

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale therein and only by persons permitted to sell such securities. These securities have not been and will not be registered under the U.S. Securities Act (as defined herein) or any state securities laws. Accordingly, except to the extent permitted by the Underwriting Agreement (as defined herein) and in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws, these securities may not be offered or sold within the United States. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States. See "Plan of Distribution".

Information has been incorporated by reference in this prospectus from documents filed with the securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Zargon Oil & Gas Ltd. at Suite 700, 333 – 5<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3B6, telephone (403) 264-9992, and are also available electronically at [www.sedar.com](http://www.sedar.com).

New Issue

April 24, 2012

## SHORT FORM PROSPECTUS



**\$50,000,000**

### **6.00% Convertible Unsecured Subordinated Debentures**

Zargon Oil & Gas Ltd. (the "**Corporation**" or "**Zargon**") is hereby qualifying pursuant to this short form prospectus the distribution (the "**Offering**") of \$50,000,000 aggregate principal amount of 6.00% convertible unsecured subordinated debentures (the "**Debentures**").

The Debentures will bear interest at an annual rate of 6.00% payable semi-annually in arrears, on the last day of June and December in each year commencing on December 31, 2012 (each an "**Interest Payment Date**"). The December 31, 2012 interest payment will represent accrued interest for the period from and including the Closing Date (as defined herein), up to, but not including, December 31, 2012. The maturity date will be June 30, 2017 (the "**Maturity Date**") on which date the holders shall be entitled to receive the principal amount of the Debentures at par together with all accrued and unpaid interest thereon. See "*Details of the Offering – Debentures – General*".

#### **Debenture Conversion Privilege**

Each Debenture will be convertible into common shares ("**Common Shares**") of the Corporation at the option of the holder thereof at any time prior to 5:00 p.m. (Calgary time) on the earliest of: (i) the Business Day (as defined herein) immediately preceding the Maturity Date, and (ii) the last Business Day immediately preceding the Redemption Date (as defined herein), in each case, at a conversion price of \$18.80 per Common Share (the "**Conversion Price**"), representing a conversion rate of approximately 53.1915 Common Shares per \$1,000 principal amount of Debentures, subject to adjustment in accordance with the Indenture (as defined herein). Upon conversion, holders of Debentures will receive accrued and unpaid interest thereon from and including the last Interest Payment Date up to, but not including, the Conversion Date (as defined herein). Further particulars concerning the conversion privilege, including provisions for the adjustment of the conversion price, are set out under "*Details of the Offering – Debentures – Conversion Privilege*".

The Debentures may not be redeemed by the Corporation before June 30, 2015, except in certain limited circumstances following a Change of Control (as defined herein). On or after June 30, 2015 and prior to the Maturity Date, the Debentures may be redeemed by the Corporation, in whole or in part from time to time, on not more than 60 days' and not less than 30 days' prior written notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest thereon, if any, up to, but not including, the date set for redemption, provided that the Current Market Price (as defined herein) of the Common Shares on the date on which notice of redemption is given is not less than 125% of the Conversion Price. In the event that a holder of Debentures exercises its conversion right following a notice of redemption by the Corporation, such holder shall be entitled to receive accrued and unpaid interest, in addition to the applicable number of Common Shares to be received on conversion, for the period from and including the latest Interest Payment Date up to, but not including, the Conversion Date.

On the Redemption Date or on the Maturity Date, as applicable, subject to the receipt of required regulatory approvals and provided that no Event of Default (as defined herein) has occurred and is continuing, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to repay, in whole or in part, the principal amount of the Debentures which are to be redeemed or which have matured by issuing and delivering Common Shares to the holders of the Debentures. Payment

for such Debentures subject to the election would be satisfied by delivering that number of Common Shares obtained by dividing the principal amount of the Debentures subject to the election which are to be redeemed or have matured by 95% of the Current Market Price of the Common Shares on the Redemption Date or Maturity Date, as applicable. Any accrued and unpaid interest thereon, up to but not including the Redemption Date or Maturity Date, as applicable, will be paid in cash. No fractional Common Shares will be issued upon conversion or redemption or at maturity of the Debentures. In lieu thereof, the Corporation will satisfy such fractional interests by a cash payment equal to the fraction of the Common Share multiplied by the Current Market Price of the Common Shares. Further particulars of the interest, redemption, repurchase and maturity provisions of the Debentures are set out under "*Details of the Offering – Debentures*".

**There is currently no market through which the Debentures may be sold and purchasers may not be able to resell Debentures purchased under this short form prospectus. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices and the liquidity of the Debentures, and the extent of issuer regulation. See "*Risk Factors*".**

The issued and outstanding Common Shares are listed on the Toronto Stock Exchange (the "**TSX**") under the trading symbol "ZAR". On April 10, 2012, the last trading day prior to the public announcement of the Offering, the closing price of the Common Shares on the TSX was \$13.18 and on April 23, 2012, the closing price of the Common Shares on the TSX was \$12.10. The Corporation has received conditional approval to list the Debentures distributed under this short form prospectus (including any Debentures that may be issued pursuant to the Over-Allotment Option (as defined herein)) and the Common Shares issuable upon conversion or redemption or at maturity of the Debentures (together with the Debentures, the "**Offered Securities**") on the TSX. Such listings will be subject to the Corporation fulfilling all the listing requirements of the TSX. The offering price of the Debentures was determined by negotiation among the Corporation and TD Securities Inc. ("**TD**"), on its own behalf and on behalf of, CIBC World Markets Inc. ("**CIBC**"), Scotia Capital Inc. ("**Scotia**"), Peters & Co. Limited., Raymond James Ltd. and Salman Partners Inc. (collectively, the "**Underwriters**").

**Price: \$1,000 per Debenture**

	<b>Price to the Public</b>	<b>Underwriters' Fee <sup>(1)</sup></b>	<b>Net Proceeds to the Corporation <sup>(2)</sup></b>
Per Debenture	\$1,000	\$40	\$960
Total	\$50,000,000	\$2,000,000	\$48,000,000

Notes:

- (1) The Underwriters' Fee (as defined herein) for the Debentures is 4.0% of the gross proceeds from the issuance of the Debentures and is payable in full on the Closing Date.
- (2) Before deducting expenses of the Offering estimated at \$550,000, which will be paid from the general funds of the Corporation. See "*Plan of Distribution*".
- (3) The Corporation has granted the Underwriters an option (the "**Over-Allotment Option**"), exercisable from time to time, in whole or in part, for a period commencing at closing of the Offering and ending 30 days following the Closing Date to purchase up to an additional 7,500 Debentures at a price of \$1,000 per Debenture on the same terms and conditions of the Offering to cover any over-allocation position, and for market stabilization purposes. In the event that the Over-Allotment Option is exercised in full, the total Price to the Public, the Underwriters' Fee and the Net Proceeds to the Corporation, before deducting expenses of the Offering, in respect of the Debentures will be \$57,500,000, \$2,300,000 and \$55,200,000, respectively. See "*Plan of Distribution*". This short form prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Debentures offered upon the exercise of the Over-Allotment Option and the Common Shares issuable upon conversion or redemption or at maturity of the Debentures. A purchaser who acquires Debentures forming part of the over-allocation position acquires such Debentures under this short form prospectus regardless of whether the over-allocation position is filled through the exercise of the Over-Allotment Option or secondary market purchases. See "*Plan of Distribution*".

The following table sets forth the number of Debentures that may be offered by the Corporation pursuant to the Over-Allotment Option.

<b>Underwriters' Position</b>	<b>Maximum size or number of Debentures held</b>	<b>Exercise period</b>	<b>Exercise price</b>
Over-Allotment Option	7,500 Debentures	Commencing at closing of the Offering and ending 30 days following the Closing Date	\$1,000 per Debenture

The Underwriters, as principals, conditionally offer the Debentures, subject to prior sale, if, as and when issued by the Corporation and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "*Plan of Distribution*" and subject to approval of certain legal matters relating to the Offering on behalf of the Corporation by Burnet, Duckworth & Palmer LLP and on behalf of the Underwriters by Stikeman Elliott LLP (collectively, "**Counsel**"). The Corporation has been advised by the Underwriters that, in connection with the Offering, the Underwriters may effect transactions that stabilize or maintain the market price of Debentures at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. See "*Plan of Distribution*".

Subscriptions for Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will occur on or about May 1, 2012, or on such later date as the Corporation and the Underwriters may agree upon in writing but, in any event, such date shall be no later than 42 days from the date of the issuance of the Final Passport System Decision Document (as defined herein) (the "**Closing Date**"). It is expected that certificates for the Debentures will be issued in registered form to CDS Clearing and Depository Services Inc. ("**CDS**") and will be deposited with CDS on the Closing Date. No certificates evidencing the Debentures will be issued to purchasers and registration will be made in the depository service of CDS. Purchasers of the Debentures will receive only a customer confirmation from the Underwriter or other registered dealer who is a Participant (as defined herein) and from or through whom a beneficial interest in the Debentures is purchased.

**The Underwriters propose to offer the Debentures initially at the offering price specified above. After a reasonable effort has been made to sell all the Debentures at the price specified, the Underwriters may subsequently reduce the selling price of the Debentures to investors from time to time in order to sell any of the Debentures remaining unsold. Any such reduction will not affect the proceeds received by the Corporation. See "*Plan of Distribution*".**

**The earnings coverage ratio in respect of the Debentures for the 12 month period ended December 31, 2011 is less than one-to-one. The earnings coverage ratio as at December 31, 2011 was 0.5. See "*Earnings Coverage Ratio*".**

**TD, CIBC and Scotia, are direct or indirect wholly-owned subsidiaries of Canadian chartered banks that are lenders to the Corporation and one of its wholly-owned subsidiaries. Consequently, the Corporation may be considered to be a "connected issuer" of these Underwriters for the purposes of Canadian securities laws. Initially, the net proceeds of the Offering will be used to repay a portion of the indebtedness to such banks under the Credit Facilities (as defined herein). See "*Relationship Between the Corporation and Certain Underwriters*" and "*Use of Proceeds*".**

**An investment in the Debentures, including the Common Shares issuable upon conversion or redemption or at maturity of the Debentures, is subject to certain risks inherent in the Corporation's involvement in the exploration for, and the acquisition, development and production of, oil and natural gas reserves. Investors should carefully consider the risks described under the heading "*Risk Factors*" in the AIF (as defined herein) incorporated by reference in this short form prospectus, the risks identified elsewhere in this short form prospectus, including under the heading "*Risk Factors*", and the documents incorporated by reference herein prior to making an investment in the Debentures.**

The Debentures may be sold only in those jurisdictions where offers and sales are permitted. This short form prospectus is not an offer to sell or a solicitation of an offer to buy the Debentures in any jurisdiction where it is unlawful. Closing of the Offering is also subject to a number of conditions, including the approval of the TSX and, among other things, completion of a formal amending agreement in respect of the Credit Facilities.

The head and registered office of the Corporation is located at Suite 700, 333 – 5<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3B6.

## TABLE OF CONTENTS

GLOSSARY OF TERMS .....	2
FORWARD-LOOKING STATEMENTS .....	4
DOCUMENTS INCORPORATED BY REFERENCE.....	7
SUMMARY OF THE OFFERING .....	8
ZARGON OIL & GAS LTD. ....	13
DESCRIPTION OF SHARE CAPITAL .....	14
CONSOLIDATED CAPITALIZATION OF THE CORPORATION.....	15
EARNINGS COVERAGE RATIO .....	15
PRIOR SALES .....	16
MARKET FOR SECURITIES .....	18
DETAILS OF THE OFFERING .....	18
PLAN OF DISTRIBUTION.....	28
USE OF PROCEEDS .....	29
RELATIONSHIP BETWEEN THE CORPORATION AND CERTAIN UNDERWRITERS .....	30
CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS.....	30
ELIGIBILITY FOR INVESTMENT.....	34
RISK FACTORS .....	34
INTEREST OF EXPERTS .....	38
LEGAL PROCEEDINGS.....	38
AUDITORS, TRANSFER AGENT AND REGISTRAR.....	38
STATUTORY AND CONTRACTUAL RIGHTS OF WITHDRAWAL AND RESCISSION .....	38
CONSENT OF AUDITORS.....	39
CERTIFICATE OF THE CORPORATION.....	A-1
CERTIFICATE OF THE UNDERWRITERS .....	A-2

## GLOSSARY OF TERMS

In this short form prospectus, the following terms shall have the meanings set forth below, unless otherwise indicated:

"**ABCA**" means the *Business Corporations Act*, R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**AIF**" means the annual information form of the Corporation dated March 12, 2012;

"**Annual Financial Statements**" means the audited comparative consolidated financial statements of the Corporation as at December 31, 2011 and 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the report of the auditors thereon;

"**Annual MD&A**" means management's discussion and analysis of the financial condition and results of operations of the Corporation for the year ended December 31, 2011;

"**Arrangement**" means the arrangement among the Trust, Old Zargon, Newco, ZEI, Oakmont, ZEL, ZAC, Zargon Oil & Gas Partnership, the holders of Trust Units and the holders of Exchangeable Shares pursuant to Section 193 of the ABCA which commenced on December 31, 2010 and was completed on January 1, 2011;

"**Amended DRIP**" means the amended and restated dividend reinvestment plan of the Corporation, which amended and restated the DRIP;

"**Amended TURIPS**" means the Common Share rights incentive plans of the Corporation, which amended and restated the TURIPS;

"**Board of Directors**" means the board of directors of the Corporation as it may be comprised from time to time;

"**Business Day**" means a day, other than a Saturday or Sunday, or a statutory holiday, on which major Canadian chartered banks are open for business in Calgary, Alberta;

"**Change of Control**" has the meaning attributed thereto under "*Details of the Offering – Debentures – Repurchase upon a Change of Control*";

"**Change of Control Purchase Date**" means the date specified for purchase in a Debenture Offer;

"**Common Share Interest Payment Election**" has the meaning attributed thereto under "*Details of the Offering – Debentures – Interest Payment Election*";

"**Conversion Date**" means the date on which a Debenture is surrendered for conversion when the register of the Debenture Trustee is open and in accordance with the provisions of the Indenture or, in the case of a Global Debenture, on the date which the Debenture Trustee received notice of and all necessary documentation in respect of the exercise of the conversion rights and, in the case of a Debenture so surrendered by post or other means of transmission, on the date on which it is received by the Debenture Trustee at one of its offices specified in the Indenture; provided that if a Debenture is surrendered for conversion on a day on which the register of Common Shares is closed the person or persons entitled to receive Common Shares shall become the holder or holders of record of such Common Shares as at the date on which such register is next reopened;

"**Credit Facilities**" means the \$172 million syndicated committed credit facilities available to the Corporation and the \$8 million syndicated committed credit facilities available to Zargon Acquisition Inc., one of its wholly-owned subsidiaries, as described in note 1 to the table under the heading "*Consolidated Capitalization of the Corporation*";

"**Current Market Price**" has the meaning attributed thereto under "*Details of the Offering – Debentures – Conversion Privilege*";

"**Debenture Offer**" has the meaning attributed thereto under "*Details of the Offering – Debentures – Repurchase Upon a Change of Control*";

"**Debenture Trustee**" means Valiant Trust Company;

"**DRIP**" means distribution reinvestment plan of the Corporation;

"**Exchangeable Shares**" means the exchangeable shares of Old Zargon, which were exchangeable for Trust Units;

"**Event of Default**" has the meaning attributed thereto under "*Details of the Offering – Debentures – Events of Default*";

"**Final Passport System Decision Document**" means a receipt for the final short form prospectus issued in accordance with the Passport System;

"**Global Debentures**" means the global Debentures issued in the name of CDS, as custodian for the Participants;

"**IFRS**" means International Financial Reporting Standards as adopted by the International Accounting Standards Board, as amended from time to time;

