



**NOTICE OF EXTRAORDINARY MEETING OF DEBENTUREHOLDERS
TO BE HELD ON FEBRUARY 14, 2017**

INFORMATION CIRCULAR AND PROXY STATEMENT

with respect to a

**MEETING OF HOLDERS OF 6.00% CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES
OF ZARGON OIL & GAS LTD. DUE JUNE 30, 2017**

**The Board of Directors of Zargon Oil & Gas Ltd. UNANIMOUSLY recommends that
Debentureholders vote "FOR" the Amendments.**

January 16, 2017

These materials are important and require your immediate attention. They require debentureholders of Zargon Oil & Gas Ltd. to make important decisions. If you are in doubt as to how to make such decisions please contact your financial, legal, tax or other professional advisors.

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LETTER TO DEBENTUREHOLDERS

January 16, 2017

Dear Debentureholders:

You are invited to attend an extraordinary meeting (the "**Meeting**") of the holders (the "**Debentureholders**") of 6.00% convertible unsecured subordinated debentures of Zargon Oil & Gas Ltd. ("**Zargon**" or the "**Company**") due June 30, 2017 (the "**Debentures**") to be held at **3:30 p.m. (Calgary time)** on **February 14, 2017** at the Calgary Petroleum Club, 319, 5th Avenue S.W., Calgary, Alberta.

At the Meeting, Debentureholders will be asked to consider, and, if deemed advisable, pass an extraordinary resolution (the "**Extraordinary Resolution**"), approving certain amendments to the indenture governing the Debentures (the "**Indenture**") to:

- extend the maturity date of the Debentures from June 30, 2017 to December 31, 2019;
- increase the interest rate of the Debentures from 6.00% per annum to 8.00% per annum effective April 1, 2017;
- change the interest payment dates applicable to the Debentures under the Indenture from June 30, and December 31 to March 31, and September 30;
- reduce the conversion price in effect for each common share ("**Common Share**") of Zargon to be issued upon the conversion of the Debentures from \$18.80 to \$1.25;
- amend the redemption provisions of the Debentures to provide Debentureholders with a right (the "**Put Right**") to require Zargon to redeem up to \$19 million aggregate principal amount of Debentures (or such other amount as may be determined by Zargon) (the "**Maximum Redemption Amount**") at a cash price to be determined by a "Dutch auction" process;
- amend the redemption provisions to provide that (other than in connection with the Put Right) the Debentures will not be redeemable by the Company before January 1, 2019, and for the 12 months following January 1, 2019, the Debentures may only be redeemed by the Company if the Current Market Price (as defined in the Indenture) of the Common Shares exceeds 125% of the reduced conversion price; and
- make such other consequential amendments as required to give effect to the forgoing (collectively the "**Amendments**").

The Amendments will be reflected in the supplemental trust indenture (the "**Supplemental Indenture**") to be entered into among Zargon and Computershare Trust Company of Canada a draft form of which is attached as Appendix C to the information circular and proxy statement of Zargon (the "**Information Circular**"). If the Extraordinary Resolution is approved by the Debentureholders and all other regulatory approvals are obtained, the effective date of the Amendments will be the date that the Company enters into the Supplemental Indenture. Zargon intends to enter into the Supplemental Indenture as soon as possible following approval of the Extraordinary Resolution.

The full text of the Extraordinary Resolution is set forth in Appendix A to the Information Circular and must be approved by not less than 66 2/3% of the principal amount of the Debentures held by the Debentureholders present in person or represented by proxy at the Meeting and voted upon the Extraordinary Resolution.

All of the Debentures are held in book-entry form through the facilities of CDS & Co. (the registration name for the Canadian Depository for Securities Limited) ("CDS"). Accordingly, in order for a beneficial holder of Debentures to have its Debentures voted at the Meeting, it must complete and sign the applicable instrument of proxy or other voting instruction form provided by its investment dealer, broker, other nominee or intermediary and return such instrument of proxy or other voting instruction form in accordance with the instructions provided therein well in advance of the Meeting. Failure to do so will result in your Debentures not being voted at the Meeting. To be valid, any proxies must be received by Computershare Trust Company of Canada by not later than forty-eight (48) hours (exclusive of Saturdays, Sundays and statutory holidays in the Province of Alberta) prior to the time of the Meeting or any postponement or adjournment thereof.

