nominees.



In establishing the "evergreen list" the committee considers both the "skills matrix" described below and board diversity.

<b>Skills Matrix</b>	
<b><i>Executive Leadership</i></b>	Experience as a CEO or equivalent.
<b><i>Enterprise Risk Assessment</i></b>	Board or executive experience in evaluating and managing risks in the oil and natural gas business.
<b><i>Value Creation</i></b>	Board or executive experience in evaluating, and executing on, value creation opportunities through acquisitions, divestiture, mergers or developmental opportunities.
<b><i>Health, Safety &amp; Environment</i></b>	Board or management experience with environmental compliance and workplace health and safety in the oil and gas industry.
<b><i>Operations</i></b>	Management experience with oil and natural gas operations.
<b><i>Reserves and Resource Evaluation</i></b>	Board experience with, or management responsibility for, oil and natural gas reserve and resource evaluation and reporting.
<b><i>Compensation and Human Resources</i></b>	Management experience in human resources and executive compensation.
<b><i>Accounting &amp; Finance</i></b>	Financial literacy in reading financial statements, financial accounting and operational accounting experience as well as corporate finance knowledge and experience usually from senior accounting and financial management, audit firm background or banking experience.
<b><i>Legal, Regulatory and Governmental</i></b>	Broad understanding of corporate, securities, land tenure and oil and natural gas law, regulatory regimes in Western Canada and governmental royalty, incentive and taxation policies usually through management experience or a legal background.
<b><i>Corporate Governance</i></b>	Broad understanding of good corporate governance usually through experience as a board member or as a senior executive officer.

The following outlines the experience and background of, but not necessarily the technical expertise of, our outside directors based on information provided by such individuals:

Name	Executive Leadership	Enterprise Risk Assessment	Value Creation	Health, Safety & Environment	Operations	Reserves and Resource Evaluation	Compensation and Human Resources	Accounting & Finance	Legal, Regulatory and Governmental	Corporate Governance
Craig H. Hansen	√	√	√	√	√	√	√	√	√	√
Kyle D. Kitagawa	√	√	√	√	-	√	√	√	√	√
Geoffrey C. Merritt	√	√	√	√	√	√	√	√	√	√
Jim Peplinski	√	√	√	-	-	√	√	√	√	√
Ron Wigham	√	√	√	-	-	√	√	√	√	√
Grant A. Zawalsky	√	√	√	√	-	-	√	-	√	√

## **Succession Planning**

Our board receives regular updates on the status of the succession plans and the professional development of individuals within our organization. We do not consider the level of representation of women in executive officer positions when making executive officer appointments. Consistent with our board diversity policy, our board believes that executive officer appointments should be made on the basis of the skills, knowledge, experience and character of individual candidates. We are committed to a meritocracy and believe that considering the broadest group of individuals who have the skills, knowledge, experience and character required to provide the leadership needed to achieve our business objectives, without reference to their age, gender, race, ethnicity or religion, is in our best interests and all of our stakeholders. We have no target for the number of women in executive positions and currently there are no women serving in executive officer positions, although we have six women in head office management positions, which represent approximately 40 percent of our head office management positions.

## **Director Term Limits**

Our board of directors does not believe that fixed term limits are in our best interests. Our governance and compensation committee considers both the term of service of individual directors, the average term of the board as a whole and turnover of directors over prior three years when proposing a slate of nominees. The committee considers the benefits of regular renewal in the context of the needs of the board at the time and the benefits of the institutional knowledge of the board members.

## **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, 2017, 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 2017 annual financial report, containing financial information in the management's discussion and analysis of financial condition and results of operations and the 2017 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 2016. Copies of these documents may be obtained on request without charge from the President and Chief Executive Officer of Zargon Oil & Gas Ltd. at 700, 333 – 5<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3B6, telephone (403) 264-9992 or by accessing the disclosure documents available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at [www.sedar.com](http://www.sedar.com) or on our website at [www.zargon.ca](http://www.zargon.ca).

## **OTHER MATTERS**

Our management knows of no amendment, variation or other matter to come before the meeting other than the matters referred to in the notice of annual meeting. However, if any other matter properly comes before the

meeting, the accompanying proxy will be voted on such matter in accordance with the best judgment of the person voting the proxy.

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

Dated: April 19, 2018