"**Indenture**" means the indenture between the Corporation and the Debenture Trustee governing the terms of the Debentures;

"**Interest Obligation**" means the Corporation's obligation to pay interest on the Debentures in accordance with the Indenture;

"**McDaniel**" means McDaniel & Associates Consultants Ltd., independent petroleum consultants of Calgary, Alberta;

"**NI 44-101**" means National Instrument 44-101 – *Short Form Prospectus Distributions*;

"**Newco**" means 1563101 Alberta Ltd.;

"**Oakmont**" means Oakmont Energy Ltd.;

"**Offer Price**" has the meaning attributed thereto under "*Details of the Offering – Debentures – Repurchase Upon a Change of Control*";

"**Old Zargon**" means Zargon Oil & Gas Ltd., prior to the completion of the Arrangement;

"**Passport System**" means the system and procedures for the filing of prospectuses and related materials in one or more Canadian jurisdictions pursuant to Multilateral Instrument 11-102 – *Passport System* and National Policy 11-202 – *Process for Prospectus Reviews in Multiple Jurisdictions*;

"**Participant**" means a participant in the depository service of CDS;

"**Preferred Shares**" means the preferred shares of the Corporation;

"**Redemption Date**" means a date set for the redemption of all or a portion of the Debentures by the Corporation;

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval;

"**Senior Indebtedness**" has the meaning attributed thereto under "*Details of the Offering – Debentures – Subordination*";

"**Share Award Plan**" means the restricted share award plan of the Corporation;

"**Shareholders**" means the holders from time to time of Common Shares;

"**subsidiaries**" has the meaning attributed thereto under the ABCA;

"**Tax Act**" means the *Income Tax Act* (Canada), R.S.C. 1985, c. 1 (5<sup>th</sup> Supp.), as amended, including the regulations promulgated thereunder, each as amended from time to time;

"**Trust**" means Zargon Energy Trust, prior to its dissolution on January 1, 2011 and, where the context requires, also includes its subsidiaries and partnership;

"**Trust Units**" means trust units of the Trust;

"**TURIPS**" means the trust unit rights incentive plans of the Trust, prior to its dissolution on January 1, 2011;

"**Underwriters' Fee**" means the fee payable to the Underwriters for the Debentures in the amount of 4.0% of the aggregate principal amount of the Debentures;

"**Underwriting Agreement**" means the agreement dated April 17, 2012 among the Corporation and the Underwriters in respect of the Offering;

"**United States**" or "**U.S.**" means the United States of America, its territories and possession, any state of the United States, and the District of Columbia;

"**U.S. Securities Act**" means the United States *Securities Act of 1933*, as amended;

"**ZAC**" means Zargon Acquisition Corp.;

"**ZEI**" means Zargon ExchangeCo Inc.; and

"**ZEL**" means Zargon Energy Ltd.

Words importing the singular number only include the plural, and vice versa, and words importing any gender include all genders.

All dollar amounts set forth in this short form prospectus are in Canadian dollars, except where otherwise indicated.

#### **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this short form prospectus, and in certain documents incorporated by reference into this short form prospectus, constitute forward-looking statements. These statements relate to future events or the Corporation's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions (including the negative thereof). These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including such as those relating to results of operations and financial condition, general economic conditions, industry conditions, changes in regulatory and taxation regimes, volatility of commodity prices, escalation of operating and capital costs, regulatory approvals, currency fluctuations, the availability of services, imprecision of reserve estimates, geological, technical, drilling and processing problems, environmental risks, weather, the lack of availability of qualified personnel or management, stock market volatility, the ability to access sufficient capital from internal and external sources and competition from other industry participants for, among other things, capital, services, reserves, undeveloped lands and skilled personnel. Such forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future to allow investors to have a greater understanding of the Corporation's business. Readers are cautioned that reliance on such statements may not be appropriate for other purposes, such as making investment decisions.

You are cautioned that the assumptions, including among other things, the timing of and the Corporation's ability to obtain regulatory and other approvals for the Offering; future oil and natural gas prices; future capital expenditure levels; future production levels; future exchange rates; the cost of developing and expanding Zargon's assets; Zargon's ability to obtain equipment in a timely manner to carry out development activities; Zargon's ability to market its oil and natural gas successfully to current and new customers; the impact of increasing competition; the Corporation's ability to obtain financing on acceptable terms; and Zargon's ability to add production and reserves through development and acquisition activities used in the preparation

of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The Corporation's actual results, performance, or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. The Corporation can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits it will derive from them. The forward-looking information contained in this document is expressly qualified by this cautionary statement. Zargon's policy for updating forward-looking statements is that it disclaims, except as required by law, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The Corporation believes the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this short form prospectus should not be unduly relied upon. These statements speak only as of the date of this short form prospectus or as of the date specified in the documents incorporated by reference into this short form prospectus, as the case may be.

In addition to the forward-looking statements identified above, this short form prospectus, and the documents incorporated by reference into this short form prospectus, contain forward-looking statements pertaining to the following:

- the use of proceeds from this Offering;
- the Closing Date;
- Zargon's business plan and strategy, including its plans to high-grade its property footprint, and concentrate on cost containment initiatives, including the sale of non-strategic oil properties and cost saving opportunities relating to its natural gas properties and its future capital expenditures;
- the performance characteristics of Zargon's oil and natural gas properties;
- oil and natural gas production levels;
- drilling, completion and workover activities;
- expectations for facility modifications;
- seismic and exploration costs;
- projections of market prices and costs and the related sensitivities of dividends;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;
- treatment under governmental regulatory regimes and tax laws;
- the Corporation's dividend policy and payment of dividends;
- Zargon's capital expenditures programs; and
- the sources of funding of Zargon's capital expenditures and future acquisitions.

Actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous known and unknown risks and uncertainties and other factors set forth below and elsewhere in this short form prospectus, many of which are beyond Zargon's control. Such factors include, but are not limited to: declines in oil and natural gas prices; variations in interest rates and foreign exchange rates; uncertainties relating to the global economy and access to capital, stock market volatility, market valuations and increased borrowing costs; refinancing risk for existing debt and debt service costs; access to external sources of capital; borrowings and equity sales; risks associated with Zargon's hedging activities; geological, technical, drilling and processing problems; third party credit risk; risks associated with the exploitation of Zargon's properties and Zargon's ability to acquire reserves; government regulation and control and changes in governmental legislation; changes in income tax laws, royalty rates and other incentive programs; uncertainties associated with estimating oil and natural gas reserves; risks associated with acquiring, developing and exploring for natural gas and other aspects of Zargon's operations; risks associated with the marketability of oil and natural gas; changes in climate change laws and other environmental regulations; risks associated with the exploitation of Zargon's properties and Zargon's ability to acquire reserves; the failure to realize anticipated benefits of



acquisitions and dispositions or to manage growth; competition in the oil and natural gas industry; depletion of the Corporation's reserves; risks associated with large projects or expansion of Zargon's activities; risks associated with retention of key personnel; risks associated with securing and maintaining the Corporation's properties; seasonality; and risks associated with the timing of payment of dividends.

In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

**Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this short form prospectus, and the documents incorporated by reference herein, are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements, except as required by applicable law.**

## DOCUMENTS INCORPORATED BY REFERENCE

**Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of the Corporation, at Suite 700, 333 – 5th Avenue S.W., Calgary, Alberta, T2P 3B6, telephone (403) 264-9992 and are also available electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

The following documents of the Corporation, filed with the various provincial securities commissions or similar authorities in the provinces of Canada, are specifically incorporated by reference into and form an integral part of this short form prospectus:

- (a) the AIF;
- (b) the Annual Financial Statements;
- (c) the Annual MD&A;
- (d) the management proxy circular of the Corporation dated March 12, 2012, relating to the annual general meeting of the Shareholders to be held on April 25, 2012; and
- (e) the material change report of the Corporation dated April 17, 2012 in respect of the Offering.

Any documents of the type required by NI 44-101 to be incorporated by reference in a short form prospectus, including any material change reports (excluding material change reports filed on a confidential basis), comparative interim financial statements, comparative annual financial statements and the auditors' report thereon, management's discussion and analysis of financial condition and results of operations, information circulars, annual information forms, press releases containing financial information for financial periods more recent than the most recent annual or interim financial statements and business acquisition reports filed by the Corporation with the securities commissions or similar authorities in the provinces of Canada subsequent to the date of this short form prospectus and prior to the termination of this distribution shall be deemed to be incorporated by reference in this short form prospectus.

**Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.**

## SUMMARY OF THE OFFERING

*The following is a brief summary of some of the terms of the Offering and should be read in conjunction with the detailed information contained elsewhere in this short form prospectus. For a more complete description of the terms of the Debentures, see "Details of the Offering – Debentures":*

- Closing Date:** On or about May 1, 2012.
- Use of Proceeds:** The estimated net proceeds from the Offering, after deducting the Underwriters' Fee, but prior to deducting the estimated expenses of the Offering payable by the Corporation, will be approximately \$48,000,000, assuming no exercise of the Over-Allotment Option. Initially, the Corporation will use such net proceeds to repay a portion of the bank indebtedness under the Credit Facilities. If the Over-Allotment Option is exercised in full, the net proceeds to the Corporation, after deducting the Underwriters' Fee, but prior to deducting the estimated expenses of the Offering payable by the Corporation will be approximately \$55,200,000. In the event that all or part of the Over-Allotment Option is exercised, the additional proceeds received will be used to repay a further portion of the bank indebtedness under the Credit Facilities. See "Use of Proceeds".
- Listing and Trading:** The Corporation has applied to list the Debentures (including any Debentures that may be issued pursuant to the Over-Allotment Option) distributed under this short form prospectus and the Common Shares issuable upon conversion or redemption or at maturity of the Debentures (including any Debentures that may be issued pursuant to the Over-Allotment Option) on the TSX. Such listings will be subject to the Corporation fulfilling all the listing requirements of the TSX.
- Risk Factors:** See "Risk Factors" herein and the risks identified elsewhere in the information included or incorporated by reference in this short form prospectus for a discussion of the factors that should be carefully considered before making a decision to invest in the Debentures.
- Issue:** \$50,000,000 aggregate principal amount of 6.00% convertible unsecured subordinated debentures.
- Price:** \$1,000 per Debenture.
- Maturity Date:** June 30, 2017.
- Interest:** The Debentures will bear interest at an annual rate of 6.00% payable semi-annually in arrears, on the last day of June and December in each year commencing on December 31, 2012. The first payment will represent accrued interest for the period from and including the Closing Date up to, but not including, December 31, 2012.
- Conversion Privilege:** Each Debenture will be convertible at the option of the holder thereof into fully paid and non-assessable Common Shares at any time prior to 5:00 p.m. (Calgary time) on the earliest of: (i) the last Business Day immediately preceding the Maturity Date and (ii) the last Business Day immediately preceding any Redemption Date, in each case, at the Conversion Price, representing a conversion rate of approximately 53.1915 Common Shares per \$1,000 principal amount of Debentures, subject to adjustment in accordance with the Indenture. Interest will be paid on conversion from and including the

last Interest Payment Date up to, but not including, the Conversion Date. Holders converting their Debentures will become holders of record of Common Shares on the date of conversion provided that, if a Debenture is surrendered for conversion on a day on which the register of Common Shares is closed, the person entitled to receive Common Shares shall become the holder of record of such Common Shares as at the date on which such register is next reopened. Notwithstanding the foregoing, no Debentures may be converted on an Interest Payment Date or during the five Business Days preceding June 30 and December 31 in each year, commencing December 31, 2012, as the registers of the Debenture Trustee will be closed during such periods. The Conversion Price is subject to adjustment in certain circumstances. See "*Details of the Offering – Debentures – Conversion Privilege*".

**Redemption and Purchase:**

The Debentures may not be redeemed by the Corporation before June 30, 2015, except in certain limited circumstances following a Change of Control. See "*Details of the Offering – Debentures – Repurchase upon a Change of Control*". On or after June 30, 2015 and prior to the Maturity Date, the Debentures may be redeemed by the Corporation, in whole or in part from time to time, at the Corporation's option on not more than 60 days' and not less than 30 days' prior written notice, at a redemption price equal to the principal amount plus accrued and unpaid interest thereon, if any, up to but not including the Redemption Date, provided that the Current Market Price of the Common Shares on the date on which notice of redemption is given is not less than 125% of the Conversion Price. In the event that a holder of Debentures exercises their conversion right following a notice of redemption by the Corporation, such holder shall be entitled to receive accrued and unpaid interest, in addition to the applicable number of Common Shares to be received on conversion, for the period from the latest Interest Payment Date up to, but not including, the date of conversion.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a *pro rata* basis or in such other manner as the Debenture Trustee deems equitable, subject to regulatory approvals.

The Corporation will have the right to purchase Debentures for cancellation in the market, by tender or by private contract, at any time, subject to regulatory requirements. See "*Details of the Offering – Debentures – Redemption and Purchase*".

**Payment upon Redemption or at Maturity:**

On any Redemption Date or on the Maturity Date, as applicable, the Corporation will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount equal to the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon, if any, up to but not including such Redemption Date or the Maturity Date, as applicable.

On any Redemption Date or on the Maturity Date, as applicable, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice and subject to any required regulatory approvals, and provided that no Event of Default has occurred and is continuing, elect to satisfy its obligation to repay, in whole or in part, the principal amount of the Debentures which are to be redeemed or which have matured by issuing and delivering Common Shares to the holders of the Debentures. Payment for such Debentures subject to the election would be satisfied by delivering that number

of Common Shares obtained by dividing the principal amount of the Debentures subject to the election which are to be redeemed or have matured by 95% of the Current Market Price of the Common Shares on the Redemption Date or the Maturity Date, as the case may be. Any accrued and unpaid interest thereon up to but not including the Redemption Date or Maturity Date, as applicable, will be paid in cash. In the event a holder of Debentures exercises its conversion rights following delivery of a notice of redemption by the Corporation, such holder shall be entitled to receive the applicable number of Common Shares to be received on conversion on the last Business Day immediately preceding the Redemption Date, as well as payment of interest from the last Interest Payment Date up to, but not including, the date of conversion. No fractional Common Shares will be issued upon redemption or at maturity of the Debentures; in lieu thereof, the Corporation will satisfy such fractional interests by a cash payment equal to the fraction of the Common Share multiplied by the Current Market Price of the Common Shares. See "*Details of the Offering – Debentures – Payment upon Redemption or at Maturity*".

**Rank:**

The Debentures will be direct, unsecured obligations of the Corporation and will be fully subordinated to all Senior Indebtedness, as more particularly described below under "*Subordination*". The Debentures will rank *pari passu* with one another and will rank *pari passu* with all other existing and future unsecured subordinated indebtedness of the Corporation to the extent subordinated on the same terms. The Indenture will not restrict the ability of the Corporation or its subsidiaries from incurring additional indebtedness, including Senior Indebtedness, or from mortgaging, pledging or charging their respective properties to secure any indebtedness or liabilities, including Senior Indebtedness. See "*Details of the Offering – Debentures – Rank*".

**Subordination:**

The payment of the principal and premium, if any, of, and interest on, the Debentures will be subordinated and postponed, and subject in right of payment in the circumstances referred to below and more particularly as set forth in the Indenture, to the full and final payment of all Senior Indebtedness of the Corporation.

The Indenture will provide that in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to the Corporation, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the Corporation, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of the Corporation, then holders of Senior Indebtedness will receive payment in full before the holders of Debentures will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Debentures or any unpaid interest accrued thereon. The Indenture will also provide that the Corporation will not make any payment, and the holders of the Debentures will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including, without any limitation, by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures: (a) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures; or (b) at any time when a default or an event of default has occurred under the Senior Indebtedness and is continuing or upon the acceleration of Senior Indebtedness, unless the Senior Indebtedness has been

repaid in full. See "*Details of the Offering – Debentures – Subordination*".