Following the Meeting and provided the Debentureholders approve the Amendments, Debentureholders will have the benefit of the Put Right pursuant to which Debentureholders may tender a minimum of \$1,000 principal amount of their Debentures, and additional Debentures in integral amounts of \$1,000, for redemption pursuant to auction tenders in which tendering Debentureholders specify a redemption price, in increments of \$10, of not less than \$890 and not more than \$1,000 per \$1,000 principal amount Debenture ("**Auction Tenders**").

The Put Right will expire at 5:00 p.m. (Eastern time) on the date that is 45 days from the date of the Supplemental Indenture unless otherwise terminated, extended or amended by Zargon (such time and date, the "**Expiration Time**"), which is currently anticipated to be March 31, 2017. Promptly following the Expiration Time, Zargon will redeem the Debentures tendered, starting with those tendered at the lowest redemption price, and continuing with those tendered at increasing incremental redemption prices (each, an "**Incremental Redemption Price**"), until it has redeemed not more than the Maximum Redemption Amount of tendered Debentures. The Put Right and all tenders of Debentures will be subject to the terms and conditions of the Indenture, as amended by the Supplemental Indenture, and this Information Circular.

All of the Debentures are held in book-entry form through the facilities of CDS. Accordingly, in order to tender your Debentures pursuant to the Put Right, you must complete the documentation and follow the instructions provided by your investment dealer, broker or other nominee prior to the Expiration Time in the manner described under "*The Amendments – Procedure for Exercising the Put Right*" in the accompanying Information Circular. Holders should contact their investment dealer, broker or other nominee for assistance. You can also contact our Interim Chief Financial Officer at (403) 261-7323 if you have any questions.

Full details of the Amendments and the Put Right are set out in the accompanying Notice of Extraordinary Meeting of Debentureholders and Information Circular. You should consider carefully all of the information in the Information Circular. If you require assistance, consult your financial, legal, tax or other professional advisor.

Macquarie Capital Markets Canada Ltd. ("**Macquarie Capital**") is acting as financial advisor to Zargon in connection with the Amendments. Macquarie Capital has provided the Board of Directors of Zargon (the "**Zargon Board**") with an opinion that, as of the date of such opinion, the Amendments are fair, from a financial point of view, to the Debentureholders. The written fairness opinion of Macquarie Capital is attached as Appendix B to the Information Circular.

Following an extensive review and analysis of the Amendments and consideration of other available alternatives and based upon the recommendation of the special committee of the Zargon Board and other relevant factors considered by the Zargon Board, the Zargon Board has unanimously determined that the Amendments are in the best interests of Zargon and the Debentureholders and that the Amendments are fair to the Debentureholders. The Zargon Board unanimously recommends that Debentureholders vote in favour of the Extraordinary Resolution.

Your vote is important. Whether or not you attend the Meeting, please take the time to vote your Debentures in accordance with the instructions contained in the accompanying Information Circular and on the form of proxy or voting instruction form provided to you.

Yours very truly,

(Signed) "*Craig H. Hansen*"
President and Chief Executive Officer
Zargon Oil & Gas Ltd.

ZARGON OIL & GAS LTD.

NOTICE OF EXTRAORDINARY MEETING OF DEBENTUREHOLDERS

NOTICE IS HEREBY GIVEN that an extraordinary meeting (the "**Meeting**") of holders (the "**Debentureholders**") of 6.00% convertible unsecured subordinated debentures of Zargon due June 30, 2017 (the "**Debentures**") shall be held at **3:30 p.m. (Calgary time)** on **February 14, 2017** at the Calgary Petroleum Club, 319, 5th Avenue S.W., Calgary, Alberta.

The Meeting shall be held for the following purposes:

