



**Basis Reporting Information Return Under Internal Revenue Code
Section 6045B and Treasury Regulations Section 1.6045B-1**

This Information Return is being reported to the Internal Revenue Service and to holders of record of Zargon Oil & Gas Ltd. common shares pursuant to Internal Revenue Code Section 6045B and Treasury Regulations Section 1.6045B-1.

IRS CIRCULAR 230 NOTICE: Any U.S. tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (a) avoiding penalties under the Internal Revenue Code or (b) promoting, marketing or recommending to another party any transaction or matter addressed herein.

- (1) **Today's Date:** February 14, 2011
- (2) **Issuer of securities:** Zargon Oil & Gas Ltd.
- (3) **Issuer's Taxpayer Identification Number or EIN:** 98-0690096
- (4) **Security identifiers:**
 - (a) **Zargon Energy Trust**
 - (i) **CUSIP:** 989132
 - (ii) **Type of Security:** trust units
 - (iii) **Ticker symbol:** TSX: ZAR.UN
 - (b) **Zargon Oil & Gas Ltd.**
 - (i) **CUSIP:** 989133
 - (ii) **Type of Security:** common shares
 - (iii) **Ticker symbol:** TSX: ZAR
- (5) **Description of the class of securities.** Common shares with (1) one vote per share; (2) a right to dividends, subject to the discretion of and as declared by the board of directors; and (3) a right to the assets of the company upon liquidation or dissolution, subordinated to the rights in such assets which are held by creditors and holders of senior equity interests.

(6) Contact information for a person at the issuer.

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(7) Date of Corporate Action: January 1, 2011

(8) Description of the corporate action.

On January 1, 2011, Zargon Energy Trust (the “Trust”), an open-end investment trust organized under the laws of the Province of Alberta, Canada which is classified as a corporation for U.S. federal income tax purposes under the ‘check-the-box’ Regulations, undertook an internal restructuring to convert itself into Zargon Oil & Gas Ltd. (“New Zargon”), a corporation organized under the laws of the Province of Alberta, Canada (the “Restructuring”).

In the Restructuring, all persons, including all U.S. persons, who held interests in the Trust exchanged them for New Zargon common stock. The Restructuring is described in full at Schedule C of the Information Circular and Proxy Statement, dated November 10, 2010, which is available at www.SEDAR.com.

(9) Description of the quantitative effect on basis of affected security.

While no U.S. federal income tax opinion was provided for the Restructuring; management believes that the Restructuring qualifies as a tax-free reorganization under Section 368(a) of the Internal Revenue Code (the “Code”): (a) under Section 354(a) of the Code, a U.S. shareholder will not recognize any gain or loss on the Restructuring and (b) under Section 358(a) of the Code, a U.S. shareholder will transfer its basis in its Trust units to its New Zargon common shares.

Each U.S. shareholder should consult its own tax advisor to determine the effect of the Restructuring on the basis of their New Zargon common shares. The information reported in this information return is not binding on the Internal Revenue Service (the “IRS”) or the U.S. courts, and no assurance can be provided that the conclusions reached in this summary will not be challenged by the IRS or will be sustained by a U.S. court if so challenged.

(10) Supporting Documentation.

All information pertinent to the Restructuring can be found on www.SEDAR.com.

The documents relevant to Zargon Energy Trust include:

- 1) Information Circular and Proxy Statement, dated November 10, 2010
- 2) Notice, dated January 10, 2011

The documents relevant to Zargon Oil & Gas Ltd. include:

- 1) Information Circular and Proxy Statement, dated November 10, 2010
- 2) Notice, dated January 10, 2011