**Change of Control:**

Within 30 days following the occurrence of a Change of Control, the Corporation will be required to make the Debenture Offer at a price equal to the Offer Price. See "*Details of the Offering – Debentures – Repurchase upon a Change of Control*".

In addition to the requirement for the Corporation to make a Debenture Offer, and subject to regulatory approval, in the event of a Change of Control in which 10% or more of the consideration for the Common Shares in the transaction or transactions constituting a Change of Control consists of: (i) cash (other than cash payments for fractional Common Shares and cash payments made in respect of dissenters' appraisal rights); (ii) equity securities (including trust units, limited partnership units or other participating securities of a trust, limited partnership or similar entity) that are not traded or intended to be traded immediately following such transactions on a stock exchange; or (iii) other property that is not traded or intended to be traded immediately following such transactions on a stock exchange, during the period beginning 10 trading days before the anticipated date on which the Change of Control becomes effective and ending 30 days after the Debenture Offer is delivered, holders of Debentures may elect to convert their Debentures and, subject to certain limitations, receive, subject to and upon completion of the Change of Control, in addition to the number of Common Shares they would otherwise be entitled to receive as set out under "*Details of the Offering – Debentures – Conversion Privilege*", an additional number of Common Shares per \$1,000 principal amount of Debentures as set out in a table in the Indenture. See "*Details of the Offering – Debentures – Cash Change of Control*".

**Interest Payment Election:**

Unless an Event of Default has occurred and is continuing, the Corporation may elect, from time to time, subject to applicable regulatory approval, to satisfy its obligation to pay all or any portion of the Interest Obligation on an Interest Payment Date by delivering sufficient Common Shares to the Debenture Trustee for sale, to satisfy the Interest Obligation or portion thereof, as applicable, on the Interest Payment Date, in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Common Shares. See "*Details of the Offering – Debentures – Interest Payment Election*".

**Events of Default:**

The Indenture will provide that an event of default in respect of the Debentures will occur if certain events described in the Indenture occur, including if any one or more of the following described events has occurred and is continuing: (i) failure for 30 days to pay interest on the Debentures when due; (ii) failure to pay principal or premium, if any (whether by payment in cash or delivery of Common Shares), on the Debentures when due, whether at maturity, upon redemption, on a Change of Control, by declaration or otherwise; (iii) default in the delivery, when due, of any Common Shares or other consideration, including any Make-Whole Premium (as defined herein), payable upon conversion with respect to the Debentures, which default continues for 15 days; (iv) default in the observance or performance of any other covenant or condition of the Indenture and the failure to cure (or obtain a waiver for) such default for a period of 30 days after notice in writing has been given by the Debenture Trustee or from holders of not less than 25% of the aggregate principal amount of the Debentures specifying such default and requiring the Corporation to rectify or obtain a waiver for same; (v) certain events of bankruptcy, insolvency or reorganization of the Corporation under bankruptcy or insolvency laws; and (vi) if an event of default occurs or exists under any

agreement evidencing indebtedness for borrowed money (other than non-recourse debt) of the Corporation and as a result of such event of default (a) indebtedness for borrowed money thereunder in excess of \$10,000,000 has become due and payable before the date it would otherwise have been due and payable, and (b) the holders of such indebtedness are entitled to commence, and have commenced, the enforcement of security they hold for such indebtedness (if any) or the exercise of any other creditors' remedies to collect such indebtedness.

If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and will, upon the request of holders of not less than 25% in principal amount of the then-outstanding Debentures, declare the principal of (and premium thereon, if any) and interest on all outstanding Debentures to be immediately due and payable. See "*Details of the Offering – Debentures – Events of Default*".

**Over-Allotment Option:**

The Corporation has granted the Underwriters the Over-Allotment Option, exercisable from time to time, in whole or in part, for a period commencing at closing of the Offering and ending 30 days following the Closing Date, to purchase up to an additional 7,500 Debentures at a price of \$1,000 per Debenture on the same terms and conditions of the Offering to cover any over-allocation position and for market stabilization purposes.

**ZARGON OIL & GAS LTD.**

**General**

The Corporation continued as "Zargon Oil & Gas Ltd." upon the amalgamation of Old Zargon, Newco, ZAC, ZEI and Oakmont on January 1, 2011 pursuant to the Arrangement. The Arrangement involved an internal reorganization of the Trust and certain of its subsidiaries through which the trust structure was replaced with a corporate structure and the Trust was dissolved. Pursuant to the Arrangement: (i) on December 31, 2010, the Trust Units were exchanged for common shares of Newco on a one-for-one basis, the Exchangeable Shares were exchanged for common shares of Newco on the basis of 1.84716 common shares of Newco for each outstanding Exchangeable Share, and Newco acquired all of the assets and assumed all of the liabilities of the Trust; and (ii) on January 1, 2011, the Trust was dissolved and Old Zargon, Newco, ZAC, ZEI and Oakmont amalgamated. As a result of the Arrangement, the Corporation, together with its subsidiaries, owns, directly or indirectly, the same assets that were owned by the Trust and its subsidiaries immediately prior to the Arrangement. The Arrangement has been accounted for as a continuity of interests and, unless otherwise indicated, all information presented for the pre-Arrangement period in this short form prospectus relates to the Trust.

The registered, head and principal office of the Corporation is located at Suite 700, 333 – 5<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3B6.

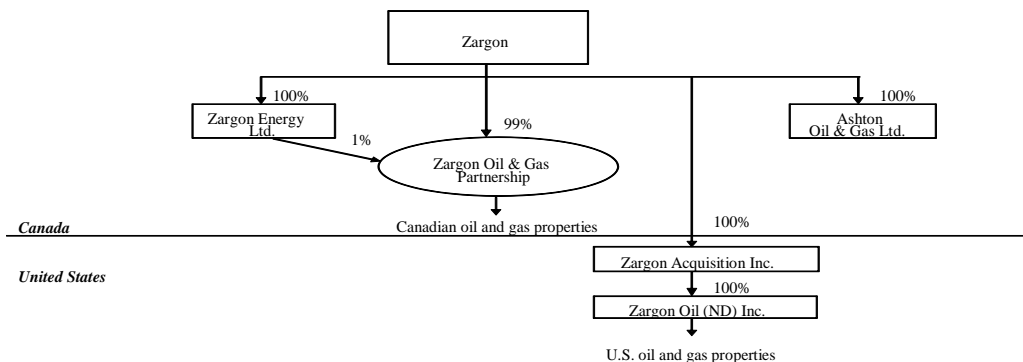
**Inter-Corporate Relationships**

The following are the names and percentages of voting securities that the Corporation owns and the jurisdiction of incorporation, continuance or formation of its subsidiaries and partnership either, direct and indirect, as at the date hereof.

	Percentage of voting securities (directly or indirectly)	Nature of Entity	Jurisdiction of Incorporation/ Formation
Zargon Energy Ltd.	100%	Corporation	Alberta
Zargon Oil & Gas Partnership	100%	General Partnership	Alberta
Ashton Oil & Gas Ltd.	100%	Corporation	Alberta
Zargon Acquisition Inc.	100%	Corporation	Wyoming
Zargon Oil (ND) Inc.	100%	Corporation	Delaware

**Organization Structure**

The following diagram describes the inter-corporate relationships between the Corporation and its material subsidiaries and partnership.





## **Business of the Corporation**

The Corporation is an Alberta based corporation, which directly or indirectly through its subsidiaries, is engaged in the business of oil and natural gas exploration, exploitation, development, acquisition and production in Canada and the United States.

The Corporation's business plan is to deliver sustainable and profitable oil and natural gas property exploitation and production activities in the oil and natural gas industry. To accomplish this, Zargon has adopted an integrated growth strategy with active exploitation and exploration drilling within Zargon's core areas, together with focused acquisitions, similar to the business strategy previously pursued by the Trust.

All of Zargon's activities are directed towards maximizing value for the Shareholders. This will be achieved through a combination of investing capital to enhance the value of Zargon's assets, operating Zargon's producing oil and natural gas properties in a low cost manner to maximize the recovery of reserves, and by paying monthly dividends to Shareholders. The Corporation directs its efforts to increase the value of its assets through exploitation drilling and associated exploitation activities and enhanced oil recovery activities as well as by the periodic acquisition of undeveloped and producing oil and natural gas properties. The Corporation intends to acquire oil and natural gas producing properties and to participate in exploitation activities that are generally considered to be low risk in nature in the oil and natural gas industry. However, the Corporation intends to allocate a percentage of its annual capital budget to moderate risk exploitation and lower risk exploration opportunities on its properties.

In recent years Zargon's business has been challenged by rapidly increasing operating costs as it integrated properties from five corporate and one large oil property acquisition. With a refocused business plan and, with eight clearly defined long-life oil exploitation initiatives, the Corporation will work to high-grade its property footprint and concentrate on cost containment initiatives. This may include the sale of non-strategic oil properties if attractive valuations can be realized. Also, during this period of low natural gas prices, Zargon will complete a comprehensive review of its natural gas properties to identify well shut-in, facility consolidation and other fixed cost saving opportunities that will permit improved returns when natural gas prices increase. For further details on the general development of the business of the Corporation, see "*General Development of the Business*" and "*Description of Our Business*" in the AIF, incorporated herein by reference.

## **DESCRIPTION OF SHARE CAPITAL**

The authorized share capital of the Corporation consists of 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 23, 2012, there were 29,474,475 Common Shares and no Preferred Shares issued and outstanding. The following is a summary of the rights, privileges, restrictions and conditions which attach to the Common Shares. For a summary of the attributes of the Preferred Shares, see "*Our Capital Structure*" in the AIF.

Holders of Common Shares are entitled to notice of, to attend and to one vote per share held at any meeting of the shareholders of the Corporation (other than meetings of a class or series of shares of the Corporation other than the Common Shares).

Holders of Common Shares are entitled to receive dividends as and when declared by the Board of Directors on the Common Shares as a class, subject to prior satisfaction of all preferential rights to dividends attached to all other classes of shares of the Corporation ranking in priority to the Common Shares in respect of dividends.

Holders of Common Shares will be entitled in the event of any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, and subject to prior satisfaction of all preferential rights to return of capital on dissolution attached to all other classes of shares of the Corporation ranking in priority to the Common Shares in respect of a return of capital on dissolution, to share rateably, together with the holders of shares of any other class of the Corporation ranking equally with the Common Shares in respect of a return of capital on dissolution, in such assets of the Corporation as are available for distribution.

## CONSOLIDATED CAPITALIZATION OF THE CORPORATION

The following table sets forth the capitalization of the Corporation as at December 31, 2011 and as at March 31, 2012 both before and after giving effect to this Offering.

Designation (Authorization)	Outstanding as at December 31, 2011 (audited)	Outstanding as at March 31, 2012 prior to giving effect to the Offering (unaudited)	Outstanding as at March 31, 2012 after giving effect to the Offering (unaudited)
(amounts in millions of \$, except share and debenture amounts)			
Debt:			
Credit Facilities <sup>(1)</sup> (\$180)	\$92.7	\$107.4	\$59.9 <sup>(3)</sup>
Debentures <sup>(4)(5)</sup> (\$50)	Nil	Nil	\$50 (50,000 Debentures)
Share Capital:			
Common Shares <sup>(2)</sup> (unlimited)	29,360,219 \$249.5	29,470,909 \$251.0	29,470,909 \$251.0

Notes:

- (1) The Corporation and one of its wholly-owned subsidiaries has syndicated Credit Facilities with a \$180 million borrowing base. A \$300 million demand debenture on the assets of the Corporation and its material subsidiaries has been provided as security for these facilities. The Credit Facilities are fully revolving for a 365 day period with the provision for an annual extension at the option of the lenders and upon request from the Corporation. The next renewal date is June 27, 2012. Should the facilities not be renewed, they convert to one year non-revolving term facilities at the end of the revolving 365 day period. Repayment would not be required until the end of the non-revolving term. For additional information in respect of the Credit Facilities, see Note 11 in the Annual Financial Statements. Zargon is in compliance in all material respects with the terms of the agreements governing its Credit Facilities.
- (2) Does not include an aggregate of 712,025 Common Shares issuable pursuant to rights to acquire Common Shares under the Amended TURIPS and an aggregate of 334,975 restricted share awards outstanding under the Share Award Plan as at March 31, 2012.
- (3) Assuming the Over-Allotment Option is not exercised and that the net proceeds of the Offering, after deducting the Underwriters' fee of \$2,000,000 and expenses of \$550,000, are applied to the Credit Facilities.
- (4) The Debentures may be converted at the option of the holder of the Debentures into Common Shares. See "*Details of the Offering – Debentures*".
- (5) Represents the face value of the Debentures without fair value adjustments determined in accordance with IFRS. Under IFRS, the Debentures will be included as a liability measured initially at their fair value and subsequently at amortized cost, with the remainder (representing the value of the conversion feature) included as equity, both of which are net of allocated issue costs. For accounting purposes, the portion of the Debentures classified as a liability will be accreted over the term of the Debentures to increase the carrying value of the liability up to the principal balance of the outstanding Debentures at the Maturity Date with the accretion recognized as interest expense.

## EARNINGS COVERAGE RATIO

The following earnings coverage is calculated on a consolidated basis for the twelve-month period ended December 31, 2011 and is derived from the audited financial information of the Corporation.

The Corporation's profit before interest expense and income taxes for the twelve-month period ended December 31, 2011 was \$21.5 million. After giving effect to the issuance of the Debentures, (assuming the Over-Allotment Option is not exercised) as if the issuance of the Debentures had occurred at the beginning of the calculation period and the related servicing costs had been incurred during the calculation period, as well as assuming the net proceeds from the Offering are used to repay indebtedness under the Credit Facilities, the Corporation's *pro forma* borrowing cost requirements, which includes interest expense on the Debentures, for the twelve-month periods ended December 31, 2011, was \$5.5 million, for an earnings coverage ratio of 0.5 for the twelve months ended December 31, 2011. This earnings coverage ratio is less than one-to-one.

The Corporation would have required net income of \$30.2 million for the 12 months ended December 31, 2011 in order to achieve an earnings coverage ratio of one-to-one for such period, assuming deferred income tax expense is calculated at a rate of 26.5%.

Under IFRS, the Debentures will be classified on the Corporation's balance sheet as a liability, with a portion allocated to equity related to the conversion feature and with the related interest expensed as incurred and financing charges amortized, using the effective interest method.

The following table sets out the earnings coverage ratios discussed above in accordance with IFRS.

(\$000s, except Earnings Coverage Ratio)

	<b>For the 12 months ended December 31, 2011</b>
Interest Expense <sup>(1)</sup>	5,489
Capitalized Interest	0
Dividends Paid to Shareholders	38,141
<b>Denominator for Earnings Coverage Ratio</b>	<b>43,630</b>
Net Income	10,122
Income Taxes	5,862
Interest Expense	5,489
<b>Numerator for Earnings Coverage Ratio</b>	<b>21,473</b>
<b>Earnings Coverage Ratio<sup>(2)</sup></b>	<b>0.5</b>

Notes:

- (1) Includes a full 12 months of interest expense as if the Debentures were issued at the beginning of the calculation period.  
(2) Under IFRS, the Debentures payable would be revalued each period to fair market value and the potential effects of the revaluation have not been incorporated in the earnings coverage ratio.