1. for Debentureholders to consider, and if deemed advisable, pass, with or without variation, an extraordinary resolution (the "**Extraordinary Resolution**"), the full text of which is set forth in Appendix A to the accompanying information circular and proxy statement of Zargon (the "**Information Circular**"), to approve certain amendments to the indenture governing the Debentures (the "**Indenture**") to:
 - (a) extend the maturity date of the Debentures from June 30, 2017 to December 31, 2019;
 - (b) increase the interest rate of the Debentures from 6.00% per annum to 8.00% per annum effective April 1, 2017;
 - (c) change the interest payment dates applicable to the Debentures under the Indenture from June 30, and December 31 to March 31, and September 30;
 - (d) reduce the conversion price in effect for each common share ("**Common Share**") of Zargon to be issued upon the conversion of the Debentures from \$18.80 to \$1.25;
 - (e) amend the redemption provisions of the Debentures to provide Debentureholders with a right to require Zargon to redeem up to the Maximum Redemption Amount (as defined in the Information Circular) of Debentures at a cash price to be determined by a "Dutch auction" process;
 - (f) amend the redemption provisions to provide that (other than in connection with the Put Right) the Debentures will not be redeemable by the Company before January 1, 2019, and for the 12 months following January 1, 2019, the Debentures may only be redeemed by the Company if the Current Market Price (as defined in the Indenture) of the Common Shares exceeds 125% of the reduced conversion price; and
 - (g) make such other consequential amendments as required to give effect to the forgoing (collectively the "**Amendments**") as more fully set forth in the accompanying Information Circular; and
2. transact such other business, including amendments to the foregoing, as may properly be brought before the Meeting or any adjournment or postponement thereof.

The Board of Directors of Zargon has set the close of business on January 13, 2017 (the "**Record Date**") as the Record Date for determining Debentureholders who are entitled to receive notice of the Meeting. Only Debentureholders whose names have been entered in the register of holders of Debentures on the close of business on the Record Date will be entitled to receive notice of and to vote at the Meeting. The quorum requirements of the Indenture will be satisfied by the presence in person or by proxy of Debentureholders representing at least 25% of the aggregate principal amount of Debentures outstanding on the date of the Meeting. If a quorum is not present in person or by proxy within 30 minutes after the appointed time of the Meeting, the Meeting shall be adjourned to a date that is not less than 14 nor more than 60 days later, and at such place and time as may be appointed by the chairman of the Meeting, provided that at least 10 days' notice is provided for such meeting. At the adjourned meeting, the Debentureholders present in person or represented by proxy shall constitute a quorum, even if they hold less than 25% of the outstanding principal amount of the Debentures.

All of the Debentures are held in book-entry form through the facilities of CDS & Co. (the registration name for the Canadian Depository for Securities Limited). Accordingly, in order for a beneficial holder of Debentures to have its Debentures voted at the Meeting, it must complete and sign the applicable instrument of proxy or other voting instruction form provided by its investment dealer, broker, other nominee or intermediary and return such instrument of proxy or other voting instruction form in accordance with the instructions provided therein well in advance of the Meeting. Failure to do so will result in your Debentures not being voted at the Meeting. To be valid, any proxies must be received by Computershare Trust Company of Canada by not later than forty-eight (48) hours (exclusive of Saturdays, Sundays and statutory holidays in the Province of Alberta) prior to the time of the Meeting or any postponement or adjournment thereof. See "Information Concerning the Meeting" in the Information Circular.

The Information Circular provides additional information relating to matters to be dealt with at the Meeting and is deemed to form part of this Notice.

DATED at Calgary, Alberta, this 16th day of January, 2017.

**BY ORDER OF THE BOARD OF DIRECTORS
OF ZARGON OIL & GAS LTD.**

(Signed) "*Craig H. Hansen*"
President and Chief Executive Officer

GLOSSARY OF TERMS

Unless the context otherwise requires, when used in this Information Circular the following terms shall have the meanings set forth below. Terms and abbreviations used in the Appendices to this Information Circular are defined separately therein.

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

"**Amendments**" means the amendments to the Debentures to be approved at the Meeting, all as more particularly described in this Information Circular;

"**Auction Tenders**" means Debentures, in minimum \$1,000 principal amount increments, that are tendered for redemption for which tendering Debentureholders specify a redemption price, of not less than \$890 and not more than \$1,000 in increments of \$10, per \$1,000 principal amount Debenture, that they would like to have such Debentures redeemed;

"**Beneficial Debentureholder**" means Debentureholders who otherwise do not hold their Debentures in their own name;

"**Business Day**" means any day which is not Saturday or Sunday or a statutory holiday in Calgary, Alberta or any other day on which business of the Trustee and Canadian chartered banks are generally closed;

"**CDS**" means CDS & Co. (the registration name for the Canadian Depository for Securities Limited);

"**CDS Participant**" means a broker, dealer, bank, other financial institution or other person for whom from time to time, CDS effects book-entry for a Debenture deposited with CDS;

