



Mandate and Terms of Reference of the Audit Committee

Approved by the Board of Directors

November 11, 2009

MANDATE & TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Role and Objective

The Audit Committee (the "Committee") is a committee of the Board of Directors (the "Board") of Zargon Oil & Gas Ltd. ("Zargon" or the "Corporation") to which the Board has delegated its responsibility for oversight of the nature and scope of the annual audit, management's reporting on internal accounting standards and practices, financial information and accounting systems and procedures, financial reporting and statements and recommending, for board of director approval, the audited financial statements and other mandatory disclosure releases containing financial information, and review of the annual reserves. The objectives of the Committee are as follows:

1. To assist directors meet their responsibilities (especially for accountability) in respect of the preparation and disclosure of the financial statements of Zargon and related matters;
2. To provide better communication between directors and external auditors;
3. To enhance the external auditor's independence;
4. To increase the credibility and objectivity of financial reports; and
5. To strengthen the role of the outside directors by facilitating in depth discussions between directors on the Committee, management and external auditors.

Membership of Committee

1. The Committee shall be comprised of at least three (3) directors of Zargon, none of whom are members of management of Zargon and all of whom are "independent" (as such term is used in Multilateral Instrument 52-110 — Audit Committees ("MI 52-110")).
2. The Board shall have the power to appoint the Committee Chairman.
3. All of the members of the Committee shall be "financially literate". The Board has adopted the definition for "financial literacy" used in MI 52-110.

Meetings

1. At all meetings of the Committee, every question shall be decided by a majority of the votes cast. In case of an equality of votes, the Chairman of the meeting shall not be entitled to a second or casting vote.
2. A quorum for meetings of the Committee shall be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those governing the board.
3. Meetings of the Committee should be scheduled to take place at least four times per year. Minutes of all meetings of the Committee shall be taken. The Chief Financial Officer shall attend meetings of the Committee, unless otherwise excused from all or part of any such meeting by the Chairman.

4. The Committee shall forthwith report the results of meetings and reviews undertaken and any associated recommendations to the board.
5. The Committee shall meet with the external auditor at least once per year (in connection with the preparation of the year end financial statements) and at such other times as the external auditor and the audit Committee consider appropriate.

Mandate and Responsibilities of Committee

1. It is the responsibility of the Committee to oversee the work of the external auditors, including resolution of disagreements between management and the external auditors regarding financial reporting.
2. It is the responsibility of the Committee to satisfy itself on behalf of the board with respect to Zargon's Internal Control Systems:
 - identifying, monitoring and mitigating business risks; and
 - ensuring compliance with legal, ethical and regulatory requirements.
3. It is a primary responsibility of the Committee to review the annual financial statements of Zargon prior to their submission to the board of directors for approval. The process should include but not be limited to:
 - reviewing changes in accounting principles, or in their application, which may have a material impact on the current or future years' financial statements;
 - reviewing significant accruals, reserves or other estimates such as the ceiling test calculation;
 - reviewing accounting treatment of unusual or non-recurring transactions;
 - ascertaining compliance with covenants under loan agreements;
 - reviewing disclosure requirements for commitments and contingencies;
 - reviewing adjustments raised by the external auditors, whether or not included in the financial statements;
 - reviewing unresolved differences between management and the external auditors; and
 - obtain explanations of significant variances with comparative reporting periods.
4. The Committee is to review the financial statements, prospectuses, management discussion and analysis (MD&A), annual information forms (AIF) and all public disclosure containing audited or unaudited financial information before release and prior to board approval. The Committee must be satisfied that adequate procedures are in place for the review of Zargon's disclosure of all other financial information and shall periodically access the accuracy of those procedures.
5. With respect to the appointment of external auditors by the board, the Committee shall:

- recommend to the board the appointment of the external auditors;
 - recommend to the board the terms of engagement of the external auditor, including the compensation of the auditors and a confirmation that the external auditors shall report directly to the Committee;
 - when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change; and
 - review and approve any non-audit services to be provided by the external auditors' firm and consider the impact on the independence of the auditors.
6. Review with external auditors (and internal auditor if one is appointed by Zargon) their assessment of the internal controls of Zargon, their written reports containing recommendations for improvement, and management's response and follow-up to any identified weaknesses. The Committee shall also review annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of Zargon and its subsidiaries.
 7. The Committee must pre-approve all non-audit services to be provided to Zargon or its subsidiaries by the external auditors. The Committee may delegate to one or more members the authority to pre-approve non-audit services, provided that the member report to the Committee at the next scheduled meeting such pre-approval and the member comply with such other procedures as may be established by the Committee from time to time.
 8. The Committee shall review on an annual basis the reserves as evaluated by the external reserve evaluators. As part of this review, the Audit Committee shall be represented by at least one member at a reserve committee face-to-face meeting with management and the reserve evaluators.
 9. The Committee shall review risk management policies and procedures of Zargon (i.e. hedging, litigation and insurance).
 10. The Committee shall establish a procedure for:
 - the receipt, retention and treatment of complaints received by Zargon regarding accounting, internal accounting controls or auditing matters; and
 - the confidential, anonymous submission by employees of Zargon of concerns regarding questionable accounting or auditing matters.
 11. The Committee shall review and approve Zargon's hiring policies regarding employees and former employees of the present and former external auditors of Zargon.
 12. The Committee shall have the authority to investigate any financial activity of Zargon. All employees of Zargon are to cooperate as requested by the Committee.
 13. The Committee may retain persons having special expertise and/or obtain independent professional advice to assist in fulfilling their responsibilities at the expense of Zargon without any further approval of the board.