## PRIOR SALES

The Corporation has not sold or issued any Common Shares or securities convertible into Common Shares since March 31, 2011, other than as set forth below:

<u>Date</u>	<u>Securities</u>	<u>Number of Securities</u>	<u>Price per Security</u>
April 1, 2011	Common Shares <sup>(1)</sup>	7,500	\$11.66
April 1, 2011	Common Shares <sup>(1)</sup>	200	\$19.91
April 1, 2011	Common Shares <sup>(1)</sup>	850	\$21.57
April 4, 2011	Common Shares <sup>(1)</sup>	6,500	\$17.72
April 4, 2011	Common Shares <sup>(1)</sup>	2,000	\$11.66
April 5, 2011	Common Shares <sup>(1)</sup>	2,000	\$11.66
April 5, 2011	Common Shares <sup>(1)</sup>	700	\$17.72
April 7, 2011	Common Shares <sup>(2)</sup>	1,725,000	\$22.60
April 12, 2011	Common Shares <sup>(1)</sup>	1,500	\$17.72
April 12, 2011	Common Shares <sup>(1)</sup>	700	\$20.18
April 12, 2011	Common Shares <sup>(1)</sup>	1,400	\$19.91
April 30, 2011	Restricted Share Awards <sup>(3)</sup>	43,800	-
April 30, 2011	Common Shares <sup>(4)</sup>	27,213	\$20.78
May 18, 2011	Common Shares <sup>(1)</sup>	1,000	\$19.90
May 19, 2011	Common Shares <sup>(1)</sup>	4,100	\$20.17
May 19, 2011	Common Shares <sup>(1)</sup>	3,600	\$19.90
May 20, 2011	Common Shares <sup>(1)</sup>	600	\$20.17
May 20, 2011	Common Shares <sup>(1)</sup>	1,600	\$20.56
May 24, 2011	Common Shares <sup>(1)</sup>	2,400	\$20.56
May 30, 2011	Restricted Share Awards <sup>(3)</sup>	3,500	-

<b>Date</b>	<b>Securities</b>	<b>Number of Securities</b>	<b>Price per Security</b>
May 31, 2011	Common Shares <sup>(4)</sup>	28,837	\$19.72
June 30, 2011	Common Shares <sup>(4)</sup>	29,488	\$20.45
July 13, 2011	Common Shares <sup>(1)</sup>	1,500	\$17.30
July 31, 2011	Restricted Share Awards <sup>(3)</sup>	1,800	-
July 31, 2011	Common Shares <sup>(4)</sup>	37,475	\$16.41
August 24, 2011	Common Shares <sup>(1)</sup>	2,500	\$11.10
August 31, 2011	Common Shares <sup>(4)</sup>	40,411	\$13.60
September 30, 2011	Restricted Share Awards <sup>(3)</sup>	600	-
September 30, 2011	Common Shares <sup>(4)</sup>	27,199	\$12.28
October 28, 2011	Common Shares <sup>(1)</sup>	4,000	\$10.82
October 31, 2011	Restricted Share Awards <sup>(3)</sup>	3,200	-
October 31, 2011	Common Shares <sup>(4)</sup>	43,116	\$13.52
November 28, 2011	Common Shares <sup>(5)</sup>	3,737	\$13.15
November 30, 2011	Common Shares <sup>(4)</sup>	40,456	\$12.22
December 31, 2011	Common Shares <sup>(4)</sup>	31,491	\$13.96
January 10, 2012	Common Shares <sup>(5)</sup>	185	\$14.72
January 11, 2012	Common Shares <sup>(5)</sup>	541	\$14.83
January 12, 2012	Restricted Share Awards <sup>(3)</sup>	208,200	-
January 16, 2012	Common Shares <sup>(5)</sup>	351	\$14.72
January 23, 2012	Common Shares <sup>(1)</sup>	1,000	\$10.82
January 31, 2012	Common Shares <sup>(4)</sup>	32,790	\$14.41
February 29, 2012	Common Shares <sup>(4)</sup>	42,886	\$13.70
March 15, 2012	Common Shares <sup>(5)</sup>	248	\$14.04
March 16, 2012	Common Shares <sup>(5)</sup>	551	\$14.17
March 19, 2012	Common Shares <sup>(5)</sup>	138	\$14.37
March 21, 2012	Common Shares <sup>(5)</sup>	271	\$14.33
March 22, 2012	Common Shares <sup>(5)</sup>	413	\$14.48
March 23, 2012	Common Shares <sup>(1)</sup>	3,000	\$10.82
March 23, 2012	Common Shares <sup>(1)</sup>	3,000	\$13.42
March 27, 2012	Common Shares <sup>(1)</sup>	500	\$10.82
March 30, 2012	Common Shares <sup>(5)</sup>	138	\$14.11
March 31, 2012	Common Shares <sup>(4)</sup>	24,678	\$12.51
April 10, 2012	Common Shares <sup>(1)</sup>	1,500	\$10.82
April 13, 2012	Common Shares <sup>(5)</sup>	689	\$13.04
April 20, 2012	Common Shares <sup>(5)</sup>	1,377	\$12.29

Notes:

- (1) Common Shares issued pursuant to Amended TURIPS.
- (2) On April 7, 2011, pursuant to bought deal short form prospectus offering, Zargon issued 1,725,000 Common Shares (including 225,000 Common Shares issued pursuant to the exercise in full of the over-allotment option granted to the underwriters under that offering) at an issue price of \$22.60 per Common Share for aggregate gross proceeds of \$38,985,000.
- (3) Restricted share awards to acquire an equal number of Common Shares issued pursuant to the Share Award Plan. Share Awards do not have an exercise price.
- (4) Common Shares issued pursuant to the Amended DRIP. Such Common Shares are issuable at the end of the month and are paid out on the 15<sup>th</sup> day of the following month or, if the 15<sup>th</sup> day falls on a Saturday or Sunday, the 16<sup>th</sup> or 17<sup>th</sup> day of that month.
- (5) Common Shares issued pursuant to the exercise of outstanding Common Share awards under the Share Award Plan. The price per security is the deemed price of the Share Award.

## MARKET FOR SECURITIES

The issued and outstanding Common Shares are listed on the TSX under the trading symbol "ZAR". On April 10, 2012, the last trading day prior to the public announcement of the Offering, the closing price of the Common Shares on the TSX was \$13.18 and on April 23, 2012, the closing price of the Common Shares on the TSX was \$12.10. The following table sets forth the high and low trading prices and the aggregate volume of trading of the Common Shares, as reported by the TSX for the periods indicated.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
<b><u>2011</u></b>			
April	23.69	21.55	1,391,060
May	22.51	21.00	980,183
June	22.17	20.32	885,883
July	21.95	19.25	1,224,238
August	20.13	16.30	2,404,320
September	17.19	12.66	2,913,185
October	14.19	10.54	4,323,854
November	14.91	12.85	2,121,689
December	14.20	12.40	1,766,079
<b><u>2012</u></b>			
January	15.16	13.64	1,308,826
February	15.99	14.50	1,266,529
March	15.24	13.76	946,826
April (1 - 23)	14.40	11.74	1,120,410

## DETAILS OF THE OFFERING

### Debentures

The Debentures will be issued under and pursuant to the provisions of the Indenture. The following description of the Debentures is a summary of their material attributes and characteristics and is subject to the detailed provisions of the Indenture and is qualified in its entirety by reference to the Indenture. Following the Closing Date, the Indenture will be available for inspection at the offices of the Corporation and will be filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### General

The Debentures will be limited to an aggregate principal amount of \$50 million (plus any amount in respect of which the Over-Allotment Option is exercised). The Corporation may, however, from time to time, without the consent of the holders of any outstanding Debentures, issue debentures in addition to the Debentures offered hereby.

The Debentures will be dated as of the Closing Date. The Debentures will be issuable only in denominations of \$1,000 and integral multiples thereof. The Debentures have a maturity date of June 30, 2017 and on that date, the holders shall be entitled to receive the principal amount of the Debentures at par together with all accrued and unpaid interest thereon.

The Debentures will initially be issued in global form and registered in the name of CDS or its nominee, and purchasers of Debentures hereunder will receive only beneficial interests in such Debentures in book-entry form through the facilities of CDS. Holders of beneficial interests in the Debentures will not have the right to receive physical certificates evidencing their ownership of Debentures except under certain circumstances described under "*Details of the Offering – Debentures – Book-entry, Delivery and Form*".

The Debentures will bear interest from the date of issue at 6.00% per annum, which will be payable semi-annually on June 30 and December 31 in each year, commencing on December 31, 2012, computed on the basis of a 365-day or 366-day year, as the case

may be. The first payment will represent accrued interest for the period from the Closing Date up to, but not including, December 31, 2012. Interest on the Debentures will be payable in lawful money of Canada as specified in the Indenture.

Unless an Event of Default has occurred and is continuing, the Corporation may elect, from time to time, subject to applicable regulatory approval, to satisfy its obligation to pay all or any portion of the Interest Obligation on an Interest Payment Date by delivering sufficient Common Shares to the Debenture Trustee for sale, to satisfy the Interest Obligation, or portion thereof, as applicable, on the applicable Interest Payment Date, in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Common Shares. See "*Details of the Offering – Debentures – Interest Payment Election*" below.

The Indenture will not contain a requirement for the Corporation to increase the amount of interest or other payments to holders of Debentures should the Corporation become required to withhold amounts in respect of income or similar taxes on payment of interest or other amounts.

Principal on the Debentures will be payable in lawful money of Canada or, at the Corporation's option and subject to applicable regulatory approval and provided no Event of Default has occurred and is continuing, by delivery of Common Shares to satisfy, in whole or in part, the Corporation's obligation to repay principal under the Debentures, as further described under "*Details of the Offering – Debentures – Payment upon Redemption or at Maturity*" and "*Details of the Offering – Debentures – Redemption and Purchase*".

The Debentures will be the Corporation's direct obligation and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to the Senior Indebtedness, as described under "*Details of the Offering – Debentures – Subordination*". The Indenture will not restrict the Corporation or its subsidiaries from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its assets to secure any indebtedness.

The Debentures will be transferable, and may be presented for conversion, at the principal offices of the Debenture Trustee in Calgary, Alberta and Toronto, Ontario.

Under the Indenture, an original purchaser of Debentures under the Offering will have a contractual right of rescission upon the conversion by such purchaser of the principal amount of such Debentures into Common Shares in accordance with the terms of the Indenture to receive the amount paid for the Debentures if this short form prospectus (including the documents incorporated by reference herein) and any amendment contains a misrepresentation or is not delivered to such purchaser, provided such remedy for rescission is exercised within 180 days of closing of the Offering. See "*Statutory and Contractual Rights of Withdrawal and Rescission*".

### ***Conversion Privilege***

Each Debenture will be convertible at the option of the holder thereof into fully paid and non-assessable Common Shares at any time prior to 5:00 p.m. (Calgary time) on the earliest of: (i) the last Business Day immediately preceding the Maturity Date and (ii) the last Business Day immediately preceding the Redemption Date (as defined herein), in each case, at the Conversion Price, representing a conversion rate of approximately 53.1915 Common Shares per \$1,000 principal amount of Debentures, subject to adjustment in accordance with the Indenture. Interest will be paid on conversion from, and including, the last Interest Payment Date, up to, but not including, the Conversion Date.

Holders converting their Debentures will become holders of record of Common Shares on the date of conversion provided that, if a Debenture is surrendered for conversion on a day on which the register of Common Shares is closed, the person entitled to receive Common Shares shall become the holder of record of such Common Shares as at the date on which such register is next reopened. Notwithstanding the foregoing, no Debentures may be converted on an Interest Payment Date or during the five business days preceding June 30 and December 31 in each year, commencing December 31, 2012, as the registers of the Debenture Trustee will be closed during such periods. Subject to the provisions thereof, the Indenture will provide for the adjustment of the Conversion Price in certain events including: (i) the subdivision or consolidation of the outstanding Common Shares; (ii) the issuance of Common Shares or securities convertible into Common Shares by way of stock dividend, distribution or otherwise other than an issue of securities to holders of Common Shares who have elected to receive dividends in securities of the Corporation in lieu of receiving cash dividends paid in the ordinary course; (iii) the issuance of options, rights or warrants to all or substantially all the holders of Common Shares entitling them to acquire Common Shares or other securities convertible into

Common Shares at less than 95% of the then Current Market Price of the Common Shares; (iv) the distribution to all holders of Common Shares of any securities, evidences of indebtedness or assets (other than cash dividends and equivalent dividends in securities paid in lieu of cash dividends paid in the ordinary course); (v) the payment to all holders of Common Shares in respect of an issuer bid for Common Shares by the Corporation to the extent that the market value of the payment exceeds the then market price of the Common Shares on the date of expiry of the bid; and (vi) the payment of cash dividends or distributions to holders of Common Shares above the current monthly dividend rate of \$0.10 per Common Share proportionally adjusted in the case of an applicable period that is not one month (which would be \$0.30 per Common Share for a quarterly dividend, \$0.60 per Common Share for a semi-annual dividend or \$1.20 per Common Share for an annual dividend).

Subject to the provisions thereof, the Indenture will provide for the adjustment of the Conversion Price in the event that the Corporation pays a dividend or makes a distribution to all holders of Common Shares consisting of capital stock of, or similar equity interests in, a subsidiary or other business of the Corporation, in which event the conversion rate will be adjusted based on the market value of the securities so distributed relative to the market value of the Common Shares.

Provided the Common Shares are then listed on the TSX (or such other recognized stock exchange), the term "**Current Market Price**" will be defined in the Indenture to mean, on any day, the volume weighted average trading price of the Common Shares on the TSX (or such other recognized stock exchange) for the 20 consecutive trading days ending on the fifth trading day preceding such date.

Subject to prior regulatory approval, if required, there will be no adjustment of the Conversion Price in respect of any event described in (ii), (iii), (iv) or (vi) above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date. The Corporation will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%. However, any adjustments that are less than 1% of the Conversion Price will be carried forward and taken into account when determining subsequent adjustments.

In the case of: (i) any reclassification, capital reorganization or change (other than a change resulting only from consolidation or subdivision) of the Common Shares; (ii) the Corporation's amalgamation, arrangement, consolidation or merger with or into any other entity; (iii) any sale, transfer or other disposition of the Corporation's properties and assets as, or substantially as, an entirety to any other entity; or (iv) the Corporation's liquidation, dissolution or winding-up, the terms of the conversion privilege will be adjusted so that each Debenture will, after such reclassification, capital reorganization, change, amalgamation, arrangement, consolidation, merger, sale, transfer, disposition, liquidation, dissolution or winding-up, be exercisable for the kind and amount of the Corporation's securities or property, or of such continuing, successor or purchaser entity, as the case may be, which the holder thereof would have been entitled to receive as a result of such reclassification, capital reorganization, change, amalgamation, arrangement, consolidation, merger, sale, transfer, disposition, liquidation, dissolution or winding-up if on the effective date thereof it had been the holder of the number of Common Shares into which the Debenture was convertible prior to the effective date thereof. The Corporation shall give notice to the holders of Debentures at least 30 days prior to the effective date of such transaction in writing and by release to a business newswire stating the consideration into which the Debentures will be convertible after the effective date of such transaction.

No fractional Common Shares will be issued upon any conversion of the Debentures; in lieu thereof, the Corporation will satisfy such fractional interests by a cash payment equal to the fraction of the Common Share multiplied by the Current Market Price of the Common Shares.

### ***Redemption and Purchase***

The Debentures may not be redeemed by the Corporation before June 30, 2015, except in certain limited circumstances following a Change of Control. See "*Details of the Offering – Debentures – Repurchase upon a Change of Control*" below. On or after June 30, 2015 and prior the Maturity Date, the Debentures may be redeemed by the Corporation, in whole or in part from time to time, at the Corporation's option on not more than 60 days' and not less than 30 days' prior written notice at a redemption price equal to the principal amount plus accrued and unpaid interest thereon, if any, provided that the Current Market Price of the Common Shares on the date on which notice of redemption is given is not less than 125% of the Conversion Price. In the event that a holder of Debentures exercises their conversion right following a notice of redemption by the Corporation, such holder shall be entitled to receive accrued and unpaid interest, in addition to the applicable number of Common Shares to be received on conversion, for the period from the latest Interest Payment Date up to, but not including, the date of conversion.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a *pro rata* basis or in such other manner as the Debenture Trustee deems equitable, subject to regulatory approvals.