"**Common Share**" means a common share of Zargon;

"**Debentureholder Approval**" means the approval of the Extraordinary Resolution by the Debentureholders at the Meeting;

"**Debentureholders**" means the holders of Debentures;

"**Debentures**" means the 6.00% convertible unsecured subordinated debentures of Zargon due June 30, 2017;

"**Depositary**" means Computershare Investor Services Inc.;

"**Deposited Debentures**" means Debentures deposited by Debentureholders pursuant to Auction Tenders under the Put Right and the Redemption Auction provisions of the Supplemental Indenture;

"**Expiration Time**" means 5:00 p.m. (Eastern time) on the date that is 45 days from the date of the Supplemental Indenture unless terminated, extended or varied by Zargon;

"**Extraordinary Resolution**" means the extraordinary resolution in respect of the Amendments to be considered and voted upon by the Debentureholders at the Meeting, the form of which is attached as Appendix A to this Information Circular;

"**Fairness Opinion**" means the fairness opinion provided by Macquarie Capital to the Zargon Board in respect of the Amendments, the written version of which is dated January 5, 2017 and attached as Appendix B to this Information Circular;

"Incremental Redemption Price" means each \$10 incremental redemption price difference within the range of \$890 and \$1,000 per \$1,000 principal amount Debenture, at which Debentures are redeemable pursuant to the Put Right;

"Indenture" means the convertible debenture indenture dated as of May 1, 2012 between the Company and Computershare Trust Company of Canada (as agent for Valiant Trust Company) in its capacity as trustee under the Debenture Indenture providing for the issue of the Debentures;

"Information Circular" means this information circular and proxy statement of Zargon, together with all appendices hereto to be mailed or otherwise distributed by Zargon to the Debentureholders;

"Maximum Redemption Amount" means, unless otherwise amended, \$19 million principal amount;

"Meeting" means the extraordinary meeting of Debentureholders to be held on February 14, 2017 to consider the Extraordinary Resolution and related matters, and any adjournment(s) or postponement(s) thereof;

"MI 61-101" means Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*;

"Put Right" means the right of Debentureholders to require Zargon to redeem up to the Maximum Redemption Amount of Debentures at a cash price to be determined by the Redemption Auction;

"Record Date" means the record date for the Meeting, being January 13, 2017;

"Redemption" means the Company's redemption of Deposited Debentures pursuant to the Redemption Auction and the Put Right;

"Redemption Auction" means the "Dutch auction" process which allows Zargon to redeem Deposited Debentures at the lowest Incremental Redemption Price(s) available until Zargon has redeemed not more than the Maximum Redemption Amount in total of Deposited Debentures;

"Redemption Date" means the date that Debentures are redeemed by Zargon pursuant to the Redemption Auction;

"Special Committee" has the meaning ascribed thereto under the heading *"The Amendments – Background to the Amendments"*;

"Supplemental Indenture" means the supplemental indenture to be entered into among Zargon and Computershare Trust Company of Canada in substantially the form attached as Appendix C to this Information Circular;

"Tax Act" means the *Income Tax Act* (Canada) R.S.C. 1985, c. 1 (5th Supp.) as amended, including the regulations promulgated thereunder;

"Trustee" means Computershare Trust Company of Canada (as successor to the business of Valiant Trust Company), in its capacity as trustee under the Debenture Indenture;

"TSX" means the Toronto Stock Exchange;

"Zargon" or the **"Company"** means Zargon Oil & Gas Ltd., a corporation existing under the ABCA; and

"Zargon Board" means the board of directors of Zargon as it may be comprised from time to time.

INFORMATION CIRCULAR AND PROXY STATEMENT

General

This Information Circular is furnished in connection with the solicitation of proxies by and on behalf of the management of Zargon for use at the Meeting. Other than as set forth herein, no person has been authorized to give any information or make any representation in connection with the Amendments or any other matters to be considered at the Meeting other than those contained in this Information Circular and, if given or made, any such information or representation must not be relied upon as having been authorized.

Information contained in this Information Circular is given as of January 16, 2017 unless otherwise specifically stated. You are urged to carefully read the full text of the Information Circular.