The Corporation will have the right to purchase Debentures for cancellation in the market, by tender or by private contract, at any time, subject to regulatory requirements.

### ***Payment upon Redemption or at Maturity***

On any Redemption Date or on the Maturity Date, as applicable, the Corporation will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount equal to the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon, if any, up to but not including such Redemption Date or the Maturity Date, as applicable. On any Redemption Date or on the Maturity Date, as applicable, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice and subject to any required regulatory approvals, provided that no Event of Default has occurred and is continuing, elect to satisfy its obligation to repay, in whole or in part, the principal amount of the Debentures which are to be redeemed or which have matured by issuing and delivering Common Shares to the holders of the Debentures. Payment for such Debentures subject to the election would be satisfied by delivering that number of Common Shares obtained by dividing the principal amount of the Debentures subject to the election which are to be redeemed or have matured by 95% of the Current Market Price of the Common Shares on the Redemption Date or Maturity Date, as applicable. Any accrued and unpaid interest thereon, up to and including the Redemption Date or Maturity Date, as applicable, will be paid in cash. In the event a holder of Debentures exercises its conversion rights following delivery of a notice of redemption by the Corporation, such holder shall be entitled to receive the applicable number of Common Shares to be received on conversion on the last Business Day immediately preceding the Redemption Date.

No fractional Common Shares will be issued upon redemption or at maturity of the Debentures; in lieu thereof, the Corporation will satisfy such fractional interests by a cash payment equal to the fraction of the Common Share multiplied by the Current Market Price of the Common Shares.

### ***Cancellation***

All Debentures converted, redeemed or purchased will be cancelled and may not be reissued or resold.

### ***Rank***

The Debentures will be direct, unsecured obligations of the Corporation and will be fully subordinated to all Senior Indebtedness, as more particularly described below under "*Subordination*". The Debentures will rank *pari passu* with one another and will rank *pari passu* with all other existing and future unsecured subordinated indebtedness of the Corporation to the extent subordinated on the same terms. The Indenture will not restrict the ability of the Corporation or its subsidiaries from incurring additional indebtedness, including Senior Indebtedness, or from mortgaging, pledging or charging their respective properties to secure any indebtedness or liabilities, including Senior Indebtedness.

### ***Subordination***

The payment of the principal and premium, if any, of, and interest on, the Debentures will be subordinated and postponed, and subject in right of payment in the circumstances referred to below and more particularly as set forth in the Indenture, to the full and final payment of all Senior Indebtedness of the Corporation. "**Senior Indebtedness**" of the Corporation will be defined in the Indenture and will include all obligations, liabilities and indebtedness of the Corporation which would, in accordance with IFRS, be classified upon a consolidated balance sheet of the Corporation as liabilities of the Corporation and, whether or not so classified, shall include (without duplication): (a) indebtedness of the Corporation or its subsidiaries for borrowed money; (b) obligations of the Corporation evidenced by bonds, debentures, notes or other similar instruments; (c) obligations of the Corporation or its subsidiaries arising pursuant or in relation to bankers' acceptances, letters of credit, letters of guarantee, performance bonds and surety bonds (including payment and reimbursement obligations in respect thereof) or indemnities issued in connection therewith; (d) obligations of the Corporation under any swap, hedging or other similar contracts or arrangements; (e) obligations of the Corporation under guarantees, indemnities, assurances, legally binding comfort letters or other contingent obligations relating to the Senior Indebtedness or other obligations of any other person which would otherwise constitute Senior Indebtedness within the meaning of this definition; (f) all indebtedness of the Corporation representing the deferred purchase



price of any property including, without limitation, purchase money mortgages; (g) accounts payable to trade creditors; (h) all renewals, extensions and refinancing of any of the foregoing; (i) all declared but unpaid dividends or distributions; and (j) all costs and expenses incurred by or on behalf of the holder of any Senior Indebtedness in enforcing payment or collection of any such Senior Indebtedness, including enforcing any security interest securing the same. "Senior Indebtedness" shall not include any indebtedness that would otherwise be Senior Indebtedness if it is expressly stated to be subordinate to or rank *pari passu* with the Debentures.

The Indenture will provide that in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to the Corporation, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the Corporation, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of the Corporation, then holders of Senior Indebtedness will receive payment in full before the holders of Debentures will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Debentures or any unpaid interest accrued thereon. The Indenture will also provide that the Corporation will not make any payment, and the holders of the Debentures will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including, without any limitation, by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures: (a) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures; or (b) at any time when a default or an event of default has occurred under the Senior Indebtedness and is continuing or upon the acceleration of Senior Indebtedness, unless the Senior Indebtedness has been repaid in full.

The Debenture Trustee and the Corporation will also be authorized (and obligated upon a request from the Corporation) under the Indenture to enter into subordination agreements on behalf of the holders of Debentures with any holder of Senior Indebtedness.

#### ***Repurchase upon a Change of Control***

Within 30 days following the occurrence of a Change of Control, the Corporation will be required to make a cash offer to purchase all of the Debentures (the "**Debenture Offer**") at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon (the "**Offer Price**"). A Change of Control shall include: (i) an acquisition by a person or group of persons acting jointly or in concert (within the meaning of Multilateral Instrument 62-104 – *Take-Over Bids and Issuer Bids* ("**MI 62-104**") and in Ontario, the *Securities Act* (Ontario) and Ontario Securities Commission Rule 62-504 – *Take-Over Bids and Issuer Bids* ("**OSC Rule 62-504**") of ownership of, or voting control or direction over, more than 50% of the issued and outstanding Common Shares; or (ii) the sale or other transfer of all or substantially all of the Corporation's consolidated assets, excluding a sale, merger, reorganization or other similar transaction if the previous holders of the Common Shares hold at least 50% of the voting control in such merged, reorganized or other continuing entity (each a "**Change of Control**").

The Indenture will contain notification and repurchase provisions requiring the Corporation to give written notice to the Debenture Trustee of the occurrence of a Change of Control within 30 days of such event together with the Debenture Offer. The Debenture Trustee will thereafter promptly mail to each holder of Debentures a notice of the Change of Control together with a copy of the Debenture Offer to repurchase all outstanding Debentures.

If Debentures representing 90% or more of the aggregate principal amount of the Debentures outstanding on the date of the giving of notice of the Change of Control are tendered for purchase following a Change of Control (other than Debentures held at the date of the take-over bid by or on behalf of the offeror, associates or affiliates of the offeror or any one acting jointly or in concert with the offeror), the Corporation will have the right to redeem all remaining Debentures in cash on the purchase date at the Offer Price. Notice of such redemption must be given to the Debenture Trustee by the Corporation within ten days following expiry of the right of the holders of the Debentures to require repurchase after the Change of Control and, as soon as possible thereafter, by the Debenture Trustee to the holders of Debentures not tendered for purchase.

The Corporation will comply with the requirements of Canadian securities laws and regulations to the extent such laws and regulations are applicable in connection with the repurchase of Debentures in the event of a Change of Control. Beneficial ownership will be determined in accordance with MI 62-104. The term "person" includes any syndicate or group that would be deemed to be a "person" under MI 62-104.

### ***Cash Change of Control***

In addition to the requirement for the Corporation to make a Debenture Offer in the event of a Change of Control, if a Change of Control occurs on or before the Maturity Date in which 10% or more of the consideration for the Common Shares in the transaction or transactions constituting a Change of Control consists of: (i) cash (other than cash payments for fractional Common Shares and cash payments made in respect of dissenters' appraisal rights); (ii) equity securities (including trust units, limited partnership units or other participating securities of a trust, limited partnership or similar entity) that are not traded or intended to be traded immediately following such transactions on a recognized stock exchange; or (iii) other property that is not traded or intended to be traded immediately following such transactions on a recognized stock exchange, then subject to regulatory approvals, during the period beginning 10 trading days before the anticipated date on which the Change of Control becomes effective and ending 30 days after the Debenture Offer is delivered, holders of Debentures will be entitled to convert their Debentures, subject to certain limitations, and receive, subject to and upon completion of the Change of Control, in addition to the number of Common Shares they would otherwise be entitled to receive as set out under "*Details of the Offering – Debentures – Conversion Privilege*" above, an additional number of Common Shares per \$1,000 principal amount of Debentures as set out below (in each case, a "**Make-Whole Premium**"), subject to regulatory approvals.

The number of additional Common Shares per \$1,000 principal amount of Debentures constituting the relevant Make-Whole Premium will be determined by reference to the table below and is based on the date on which the Change of Control becomes effective (the "**Effective Date**") and the price (the "**Stock Price**") paid per Common Share in the transaction constituting the Change of Control. If holders of Common Shares receive (or are entitled and able in all circumstances to receive), only cash in the transaction, the Stock Price will be the cash amount paid per Common Share. Otherwise, the Stock Price will be equal to the Current Market Price of the Common Shares immediately preceding the Effective Date of such transaction.

The following table shows what the Make-Whole Premium would be for each hypothetical Stock Price and Effective Date set out below, expressed as additional Common Shares per \$1,000 principal amount of Debentures. For greater certainty, the Corporation will not be obliged to pay the Make-Whole Premium other than by issuance of Common Shares upon conversion, subject to the provision relating to adjustment of the Conversion Price in certain circumstances and following the completion of certain types of transactions described under "*Details of the Offering – Debentures – Conversion Privilege*" above.

#### **Make-Whole Premium Upon a Change of Control (Number of Additional Common Shares per \$1,000 Debenture)**

Effective Date	Stock Price													
	\$13.42	\$14.00	\$15.00	\$16.00	\$17.00	\$18.00	\$19.00	\$20.00	\$25.00	\$30.00	\$35.00	\$40.00	\$45.00	\$50.00
05/01/12	21.3241	19.0282	15.6783	12.9710	10.7651	8.9598	7.4658	6.2637	2.7301	1.3284	0.7242	0.4476	0.3121	0.2378
06/30/13	21.3241	18.9697	15.4790	12.6597	10.3638	8.4877	6.9345	5.7041	2.1841	0.9234	0.4509	0.2674	0.1900	0.1513
06/30/14	21.3241	18.8255	15.1760	12.2251	9.8200	7.8539	6.2193	4.9522	1.4838	0.4806	0.2119	0.1395	0.1138	0.0998
06/30/15	21.3241	18.6054	14.7763	11.6733	9.1459	7.0686	5.2904	3.8898	0.2899	0.1390	0.1190	0.1041	0.0926	0.0833
06/30/16	21.3241	18.2371	14.0674	10.7231	8.0590	5.9610	4.3017	3.0356	-	-	-	-	-	-
06/30/17	21.3241	18.2345	13.4728	9.3063	5.6300	2.3621	-	-	-	-	-	-	-	-

The actual Stock Price and Effective Date may not be set out in the table, in which case:

- (a) if the actual Stock Price on the Effective Date is between two Stock Prices in the table or the actual Effective Date is between two Effective Dates in the table, the Make-Whole Premium will be determined by a straightline interpolation between the Make-Whole Premiums set out for the two Stock Prices and the two Effective Dates in the table based on a 365-day year, as applicable;

- (b) if the Stock Price on the Effective Date exceeds \$50.00 per Common Share, subject to adjustment as described below, the Make-Whole Premium will be zero; and
- (c) if the Stock Price on the Effective Date is less than \$13.42 per Common Share, subject to adjustment as described below, the Make-Whole Premium will be zero.

The Stock Prices set out in the table above will be adjusted as of any date on which the Conversion Price of the Debentures is adjusted. The adjusted Stock Prices will equal the Stock Prices applicable immediately prior to such adjustment multiplied by a fraction, the numerator of which is the conversion price as so adjusted and the denominator of which is the conversion price immediately prior to the adjustment giving rise to the Stock Price adjustment. The number of additional Common Shares set out in the table above will be adjusted in the same manner as the Conversion Price as set out above under "*Details of the Offering – Debentures – Conversion Privilege*", other than by operation of an adjustment to the Conversion Price by adding the Make-Whole Premium as described above.

### ***Interest Payment Election***

Unless an Event of Default has occurred and is continuing, the Corporation may elect, from time to time, subject to applicable regulatory approval, to satisfy its obligation to pay all or any portion of the Interest Obligation on an Interest Payment Date by delivering sufficient Common Shares to the Debenture Trustee for sale, to satisfy the Interest Obligation, or portion thereof, as applicable, on the Interest Payment Date, in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Common Shares (the "**Common Share Interest Payment Election**").

The Indenture will provide that, upon the Corporation making a Common Share Interest Payment Election, the Debenture Trustee will: (i) accept delivery from the Corporation of Common Shares; (ii) accept bids with respect to, and consummate sales of, such Common Shares, each as the Corporation shall direct in its absolute discretion through investment banks, brokers or dealers identified by the Corporation; (iii) invest the proceeds of such sales in debentures issued or guaranteed by the Government of Canada which mature prior to the applicable Interest Payment Date, and use the proceeds received from investment in such permitted government debentures, together with any additional cash provided by the Corporation, to satisfy the Interest Obligation; and (iv) perform any other action necessarily incidental thereto.

The Indenture will set out the procedures to be followed by the Corporation and the Debenture Trustee in order to effect the Common Share Interest Payment Election. If a Common Share Interest Payment Election is made, the sole right of a holder of Debentures in respect of interest will be to receive a cash payment equal to the interest owed on his Debentures from the Debenture Trustee out of the proceeds of the sale of Common Shares (plus any amount received by the Debenture Trustee from the Corporation) in full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to the Corporation in respect of the Interest Obligation.

Notwithstanding the foregoing, neither the Corporation making the Common Share Interest Payment Election nor the consummation of sales of Common Shares will: (i) result in the holders of the Debentures not being entitled to receive, on the applicable Interest Payment Date, cash in an aggregate amount equal to the interest payable on such Interest Payment Date; or (ii) entitle or require such holders to receive any Common Shares in satisfaction of the Interest Obligation.

### ***Modification***

The rights of the holders of Debentures may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture will contain certain provisions which make binding on all holders of outstanding Debentures, resolutions passed at meetings of the holders of outstanding Debentures by votes cast thereat by holders of not less than ~~75~~ 66% of the principal amount of the then-outstanding Debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than ~~75~~ 66% of the principal amount of the then-outstanding Debentures. Under the Indenture, certain amendments of a technical nature or which are not prejudicial to the rights of the holders of the Debentures may be made to the Indenture without the consent of the holders of the Debentures.

### ***Consolidation, Mergers or Sales of Assets***

The Indenture will provide that the Corporation may not, without the consent of the holders of the Debentures, consolidate or amalgamate with or merge into any person or sell, convey, transfer or lease all or substantially all of the Corporation's properties and assets to another person (other than the Corporation's direct or indirect wholly-owned subsidiaries) unless:

- (a) the resulting, surviving, continuing or transferee person expressly assumes all of the Corporation's obligations under the Debentures and Indenture;
- (b) if such resulting, surviving, continuing or transferee person is organized otherwise than under the laws of Canada, any province or territory thereof, the United States or any state or district thereof, it attorns to the jurisdiction of the courts of Alberta;
- (c) the Debentures will be valid and binding obligations of the resulting, surviving, continuing or transferee person entitling the holders thereof, as against such person, to all the rights of holders of Debentures under the Indenture;
- (d) after giving effect to the transaction, no Event of Default, and no event that, after notice or lapse of time, or both, would become an Event of Default, will occur; and
- (e) such other conditions as may be described in the Indenture are met,

provided, however, that the sale, conveyance, transfer or lease (in a single transaction or a series of related transactions) of the properties or assets of one or more subsidiaries (other than to the Corporation or another direct or indirect wholly-owned subsidiary) which, if such properties or assets were directly owned by the Corporation, would constitute all or substantially all of the properties and assets of the Corporation on a consolidated basis, shall be deemed to be a sale, conveyance, transfer or lease of all or substantially all of the properties and assets of the Corporation.

Although such transactions are permitted under the Indenture, certain of the foregoing transactions could constitute a Change of Control, which would require the Corporation to offer to purchase the Debentures as described above. An assumption of the Corporation's obligations under the Debentures and the Indenture by such resulting, surviving, continuing or transferee person or Corporation might be deemed for Canadian federal income tax purposes to be an exchange of the Debentures for new Debentures by the holders thereof, resulting in recognition of gain or loss for such purposes and possibly other adverse tax consequences to the holders. Holders should consult their own tax advisors regarding the tax consequences of such an assumption.

### ***Events of Default***

The Indenture will provide that an event of default ("**Event of Default**") in respect of the Debentures will occur if certain events described in the Indenture occur, including if any one or more of the following described events has occurred and is continuing: (i) failure for 30 days to pay interest on the Debentures when due; (ii) failure to pay principal or premium, if any (whether by payment in cash or delivery of Common Shares), on the Debentures when due, whether at maturity, upon redemption, on a Change of Control, by declaration or otherwise; (iii) default in the delivery, when due, of any Common Shares or other consideration, including any Make-Whole Premium, payable upon conversion with respect to the Debentures, which default continues for 15 days; (iv) default in the observance or performance of any other covenant or condition of the Indenture and the failure to cure (or obtain a waiver for) such default for a period of 30 days after notice in writing has been given by the Debenture Trustee or from holders of not less than 25% of the aggregate principal amount of the Debentures specifying such default and requiring the Corporation to rectify or obtain a waiver for same; (v) certain events of bankruptcy, insolvency or reorganization of the Corporation under bankruptcy or insolvency laws; and (vi) if an event of default occurs or exists under any agreement evidencing indebtedness for borrowed money (other than non-recourse debt) of the Corporation and as a result of such event of default (a) indebtedness for borrowed money thereunder in excess of \$10,000,000 has become due and payable before the date it would otherwise have been due and payable, and (b) the holders of such indebtedness are entitled to commence, and have commenced, the enforcement of security they hold for such indebtedness (if any) or the exercise of any other creditors' remedies to collect such indebtedness.

If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and will, upon the request of holders of not less than 25% in principal amount of the then-outstanding Debentures declare the principal of (and premium, if any) and interest on all outstanding Debentures to be immediately due and payable. In certain cases, the holders of more than 50% of the principal amount of the Debentures then-outstanding may, on behalf of the holders of all Debentures, waive any Event of Default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

### ***Offers for Debentures***

The Indenture will contain provisions to the effect that if an offer is made for the Debentures which is a take-over bid for Debentures within the meaning of MI 62-104 and in Ontario, the *Securities Act* (Ontario) and OSC Rule 62-504 if the Debentures were considered equity securities, and not less than 90% of the principal amount of the then-outstanding Debentures (other than Debentures held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Debentures held by those who did not accept the offer on the terms offered by the offeror.

### ***Discharge of the Indenture***

The Corporation may satisfy and discharge the Corporation's obligations under the Indenture in certain circumstances, including by delivering to the Debenture Trustee for cancellation all outstanding Debentures or by depositing with the Debenture Trustee, or the paying agent, if applicable, after the Debentures have become due and payable, whether at stated maturity or any redemption date, or any purchase date, or a Change of Control Purchase Date (to the extent applicable), or upon conversion or otherwise, cash or Common Shares (as applicable under the terms of the Indenture) sufficient to pay the principal and premium of and all accrued and unpaid interest owing under all of the outstanding Debentures and paying all other sums payable under the Indenture.

### ***Calculations in Respect of Debentures***

The Corporation is responsible for making all calculations called for under the Debentures. These calculations include, but are not limited to, determination of the Current Market Price of Common Shares. The Corporation will make all these calculations in good faith and, absent manifest error, the Corporation's calculations are final and binding on holders of Debentures and the Debenture Trustee. The Corporation will provide a schedule of the Corporation's calculations to the Debenture Trustee and the Debenture Trustee is entitled to conclusively rely upon the accuracy of the Corporation's calculations without independent verification.

### ***No Personal Liability of Board of Directors, Officers, Employees, subsidiaries, Incorporators and Shareholders***

No past, present or future director, officer, employee or shareholder of the Corporation or any successor, as such, shall have any liability for any of the obligations of the Corporation under the Debentures or the Indenture or for any claim based on, in respect of or by reason of, such obligations or their creation. Each holder of Debentures by accepting a Debenture waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Debentures.

### ***Book-entry, Delivery and Form***

The Debentures will be issued as Global Debentures held by, or on behalf of, CDS, as custodian for its Participants.

All Debentures will initially be represented in the form of Global Debentures registered in the name of CDS or its nominee. Purchasers of Debentures represented by Global Debentures will not receive Debentures in definitive form. Rather, purchasers of such Debentures will receive only beneficial interests in such Debentures in "book-entry only" form (unless the Corporation elects or is required pursuant to the Indenture to prepare and deliver definitive Debentures in fully-registered form). Beneficial interests in the Global Debentures will be represented through book-entry accounts of Participants. Each purchaser of a Debenture represented by a Global Debenture will receive a customer confirmation of purchase from the Underwriter or registered dealer from whom the Debenture is purchased in accordance with the practices and procedures of the selling Underwriter or registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS will be responsible for establishing and maintaining book-entry accounts for its Participants having interests in Global Debentures.

If CDS notifies the Corporation that it is unwilling or unable to continue as depository in connection with the Global Debentures, or if at any time CDS ceases to be a clearing agency or otherwise ceases to be eligible to be a depository and the Corporation and the Debenture Trustee are unable to locate a qualified successor, or if the Corporation elects, in its sole discretion, to terminate the book-entry system, with the consent of the Debenture Trustee, or if under certain circumstances described in the Indenture, an Event of Default has occurred, beneficial owners of Debentures represented by Global Debentures at such time will receive Debentures in registered and definitive form (the "**Definitive Debentures**").

### ***Transfer and Exchange of Debentures***

Transfers of beneficial ownership in Debentures represented by Global Debentures will be effected through records maintained by CDS for such Debentures or its nominees (with respect to interests of Participants) and on the records of Participants (with respect to interests of persons other than Participants). Unless the Corporation elects or is required pursuant to the Indenture to prepare and deliver Definitive Debentures, beneficial owners who are not Participants in the Depository's book entry system, but who desire to purchase, sell or otherwise transfer beneficial ownership of or other interests in Global Debentures, may do so only through Participants in CDS' book-entry system. The ability of a beneficial owner of an interest in a Debenture represented by a Global Debenture to pledge the Debenture or otherwise take action with respect to such owner's interest in a Debenture represented by a Global Debenture (other than through a Participant) may be limited due to the lack of a physical certificate.

Registered holders of Definitive Debentures may transfer such Debentures upon payment of taxes or other charges incidental thereto, if any, by executing and delivering a form of transfer together with the Debentures to the registrar for the Debentures at its principal offices in Calgary, Alberta or such other city or cities as may from time to time be designated by the Corporation, whereupon new Debentures will be issued in authorized denominations in the same aggregate principal amount as the Debentures so transferred, registered in the names of the transferees. No transfer of a Definitive Debenture will be registered on any Interest Payment Date or during the five business days preceding the Interest Payment Date or on any date of redemption or during the five business days preceding a date of redemption.

### ***Payments***

Payments of interest and principal on each Global Debenture will be made to CDS or its nominee, as the case may be, as the registered holder of the Global Debenture. As long as CDS or its nominee is the registered owner of a Global Debenture, CDS or its nominee, as the case may be, will be considered the sole legal owner of the Global Debenture for the purposes of receiving payments of interest and principal on the Debentures and for all other purposes under the Indenture and Debentures. Interest payments on Global Debentures will be made by electronic funds transfer or by cheque on the day interest is payable and delivered to CDS or its nominee, as the case may be.

The Corporation understands that CDS or its nominee, upon receipt of any payment of interest or principal in respect of a Global Debenture, will credit Participants' accounts, on the date on which interest or principal is payable, with payments in amounts proportionate to their respective beneficial interest in the principal amount of such Global Debenture as shown on the records of CDS or its nominee. The Corporation also understands that payments of interest and principal by Participants to the owners of beneficial interests in such Global Debenture held through such Participants will be governed by standing instructions and customary practices, as is the case with Debentures held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participants. The Corporation's responsibility and liability in respect of payments on Debentures represented by the Global Debenture is limited solely and exclusively, while the Debentures are registered in Global Debenture form, to making payment of any interest and principal due on such Global Debenture to CDS or its nominee.

If Definitive Debentures are issued instead of or in place of Global Debentures, payments of interest on each Definitive Debenture will be made by electronic funds transfer, if agreed to by the holder of the Definitive Debenture, or by cheque dated the Interest Payment Date and mailed to the address of the holder appearing in the register maintained by the Debenture Trustee at least one business day prior to the applicable Interest Payment Date. Payment of principal at maturity will be made at the principal office of the Debenture Trustee in Calgary, Alberta (or in such other city or cities as may from time to time be designated by the Corporation) against surrender of the Definitive Debentures, if any.

### ***Governing Laws***

The Indenture and Debentures will be governed by, and construed in accordance with, the laws of the Province of Alberta and the federal laws of Canada applicable therein.

### **PLAN OF DISTRIBUTION**

Pursuant to the Underwriting Agreement, the Corporation has agreed to issue and sell \$50,000,000 aggregate principal amount of Debentures to the Underwriters, and the Underwriters have severally agreed to purchase \$50,000,000 aggregate principal amount of Debentures from the Corporation on the Closing Date. Delivery of the Debentures to be issued on the Closing Date is conditional upon payment by the Underwriters of \$1,000 per Debenture to the Corporation. The Underwriting Agreement provides that the Corporation will pay the Underwriters' Fee of \$40.00 per Debenture, for an aggregate fee payable by the Corporation of \$2,000,000 (\$2,300,000 if the Over-Allotment Option is exercised in full), in consideration for the Underwriters' services in connection with the Offering. The terms of the Offering were determined by negotiation among the Corporation and TD, on its own behalf, and on behalf of the other Underwriters.

The Corporation has granted the Underwriters the Over-Allotment Option (for purposes of covering the Underwriters' over-allocation position, if any, and for market stabilization purposes), which option is exercisable, in whole or in part, for a period commencing at the closing of the Offering and ending 30 days following the Closing Date, and entitles the Underwriters to purchase up to an additional \$7,500,000 aggregate principal amount of Debentures at a price of \$1,000 per Debenture. The Debentures distributed in connection with the exercise of the Over-Allotment Option will have the same terms and conditions as the other Debentures distributed pursuant to the Offering. This short form prospectus qualifies both the grant of the Over-Allotment Option and the distribution of Debentures issuable upon the exercise of the Over-Allotment Option. If the Over-Allotment Option is fully exercised, the total Price to the Public, the Underwriters' Fee and the Net Proceeds to the Corporation in respect of the Debentures will be \$57,500,000, \$2,300,000 and \$55,200,000, respectively (prior to giving effect to the expenses of the Offering, which are estimated to be \$550,000). A purchaser who acquires Debentures forming part of the over-allocation position acquires such Debentures under this short form prospectus regardless of whether the over-allocation position is filled through the exercise of the Over-Allotment Option or secondary market purchases.

The Corporation has received conditional approval to list the Debentures (including any Debentures that may be issued pursuant to the Over-Allotment Option) distributed under this short form prospectus and the Common Shares issuable upon conversion or redemption or at maturity of the Debentures (including any Debentures that may be issued pursuant to the Over-Allotment Option) on the TSX. Such listing will be subject to the Corporation fulfilling all the listing requirements of the TSX.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint, and may be terminated at their discretion upon the occurrence of certain stated events. If an Underwriter fails to purchase the Debentures which it has agreed to purchase, the remaining Underwriter(s) may terminate their obligation to purchase their allotment of Debentures, or may, but are not obligated to, purchase the Debentures not purchased by the Underwriter or Underwriters which fail to purchase; provided, however, that in the event that the percentage of the total number of Debentures which one or more Underwriters has failed or refused to purchase is 5% or less of the total number of the Debentures which the Underwriters have agreed to purchase, the other Underwriters shall be obligated severally to purchase on a *pro rata* basis the Debentures which would otherwise have been purchased by the one or more Underwriters which failed or refused to purchase. The Underwriters are, however, obligated to take up and pay for all Debentures if any are purchased under the Underwriting Agreement. The Underwriting Agreement also provides that the Corporation will indemnify the Underwriters and their directors, officers, agents, shareholders and employees against certain liabilities and expenses.

The Debentures will be issued in "book entry only" form and must be purchased or transferred through a Participant. See "*Details of the Offering – Book Entry, Delivery and Form*".

The Corporation has been advised by the Underwriters that, in connection with the Offering, the Underwriters may effect transactions that stabilize or maintain the market price of the Debentures at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The Underwriters propose to offer the Debentures initially at the offering price specified herein. After a reasonable effort has been made to sell all of the Debentures at the price specified, the Underwriters may subsequently reduce the selling prices to

investors from time to time in order to sell any of the Debentures remaining unsold. In the event the offering price of the Debentures is reduced, the compensation received by the Underwriters will be decreased by the amount the aggregate price paid by the purchasers for the Debentures is less than the gross proceeds paid by the Underwriters to the Corporation for the Debentures. Any such reduction will not affect the proceeds received by the Corporation.

The Corporation has agreed that it will not sell or offer to sell, or otherwise issue, lend, transfer or dispose of any Common Shares or other securities that are exchangeable, convertible or exercisable into Common Shares without the prior written consent of TD, such consent not to be unreasonably withheld, except in connection with: (a) the issuance of rights or share awards, or Common Shares upon the exercise of rights or share awards granted, pursuant to the Amended TURIPS or the Share Award Plan; or (b) the issuance of Common Shares pursuant to the Amended DRIP, for a period of 90 days from the closing date of the Offering.

The Debentures have not been and will not be registered under the U.S. Securities Act or any state securities laws, and accordingly may not be offered or sold within the United States except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. Except as permitted in the Underwriting Agreement, the Underwriters will not offer or sell the Debentures within the United States. The Underwriting Agreement permits the Underwriters, through their U.S. broker-dealer affiliates, to offer and resell Debentures that they have acquired pursuant to the Underwriting Agreement to "qualified institutional buyers" (as such term is defined in Rule 144A under the U.S. Securities Act ("**Rule 144A**")) in the United States, provided that such offers and resales are made in accordance with Rule 144A under the U.S. Securities Act and similar exemptions under applicable state securities laws. Moreover, the Underwriting Agreement provides that the Underwriters will offer and sell the Debentures outside the United States only in accordance with Rule 903 of Regulation S under the U.S. Securities Act.

This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the Debentures within the United States. In addition, until 40 days after the commencement of the Offering, an offer or sale of Debentures or Common Shares issuable upon conversion thereof within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements of the U.S. Securities Act.

#### USE OF PROCEEDS

The net proceeds to the Corporation from the sale of the Debentures hereunder are estimated to be \$48,000,000 (assuming the Over-Allotment Option is not exercised) after deducting the Underwriters' Fee of \$2,000,000, but prior to deducting the estimated expenses of the Offering of \$550,000. Initially, the net proceeds of the Offering will be used to repay a portion of the bank indebtedness under the Credit Facilities. See "*Relationship Between the Corporation and Certain Underwriters*". The Corporation's indebtedness, which totalled approximately \$107.4 million as at March 31, 2012, is described in the Annual MD&A under the heading "*Bank Debt*" and in note 11 to the Annual Financial Statements.