This Information Circular does not constitute an offer to sell, or a solicitation of an offer to purchase Debentures in connection with the Amendments, or the solicitation of a proxy, in any jurisdiction, to or from any person to whom it is unlawful to make such offer, solicitation of an offer or proxy solicitation in such jurisdiction. The delivery of this Information Circular does not under any circumstances, imply or represent that there has been no change in the information set forth herein since the date of this Information Circular.

Debentureholders should not construe the contents of this Information Circular as legal, tax or financial advice and should consult with their own professional advisors in considering the relevant legal, tax, financial or other matters contained in this Information Circular.

Forward-Looking Statements

This Information Circular contains forward-looking statements and forward-looking information (collectively referred to herein as "**forward-looking statements**") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "will", "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", "may", "project", "should" and variations of such words and similar expressions are intended to identify forward-looking statements. Specifically, and without limiting the generality of the foregoing, all statements included in this Information Circular that address activities, events or developments that Zargon expects or anticipates will or may occur in the future, including, but not limited to statements with respect to the Amendments; timing of completion of the Amendments; satisfaction of the conditions to the Amendments becoming effective; the benefits of the Amendments; the treatment of Debentureholders under tax laws; and stock exchange listings, may constitute forward-looking statements under applicable Canadian securities laws and necessarily involve known and unknown risks and uncertainties, most of which are beyond Zargon's control. These risks may cause actual financial and operating results, performance, levels of activity and achievements to differ materially from those expressed in, or implied by, such forward-looking statements.

Although Zargon believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Such risks and uncertainties include, but are not limited to: the risk that the Amendments may not be effected when planned, or at all. See "*Risk Factors*".

Although the forward-looking statements contained in this Information Circular are based upon assumptions which management of Zargon believes to be reasonable, Zargon cannot assure Debentureholders that actual results will be consistent with these forward-looking statements.

Management of Zargon has included the above summary of assumptions and risks related to forward-looking statements provided in this Information Circular in order to provide Debentureholders with a more complete perspective in respect of the Amendments and such information may not be appropriate for other purposes. Zargon's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Zargon will derive therefrom. See "*Risk Factors*".

Zargon gives no assurance nor makes any representations or warranty that the expectations conveyed by the forward-looking statements will prove to be correct and actual results may differ materially from those anticipated in the forward-looking statements. Accordingly, readers should not place undue reliance on forward-looking statements in this Information Circular. All of the forward-looking statements made in this Information Circular are qualified by these cautionary statements. Zargon undertakes no obligation to publicly update or revise any forward-looking statements to reflect new information, subsequent events or otherwise, unless so required by applicable Canadian securities laws.

SUMMARY

The following is a summary of certain information contained in this Information Circular. This summary is not intended to be complete and is qualified in its entirety by the more detailed information contained elsewhere in this Information Circular and the attached Appendices, all of which are important and should be reviewed carefully. Capitalized terms used in this summary without definition have the meanings ascribed to them in the Glossary of Terms or elsewhere in this Information Circular.

Date, Time and Place of Meeting

The Meeting will be held at **3:30 p.m. (Calgary time)** on **February 14, 2017** at the Calgary Petroleum Club, 319, 5th Avenue S.W., Calgary, Alberta for the purposes set forth in the accompanying Notice of Extraordinary Meeting of Debentureholders. At the Meeting, Debentureholders will consider and, if deemed advisable, approve the Extraordinary Resolution.

Only Debentureholders whose names have been entered in the registers of holders of Debentures on the close of business on the Record Date will be entitled to receive notice of and to vote at the Meeting or any adjournment thereof. The quorum requirements of the Indenture will be satisfied by the presence in person or by proxy of Debentureholders representing at least 25% of the principal amount of Debentures outstanding on the date of the Meeting. If a quorum is not present in person or by proxy within 30 minutes after the appointed time of the Meeting, the Meeting shall be adjourned to a date that is not less than 14 nor more than 60 days later, and at such place and time as may be appointed by the chairman of the Meeting, provided that at least 10 days' notice is provided for such meeting. At the adjourned meeting, the Debentureholders present in person or represented by proxy shall constitute a quorum, even if they hold less than 25% of the outstanding principal amount.