If the Over-Allotment Option is exercised in full, the additional net proceeds to the Corporation, after deducting the Underwriters' Fee of \$2,300,000, will be approximately \$55,200,000, not including the estimated expenses of the Offering of \$550,000. In the event that all or part of the Over-Allotment Option is exercised, the additional net proceeds received from the exercise of such Over-Allotment Option will be used to repay a further portion of the bank indebtedness under the Credit Facilities. The Corporation's current indebtedness under the Credit Facilities has been incurred in the normal course of business and operations in connection with previous capital and other expenditures made by the Corporation. For the year ended December 31, 2011, the Corporation incurred approximately \$71.7 million of exploration and development expenditures and its total 2011 net capital expenditures were \$48.7 million (which includes total property dispositions of \$32.4 million). See "*Detailed Financial Analysis – Capital Expenditures*" in the Annual MD&A. The Corporation funded the 2011 capital expenditures by the use of its Credit Facilities and the cash generated by its operations.

The use of the net proceeds of the Offering by the Corporation is consistent with the Corporation's stated business objectives of active exploitation and exploration drilling within its core areas. There is no particular significant event or milestone that must occur for Zargon's business objectives to be accomplished. While Zargon believes that it has the skills and resources necessary to accomplish its stated business objectives, participation in the exploitation of, exploration for and development of oil and natural gas has a number of inherent risks. See "*Risk Factors*" in this short form prospectus and in the AIF. While the Corporation intends to use the net proceeds as stated above, there may be circumstances that are not known at this time where a reallocation of the net proceeds may be advisable for business reasons that management believes are in the Corporation's best interests.



## RELATIONSHIP BETWEEN THE CORPORATION AND CERTAIN UNDERWRITERS

Each of TD, CIBC and Scotia, are direct or indirect wholly-owned subsidiaries of Canadian chartered banks that are lenders to the Corporation and one of its wholly-owned subsidiaries (the "**Lenders**") and to which the Corporation and such subsidiary is indebted pursuant to the Credit Facilities. Consequently, the Corporation may be considered to be a "connected issuer" of those Underwriters for the purposes of Canadian securities laws. As at March 31, 2012, approximately \$107.4 million was outstanding to the Lenders under the Credit Facilities. The Credit Facilities are secured by a first ranking floating charge debenture on the assets of the Corporation and its material subsidiaries. The Corporation and its subsidiary are in compliance with all material terms of the agreements governing the Credit Facilities and none of the lenders under the Credit Facilities has waived any breach by the Corporation or such subsidiary thereunder since their execution. The decision to distribute the Debentures hereby and the determination of the terms of distribution were made through negotiations between the Corporation and TD, on its own behalf and on behalf of the other Underwriters. The Lenders did not have any involvement in such decision or determination; however, the Lenders have been advised of the issuance and terms thereof. As a consequence of the Offering, TD, CIBC and Scotia, will receive their respective share of the Underwriters' fee payable by the Corporation to the Underwriters. The net proceeds of the Offering will initially be used to repay a portion of the indebtedness of the Corporation and its subsidiary to the Lenders. See "*Use of Proceeds*".

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Counsel, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to the holding and disposition of Debentures and Common Shares by a purchaser who acquires a beneficial interest in the Debentures pursuant to this Offering (a "**holder**"). This summary is based on the facts set out in this short form prospectus and is applicable to a holder who, for the purposes of the Tax Act and at all relevant times: (i) deals at arm's length with and is not affiliated with the Corporation; and (ii) holds the Debentures as capital property. The Debentures and Common Shares generally should be considered to be capital property to a holder provided that the holder does not hold such Debentures and Common Shares in the course of carrying on a business of buying and selling securities and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is based on the current provisions of the Tax Act, all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof ("**Proposed Amendments**"), and the current published administrative policies and assessing practices of the Canada Revenue Agency ("**CRA**"). Except for the Proposed Amendments, this summary does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account other federal or any provincial, territorial or foreign income tax legislation or considerations. There can be no assurance that any Proposed Amendments will be enacted in the form publicly announced or at all.

**This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Debentures. Moreover, the income and other tax consequences of acquiring, holding or disposing of Debentures and Common Shares will vary depending on a prospective holder's particular circumstances including the province in which the holder resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to constitute legal or tax advice to any particular prospective holder. Prospective holders should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Debentures, based on their particular circumstances.**

### **Holders Resident in Canada**

Subject to the foregoing limitations and exclusions, the following discussion applies to a holder of Debentures and Common Shares who, at all relevant times, is or is deemed to be resident in Canada for purposes of the Tax Act and any applicable income tax convention (a "**Canadian Holder**").

Certain Canadian Holders of Debentures not otherwise considered to hold their Debentures as capital property may be entitled to make the irrevocable election permitted by subsection 39(4) of the Tax Act to have their Debentures and Common Shares and all other "Canadian securities" as defined in the Tax Act owned or subsequently acquired by them treated as capital property. Any such holder should consult its own tax advisor prior to making such an election. This summary is not applicable to: (i) "financial institutions" as defined in the Tax Act; (ii) "specified financial institutions" as defined in the Tax Act; (iii) a person an interest in which would be a "tax shelter investment" as defined in the Tax Act; or (iv) persons whose functional currency for purposes of

the Tax Act is the currency of a country other than Canada. Any such holder should consult its own tax advisor with respect to an investment in the Offered Securities.

## **Taxation of Holders of Debentures**

### ***Taxation of Interest on Debentures***

A Canadian Holder of Debentures that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Debentures: (i) that accrues or that is deemed to accrue to it to the end of the particular taxation year; or (ii) that has become receivable by or is received by the Canadian Holder before the end of that taxation year, except to the extent that such interest was included in computing the Canadian Holder's income for a preceding taxation year.

Any other Canadian Holder of Debentures (including an individual, other than certain trusts) should be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by the Canadian Holder in that taxation year (depending upon the method regularly followed by the Canadian Holder in computing income), except to the extent that the interest was included in the Canadian Holder's income for a preceding taxation year. In addition, if at any time a Debenture should become an "investment contract" (as defined in the Tax Act) in relation to a Canadian Holder, such Canadian Holder should be required to include in computing income for a taxation year any interest that accrues to the Canadian Holder on the Debenture up to the end of any "anniversary day" (as defined in the Tax Act) in that year to the extent such interest was not otherwise included in the Canadian Holder's income for that year or a preceding taxation year.

Upon a conversion, redemption or repayment at maturity of a Debenture, interest accrued thereon to the date of conversion, redemption or repayment and that would otherwise be payable after that date will be included in computing the Canadian Holder's income, except to the extent such amount was included in computing the Canadian Holder's income for that or a previous taxation year.

In the event that a premium is paid to a Canadian Holder of Debentures upon repayment of the principal of the Debentures, the fair market value of such premium will generally be deemed to be interest received at that time by such Canadian Holder if such premium is paid by the Corporation because of the repayment by it to the Canadian Holder of Debentures before their maturity and to the extent that such premium can reasonably be considered to relate to, and does not exceed the value at that time of, the interest that would have been paid or payable by the Corporation on the Debentures for taxation years of the Corporation ending after that time.

As described above under the heading "*Details of the Offering – Debentures – Interest Payment Election*", the Corporation may elect to pay interest by issuing Common Shares to the Debenture Trustee for sale, in which event a Canadian Holder would be entitled to a cash payment equal to the interest owed to the Canadian Holder from the proceeds of sale of such Common Shares by the Debenture Trustee. If the Corporation were to pay interest in this manner, the Canadian federal tax consequences to a Canadian Holder would generally be the same as those described above.

A Canadian Holder that is throughout the year a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax at a rate of 6 2/3% on certain investment income, including interest income.

### ***Exercise of the Conversion Privilege***

Generally, a Canadian Holder that converts a Debenture into Common Shares (or Common Shares and cash in lieu of a fraction of a Common Share) pursuant to its right of conversion under the terms of the Debenture will be deemed not to have disposed of the Debenture and, accordingly, will not realize a capital gain (or a capital loss) upon such conversion. Under the current administrative practice of the CRA, a Canadian Holder who, upon conversion of a Debenture, receives cash not in excess of \$200 in lieu of a fraction of a Common Share may either treat this amount as proceeds of disposition of a portion of the Debenture, thereby realizing a capital gain (or a capital loss), or reduce the adjusted cost base of the Common Shares that the Canadian Holder receives upon conversion by the amount of the cash received.

The aggregate cost to a Canadian Holder of the Common Shares acquired upon exercise of such holder's right to convert a Debenture should generally be equal to the aggregate of the adjusted cost base to the Canadian Holder of the Debenture

immediately before the conversion, minus any reduction of adjusted cost base for cash received in lieu of fractional shares as discussed above. Generally, the adjusted cost base to a Canadian Holder of Common Shares at any time should be determined by averaging the cost of such Common Shares with the adjusted cost base of any other Common Shares owned by the Canadian Holder as capital property at such time.

### ***Other Disposition of Debentures***

A disposition or deemed disposition of a Debenture by a Canadian Holder, including a redemption, payment at maturity or purchase for cancellation (but not including by the conversion of a Debenture into Common Shares pursuant to the Canadian Holder's conversion privilege as described above), will result in the Canadian Holder realizing a capital gain (or, subject to certain rules in the Tax Act, a capital loss) equal to the amount by which the proceeds of disposition, net of any amount otherwise required to be included in the Canadian Holder's income as interest, exceed (or are less than) the aggregate of the adjusted cost base to the Canadian Holder thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "*Holders Resident in Canada – Taxation of Holders of Common Shares – Taxation of Capital Gains and Capital Losses*".

If the Corporation pays any amount upon the redemption or purchase or at maturity of a Debenture by issuing Common Shares to the Canadian Holder (but not including by the conversion of a Debenture into Common Shares pursuant to the Canadian Holder's conversion privilege as described above), the Canadian Holder's proceeds of disposition of the Debenture will be equal to the fair market value, at the time of disposition of the Debenture, of the Common Shares and any other consideration so received (except consideration received in satisfaction of accrued interest).

The cost to the Canadian Holder of the Common Shares so received will be equal to the fair market value of such Common Shares. Generally, the adjusted cost base to a Canadian Holder of Common Shares at any time will be determined by averaging the cost of such Common Shares with the adjusted cost base of any other Common Shares owned by the Canadian Holder as capital property at such time.

Upon a disposition or deemed disposition of a Debenture, interest accrued thereon to the date of disposition and not yet due will be included in computing the income of the Canadian Holder as described above under "*Holders Resident in Canada – Taxation of Holders of Debentures – Taxation of Interest on Debentures*", except to the extent such amount was otherwise included in the Canadian Holder's income, and will be excluded in computing the Canadian Holder's proceeds of disposition of the Debenture.

### **Taxation of Holders of Common Shares**

#### ***Disposition of Common Shares***

A disposition or a deemed disposition of a Common Share (other than a disposition to the Corporation, or a tax-deferred disposition) by a Canadian Holder will generally result in the Canadian Holder realizing a capital gain (or, subject to certain rules in the Tax Act, a capital loss) equal to the amount by which the proceeds of disposition of the Common Share exceed (or are less than) the aggregate of the adjusted cost base to the Canadian Holder thereof and any reasonable costs of disposition.

#### ***Taxation of Capital Gains and Capital Losses***

Generally, one half of any capital gain (a "**taxable capital gain**") realized by a Canadian Holder in a taxation year is required to be included in the Canadian Holder's income for that year, and one-half of any capital loss (an "**allowable capital loss**") realized by a Canadian Holder in a taxation year is required to be deducted against taxable capital gains realized by the Canadian Holder in that year. Allowable capital losses in excess of taxable capital gains for a particular taxation year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year from net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

If the Canadian Holder is a corporation, any capital loss realized on the disposition of a Common Share may in certain circumstances be reduced by the amount of any dividends which have been received or which are deemed to have been received on the Common Share. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares, whether directly or indirectly through another partnership or trust.

Taxable capital gains realized by a Canadian Holder who is an individual (including certain trusts) may give rise to a liability for alternative minimum tax depending on the Canadian Holder's circumstances.

A Canadian Holder that is throughout the year a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax at a rate of 6 2/3% on certain investment income, including taxable capital gains.

#### ***Receipt of Dividends on Common Shares***

Dividends received or deemed to be received on Common Shares held by a Canadian Holder will be included in the Canadian Holder's income for the purposes of the Tax Act.

Such dividends received by a Canadian Holder that is an individual (including most trusts) should be subject to the gross-up and dividend tax credit rules in the Tax Act normally applicable to dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit in respect of dividends designated by the Corporation as "eligible dividends".

Taxable dividends received by a Canadian Holder who is an individual (other than certain trusts) may result in such Canadian Holder being liable for alternative minimum tax under the Tax Act. **Canadian Holders who are individuals should consult their own tax advisors in this regard.**

A Canadian Holder that is a corporation is required to include such dividends in computing its income and generally should be entitled to deduct the amount of such dividends in computing its taxable income. The Tax Act imposes a 33 1/3% refundable tax on dividends received (or deemed to be received) in a taxation year by Canadian Holders that are either "private corporations" or "subject corporations". Canadian Holders that are either "private corporations" or "subject corporations" should consult their tax advisors in this regard.

#### **Holders Not Resident in Canada**

Subject to the limitations and exclusions discussed above, the following summary applies to a holder of Debentures and Common Shares who, at all relevant times is neither resident nor deemed to be resident in Canada for purposes of the Tax Act or any applicable income tax convention and does not, and is not deemed to, use or hold the Debentures and Common Shares in carrying on a business in Canada (a "**Non-Canadian Holder**"). This discussion does not apply to an insurer who carries on an insurance business in Canada and elsewhere or an authorized foreign bank (as defined in the Tax Act).

#### ***Taxation of Interest on Debentures***

A Non-Canadian Holder should not be subject to Canadian withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by the Corporation as, on account or in lieu of payment of, or in satisfaction of, interest or principal on the Debentures, except as described below under "*Risk Factors – Withholding Tax*".

#### ***Exercise of the Conversion Privilege***

The conversion of a Debenture into Common Shares pursuant to the exercise of the conversion privilege by a Non-Canadian Holder will be deemed not to constitute a disposition of the Debenture and, accordingly, a Non-Canadian Holder will not recognize a gain or a loss on such conversion.

#### ***Receipt of Dividends on Common Shares***

Where a Non-Canadian Holder receives or is deemed to receive a dividend on Common Shares, the amount of such dividend will be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividend unless the rate is reduced under the provisions of an applicable income tax convention between Canada and the Non-Canadian Holder's country of residence. For instance, where the Non-Canadian Holder is a resident of the United States that is entitled to benefits under the Canada-United States Income Tax Convention (1980) as amended, and is the beneficial owner of the dividends, the rate of Canadian withholding tax applicable to dividends generally should be reduced to 15%.

### ***Taxation of Holders on Disposition of Debentures***

A Non-Canadian Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Canadian Holder on a disposition of a Debenture (including as a result of a redemption, payment on maturity or purchase for cancellation) or a Common Share unless the Debenture or Common Share constitutes "taxable Canadian property" (as defined in the Tax Act) to the Non-Canadian Holder at the time of disposition and the Non-Canadian Holder is not entitled to relief under an applicable income tax treaty or convention.

As long as the Common Shares are then listed on a designated stock exchange (which currently includes the TSX), the Debentures and the Common Shares generally will not constitute taxable Canadian property of a Non-Canadian Holder unless, at any time during the 60-month period immediately preceding the disposition or deemed disposition: (i) the Non-Canadian Holder, persons with whom the Non-Canadian Holder did not deal at arm's length, or the Non-Canadian Holder together with all such persons, owned 25% or more of the issued shares of any class or series of the capital stock of the Corporation; and (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from real or immovable property situated in Canada, Canadian resource properties (as defined in the Tax Act), timber resource properties (as defined in the Tax Act) or options or interests in respect of any such property.