All of the Debentures are held in book-entry form through the facilities of CDS (the registration name for the Canadian Depository for Securities Limited). Accordingly, in order for a beneficial holder of Debentures to have its Debentures voted at the Meeting, it must complete and sign the applicable instrument of proxy or other voting instruction form provided by its investment dealer, broker, other nominee or intermediary and return such instrument of proxy or other voting instruction form in accordance with the instructions provided therein well in advance of the Meeting. Failure to do so will result in your Debentures not being voted at the Meeting. To be valid, any proxies must be received by Computershare Trust Company of Canada by not later than forty-eight (48) hours (exclusive of Saturdays, Sundays and statutory holidays in the Province of Alberta) prior to the time of the Meeting or any postponement or adjournment thereof.

See "*Information Concerning the Meeting – Date, Time and Place of Meeting*".

Debentureholder Approval

At the Meeting, Debentureholders will be asked to approve the Extraordinary Resolution. The full text of the Extraordinary Resolution is set forth in Appendix A to this Information Circular and must be approved by not less than 66 2/3% of the principal amount of the Debentures held by the Debentureholders present in person or represented by proxy at the Meeting and voted upon the Extraordinary Resolution.

See "*The Amendments – Debentureholder Approval*" and "*Information Concerning the Meeting – Voting Rights and Appointment of Proxies*".

Other Regulatory Approvals

In addition to the approval of Debentures, it is a condition precedent to the implementation of the Amendments that the approval of the TSX be obtained. See "*The Amendments – Other Regulatory Approvals*".

The Amendments

General

At the Meeting, Debentureholders will be asked to pass an extraordinary resolution approving certain amendments to the Indenture governing the Debentures to:

- (a) extend the maturity date of the Debentures from June 30, 2017 to December 31, 2019;
- (b) increase the interest rate of the Debentures from 6.00% per annum to 8.00% per annum effective April 1, 2017;
- (c) change the interest payment dates applicable to the Debentures under the Indenture from June 30, and December 31 to March 31, and September 30;
- (d) reduce the conversion price in effect for each Common Share to be issued upon the conversion of the Debentures from \$18.80 to \$1.25;
- (e) amend the redemption provisions of the Debentures to provide Debentureholders with the Put Right to require Zargon to redeem up to the Maximum Redemption Amount of Debentures at a cash price to be determined by a Redemption Auction;
- (f) amend the redemption provisions to provide that (other than in connection with the Put Right) the Debentures will not be redeemable by the Company before January 1, 2019, and for the 12 months following January 1, 2019, the Debentures may only be redeemed by the Company if the Current Market Price (as defined in the Indenture) of the Common Shares exceeds 125% of the reduced conversion price;
- (g) make such other consequential amendments as required to give effect to the forgoing.

The full text of the Extraordinary Resolution and the Supplemental Indenture (in draft form) that will be entered into by Zargon and the Trustee to evidence the Amendments if the Extraordinary Resolution is passed by the Debentureholders at the Meeting are set forth in Schedules A and C to this Information Circular, respectively. If the Extraordinary Resolution is approved by the Debentureholders and all other regulatory approvals are obtained, the effective date of the Amendments will be the date that the Company enters into the Supplemental Indenture. **Although Zargon intends to enter into the Supplemental Indenture as soon as possible following approval of the Extraordinary Resolution, the Zargon Board has retained the discretion, without further notice to or approval of the holders of Debentures, to revoke the Extraordinary Resolution at any time prior to Zargon entering into the Supplemental Indenture.**

Debentureholders are encouraged to read the full text of the Extraordinary Resolution and the Supplemental Indenture in their entirety.

Interest Rate and Interest Payment Dates

Currently, pursuant to the terms of the Indenture, the Debentures bear interest at a rate of 6.00% per annum, payable in equal semi-annual instalments in arrears on June 30 and December 31 in each year. If the Amendments are approved and implemented, the next interest payment date will be March 31, 2017 instead of June 30, 2017, which payment will include interest at the rate of 6% per annum from and including December 31, 2016 up to, but not including, April 1, 2017, and the next interest payment will be made at the revised rate of 8% per annum on September 30, 2017 instead of December 31, 2017, which payment will include interest payable from and including April 1, 2017 up to, but not including September 30, 2017.

The Put Right

Currently, pursuant to the terms of the Indenture, the Debentures may only be redeemed by Zargon prior to June 30, 2017 if the Current Market Price (as defined in the Indenture) at the time notice of such redemption is provided by the Company exceeds 125% of the current conversion price of the Debentures per Common Share, which conversion price is currently \$18.80 per Common Share.