Notwithstanding the foregoing, in certain circumstances set out in the Tax Act, shares which are not otherwise taxable Canadian property could be deemed to be taxable Canadian property.

**Non-Canadian Holders who dispose of Common Shares that are taxable Canadian property should consult their own tax advisors with respect to the requirement to file a Canadian income tax return in respect of the disposition, and whether such shares constitute "treat-protected property", in their particular circumstances.**

### **ELIGIBILITY FOR INVESTMENT**

In the opinion of Counsel, provided the Common Shares are listed on a designated stock exchange (which currently includes the TSX) on the Closing Date, the Debentures will be qualified investments for trusts governed by registered retirement savings plans ("**RRSPs**"), registered retirement income funds ("**RRIFs**"), deferred profit sharing plans, registered education savings plans, registered disability savings plans (except, in the case of Debentures, a deferred profit sharing plan to which the Corporation, or an employer that does not deal at arm's length with the Corporation, has made a contribution) and tax-free savings accounts ("**TFSAs**") (collectively, "**Deferred Plans**"). Common Shares issuable upon the conversion or redemption or at maturity of the Debentures will be qualified investments under the Tax Act for Deferred Plans provided the Common Shares are listed on a designated stock exchange at the time of their issuance.

In the case of a TFSA, RRSP or RRIF, provided the holder of the TFSA or annuitant under the RRSP or RRIF, as the case may be, deals at arm's length with the Corporation, does not have a "significant interest" (within the meaning of the Tax Act) in the Corporation and does not have a "significant interest" (within the meaning of the Tax Act) in a corporation, partnership or trust that does not deal at arm's length with the Corporation, the Debentures and Common Shares will not be a prohibited investment under the Tax Act for such TFSA, RRSP or RRIF. **Annuitants of a trust governed by an RRSP or RRIF and holders of trusts governed by a TFSA should consult their own advisors to ensure the Debentures and Common Shares would not be a prohibited investment in their particular circumstances.**

**Prospective holders should consult their own tax advisors regarding their particular circumstances.**

### **RISK FACTORS**

**An investment in the Offered Securities is subject to certain risks due to the nature of the Corporation's involvement in the exploration for, and the acquisition, development and production of, oil and natural gas reserves. Investors should carefully consider the risks described under the heading "Risk Factors" in the AIF incorporated by reference in this short form prospectus, the risks identified elsewhere in this short form prospectus and the documents incorporated by reference herein and the risk factors set forth below prior to making an investment in the Debentures.**

## **Market for Debentures**

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell Debentures purchased under this short form prospectus. There can be no assurance that an active trading market will develop for the Debentures after completion of the Offering, or if developed, that such a market will be sustained at the price level of the Offering.

The Corporation has received conditional approval to list the Debentures (including any Debentures that may be issued pursuant to the Over-Allotment Option) distributed under this short form prospectus and the Common Shares issuable upon conversion or redemption or at maturity of the Debentures (including any Debentures that may be issued pursuant to the Over-Allotment Option) on the TSX. Such listings will be subject to the Corporation fulfilling all the listing requirements of the TSX.

## **Volatility of Market Price of Common Shares**

The market price of the Common Shares may be volatile. The volatility may affect the ability of holders of Common Shares to sell the Common Shares at an advantageous price. Market price fluctuations in the Common Shares may be due to the Corporation's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Corporation or its competitors, along with a variety of additional factors, including, without limitation, those set forth under "*Forward-looking statements*". In addition, the market price for securities in the stock markets can experience significant price and trading fluctuations. These fluctuations can result in volatility in the market prices of securities that is often unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of the Common Shares.

## **Existing and Prior Ranking Indebtedness**

The Debentures will be subordinate to Senior Indebtedness of the Corporation. The Debentures will also be effectively subordinate to claims of creditors of the Corporation's subsidiaries, except to the extent that the Corporation is a creditor of such subsidiaries ranking at least *pari passu* with such creditors. In the event of the Corporation's insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up, its assets would be made available to satisfy the obligations of the creditors of such Senior Indebtedness before being available to pay the Corporation's obligations to the holders of the Debentures. Accordingly, all or a substantial portion of the Corporation's assets could be unavailable to satisfy the claims of the holders of the Debentures.

The Corporation's ability to meet its debt-service requirements will depend on its ability to generate cash in the future, which depends on many factors, including the Corporation's financial performance, debt-service obligations, working capital and future capital-expenditure requirements. In addition, the Corporation's ability to borrow funds in the future and to make payments on outstanding debt will depend on the satisfaction of covenants in then existing credit agreements and other agreements. A failure to comply with any covenants or obligations under the Corporation's consolidated indebtedness could result in a default, which, if not cured or waived, could result in the acceleration of the relevant indebtedness. If such indebtedness were to be accelerated, there can be no assurance that the Corporation's assets would be sufficient to repay such indebtedness in full. There can also be no assurance that the Corporation will generate cash flow in amounts sufficient to pay outstanding indebtedness or to fund any other liquidity needs.

## **Repayment of the Debentures**

The Corporation may not be able to refinance the principal amount of the Debentures in order to repay the principal outstanding or may not have generated enough cash from operations to meet this obligation. The Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice and subject to any required regulatory approvals, unless an Event of Default has occurred and is continuing, elect to satisfy its obligation to repay, in whole or in part, the principal amount of the Debentures which are to be redeemed or which have matured by issuing and delivering Common Shares to the holders of the Debentures. There is no guarantee that the Corporation will be able to repay the outstanding principal amount in cash at maturity of the Debentures.

### **Prevailing Yields on Similar Debentures**

Prevailing yields on similar Debentures will affect the market value of the Debentures. Assuming all other factors remain unchanged, the market value of the Debentures will decline as prevailing yields for similar Debentures rise, and will increase as prevailing yields for similar Debentures decline.

### **Redemption on a Change of Control**

The Corporation will be required to offer to purchase for cash all outstanding Debentures upon the occurrence of a Change of Control. However, it is possible that following a Change of Control, the Corporation will not have sufficient funds at that time to make the required purchase of outstanding Debentures or that restrictions contained in other indebtedness will restrict those purchases. See "*Details of the Offering – Debentures – Repurchase Upon a Change of Control*". In addition, the Corporation's ability to purchase the Debentures in such an event may be limited by law, by the Indenture, by the terms of other present or future agreements relating to indebtedness, and agreements that the Corporation may enter into in the future which may replace, supplement or amend the Corporation's future debt. The Corporation's future credit agreements or other agreements may contain provisions that could prohibit the purchase of the Debentures by the Corporation. The Corporation's failure to purchase the Debentures would constitute an Event of Default under the Indenture, which might constitute a default under the terms of the Corporation's other indebtedness at that time.

If a holder of Debentures converts its Debentures in connection with a Change of Control, the Corporation may, in certain circumstances, be required to increase the conversion rate, as described under "*Details of the Offering – Debentures – Cash Change of Control*". While the increased conversion rate is designed, inter alia, to compensate a holder of Debentures for the lost option time value of its Debentures as a result of a Change of Control in certain circumstances, the increased conversion rate amount is only an approximation of such lost value and may not adequately compensate the holder for such loss. In addition, in some circumstances as described under "*Details of the Offering – Debentures – Cash Change of Control*", no adjustment will be made.

### **Absence of Covenant Protection**

The Indenture will not restrict the Corporation or any of its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its assets to secure any indebtedness. The Indenture will not contain any provisions specifically intended to protect holders of the Debentures in the event of a future leveraged transaction involving the Corporation or any of its subsidiaries.

### **Redemption Prior to Maturity**

The Debentures may be redeemed, at the option of the Corporation, on or after June 30, 2015 and prior to the Maturity Date at any time and from time to time, at the redemption prices set forth in this short form prospectus, together with any accrued and unpaid interest, provided that the Current Market Price of the Common Shares on the date on which Notice of Redemption is given is not less than 125% of the Conversion Price. See "*Details of the Offering – Debentures – Redemption and Purchase*". Holders of Debentures should assume that this redemption option will be exercised if the Corporation is able to refinance at a lower interest rate or it is otherwise in the interest of the Corporation to redeem the Debentures.

### **Dilutive Effects on Holders of Common Shares**

The Corporation expects to issue Common Shares upon conversion or redemption or at maturity of the Debentures. Additionally, the Corporation may issue Common Shares in connection with the payment of interest on the Debentures. Accordingly, holders of Common Shares may suffer dilution.

### **Conversion Right Following Certain Transactions**

In the event of certain transactions, pursuant to the terms of the Indenture, each Debenture will become convertible into securities, cash or property receivable by a holder of Common Shares in such transactions. This change could substantially reduce or eliminate any potential future value of the conversion privilege associated with the Debentures. For example, if the Corporation were acquired in a cash merger, each Debenture would become convertible solely into cash and would no longer be convertible

into securities whose value would vary depending on future prospects and other factors. See "*Details of the Offering – Debentures – Conversion Privilege*".

### **Credit Risk**

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the Corporation's financial health and creditworthiness at the time of such payments.

### **Change in Tax Laws**

The Indenture will not contain a requirement that the Corporation increase the amount of interest or other payments to holders of Debentures in the event that the Corporation is required to withhold amounts in respect of income or similar taxes on payment of interest or other amounts on the Debentures. At present, no amount is required to be withheld from such payments to holders of Debentures resident in Canada or a non-resident of Canada who deal at arm's length with the Corporation, but no assurance can be given that applicable income tax laws or treaties will not be changed in a manner that may require the Corporation to withhold amounts in respect of tax payable on such amounts.

### **Withholding Tax**

Effective January 1, 2008, the Tax Act was amended to generally eliminate withholding tax on interest paid or credited to non-residents of Canada with whom the payor deals at arm's length. However, Canadian withholding tax continues to apply to payments of "participating debt interest". For purposes of the Tax Act, participating debt interest is generally interest that is paid on an obligation where all or any portion of such interest is contingent or dependent on the use of or production from property in Canada or is computed by reference to revenue, profit, cash flow, commodity price or any similar criterion.

Under the Tax Act, when a debenture or other debt obligation issued by a person resident in Canada is assigned or otherwise transferred by a non-resident person to a person resident in Canada (which would include a conversion of the obligation or payment at maturity), the amount, if any, by which the price for which the obligation was assigned or transferred exceeds the price for which the obligation was issued is deemed to be a payment of interest on that obligation made by the person resident in Canada to the non-resident (an "excess"). The deeming rule does not apply in respect of certain "excluded obligations", although it is not clear whether a particular convertible debenture would qualify as an "excluded obligation". If a convertible debenture is not an "excluded obligation", issues that arise are whether any excess would be considered to exist, whether any such excess which is deemed to be interest is "participating debt interest", and if the excess is participating debt interest, whether that results in all interest on the obligation being considered to be participating debt interest.

The CRA has stated that no excess, and therefore no participating debt interest, would in general arise on the conversion of a "traditional convertible debenture" and therefore, there would be no withholding tax in such circumstances (provided that the payor and payee deal at arm's length for purposes of the Tax Act). The CRA has published guidance on what it believes to be a "traditional convertible debenture" for these purposes. The Debentures should generally meet the criteria set forth in CRA's published guidance; however, there can be no assurance that amounts paid or payable by the Corporation to a Holder of Debentures on account of interest or any "excess" amount will not be subject to Canadian withholding tax at 25% (subject to any reduction in accordance with a relevant tax treaty).

### **The Corporation may use the proceeds of this Offering for purposes other than those set out in this short form prospectus**

The Corporation currently intends to allocate the proceeds received from the Offering as described under "*Use of Proceeds*" in this short form prospectus. However, management will have discretion in the actual application of the proceeds, and may elect to allocate proceeds differently from that described in "*Use of Proceeds*" if it is believed it would be in the best interests of the Corporation to do so if circumstances change. The failure by management to apply these funds effectively could have a material adverse effect on the business of the Corporation.

### **Forward-looking information may prove inaccurate**

Investors are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could



cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Additional information on the risks, assumptions and uncertainties are found in this short form prospectus under the heading "*Forward-Looking Statements*".

### **INTEREST OF EXPERTS**

Certain legal matters relating to the Offering will be passed upon by Burnet, Duckworth & Palmer LLP on behalf of the Corporation, and by Stikeman Elliott LLP on behalf of the Underwriters. As at the date hereof, the partners and associates of Burnet, Duckworth & Palmer LLP and Stikeman Elliott LLP, each as a group, own, directly or indirectly, less than 1% of the outstanding Common Shares. Reserve estimates contained in the AIF and incorporated by reference into this short form prospectus are based upon reports prepared by McDaniel, as independent consultants, with respect to the reserves of the Corporation. As of the date hereof, the principals of McDaniel, as a group beneficially own, directly or indirectly less than 1% of the Common Shares.

Ernst & Young LLP is independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta.

In addition, none of the aforementioned persons or companies, nor any director, officer, or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation, except for Grant Zawalsky, a director of the Corporation, who is a partner at Burnet, Duckworth & Palmer LLP, a law firm that renders legal services to the Corporation.

### **LEGAL PROCEEDINGS**

There are no outstanding legal proceedings material to the Corporation to which the Corporation is a party or in respect of which any of their respective properties are subject, nor are there any such proceedings known to be contemplated.

### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, Suite 1000, 440 – 2nd Avenue S.W., Calgary, Alberta, T2P 5E9. The transfer agent and registrar for the Common Shares is Valiant Trust Company, at its principal offices in Calgary, Alberta and Toronto, Ontario.

### **STATUTORY AND CONTRACTUAL RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

In addition, original purchasers of Debentures will have the benefit of a contractual right of rescission exercisable following the issuance of the Common Shares to such purchasers on conversion of the Debentures in accordance with the terms of the Indenture. See "*Details of the Offering – Debentures*".

### CONSENT OF AUDITORS

We have read the short form prospectus of Zargon Oil & Gas Ltd. (the "**Corporation**") dated April 24, 2012 relating to the issue and sale of 6.00% convertible unsecured subordinated debentures of the Corporation (the "**Prospectus**"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use, through incorporation by reference in the above-mentioned Prospectus, of our report to the shareholders of the Corporation on the consolidated financial statements of the Corporation, which comprise the consolidated balance sheets as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of earnings (loss) and comprehensive income and changes in equity and cash flows for the years ended December 31, 2011 and 2010. Our report is dated March 8, 2012

Calgary, Canada  
April 24, 2012

(signed) "*Ernst & Young LLP*"  
Chartered Accountants

**CERTIFICATE OF THE CORPORATION**

Date: April 24, 2012

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the Provinces of Canada, except Québec.

**ZARGON OIL & GAS LTD.**

By: "Craig H. Hansen"  
**Craig H. Hansen**  
President and Chief Executive Officer

By: "Jason Dranchuk"  
**Jason Dranchuk**  
Vice President, Finance  
and Chief Financial Officer

On behalf of the board of directors of Zargon Oil & Gas Ltd.

By: "Grant Zawalsky"  
**Grant Zawalsky**  
Director

By: "Margaret McKenzie"  
**Margaret McKenzie**  
Director

**CERTIFICATE OF THE UNDERWRITERS**

Dated: April 24, 2012

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the Provinces of Canada, except Québec.

TD SECURITIES INC.

By: "Bryce Hipp"

CIBC WORLD MARKETS INC.

By: "Brian D. Heald"

SCOTIA CAPITAL INC.

By: "Brett Undershute"

PETERS & CO. LIMITED.

By: "J.G. (Jeff) Lawson"

RAYMOND JAMES LTD.

By: "Gregg Delcourt"

SALMAN PARTNERS INC.

By: "Terrance K. Salman"