Following the Meeting and provided the Debentureholders approve the Amendments, Debentureholders will have the benefit of the Put Right pursuant to which Debentureholders may tender a minimum of \$1,000 principal amount of their Debentures, and additional Debentures in integral amounts of \$1,000, for redemption pursuant to auction tenders in which tendering Debentureholders specify a redemption price, in increments of \$10, of not less than \$890 and not more than \$1,000 per \$1,000 principal amount Debenture.

The Put Right will expire at the Expiration Time. **It is currently anticipated that the Expiration Time will be 5:00 p.m. (Eastern time) on March 31, 2017 unless terminated, extended or amended by Zargon. Debentureholders who wish to exercise the Put Right and deposit their Debentures for redemption must take the necessary steps to exercise their Put Right and tender the Debentures for redemption prior to the Expiration Time. See "*The Put Right – Procedure for Exercising the Put Right*".**

Promptly following the Expiration Time, Zargon will redeem the Debentures tendered, starting with those tendered at the lowest Incremental Redemption Price, and continuing with each subsequent Incremental Redemption Price, until it has redeemed not more than the Maximum Redemption Amount in total of tendered Debentures.

Neither Zargon nor the Zargon Board makes any recommendation to any Debentureholder as to whether or not to tender Debentures for redemption under the Put Right and Redemption Auction. Zargon Debentureholders must make their own decisions as to whether to deposit or refrain from depositing Debentures for redemption. Zargon Debentureholders should carefully consider all relevant factors with their own financial advisors, including the income tax consequences of redemption. See: "*Certain Income Tax Consequences of the Amendments*" and "*Risk Factors*".

The Put Right and all deposits of Debentures for redemption are subject to the terms and conditions set forth in the Indenture, as amended by the Supplemental Indenture, and this Information Circular.

Pursuant to the provisions of the Supplemental Indenture, Zargon will have the right, in its sole discretion, at any time or from time to time: (a) to terminate the Put Right and not redeem and return all Deposited Debentures to the holders thereof; and/or (b) to vary the terms of the Redemption Auction in any respect, including increasing or decreasing the Maximum Redemption Amount or the range of prices put forth under the Redemption Auction, extending or amending the period of time during which the Redemption Auction is open, or varying or amending the terms of any redemption, by giving written notice of such extension, amendment, variation or termination to the Depository and by causing the Depository to provide a copy of such notice to CDS.

Redemption Price

The redemption price range for Debentures tendered for redemption under the Put Right and the Redemption Auction is \$890 to \$1,000 per \$1,000 principal amount, and must be in increments of \$10 such as \$890, \$900, \$910 and so on. Zargon will redeem Deposited Debentures at the lowest Incremental Redemption Price, and continue with those tendered at each subsequent Incremental Redemption Price until it has redeemed not more than the Maximum Redemption Amount in total of Debentures. Zargon will not redeem any Debentures tendered with an Incremental Redemption Price above the Incremental Redemption Price at which a total of the Maximum Redemption Amount of Debentures have been redeemed or are redeemable.

If a Debentureholder's Debentures are redeemed, that Debentureholder will be paid the relevant Incremental Redemption Price (subject to applicable withholding taxes, if any) for each \$1,000 principal amount of Debentures redeemed in cash, together with all accrued and unpaid interest (from and including December 31, 2016 up to but

excluding the Redemption Date) by wire transfer to CDS for the account of the Debentureholder's CDS Participant promptly following the Redemption Date. Under no circumstances will Zargon pay additional interest on the redeemed Debentures, even if there is a delay in making payment. See "*The Put Right – Redemption Price*".

Partial Tenders

A Debentureholder desiring to tender Debentures for redemption under the Put Right and the Redemption Auction with respect to only a portion of the aggregate principal amount of such Debentureholder's Debentures may do so, provided that the principal amount of Debentures deposited is in a denomination of \$1,000 or an integral multiple thereof, by depositing a Debenture in the manner described above and indicating the portion of the principal amount thereof that the Debentureholder wishes to tender. No tenders that are in a denomination of less than \$1,000 will be accepted.

Proration

If the aggregate redemption price for all Deposited Debentures is less than or equal to the Maximum Redemption Amount, Zargon will redeem all such Deposited Debentures at each tendered price. If the redemption of the aggregate principal amount of Deposited Debentures at any Incremental Redemption Price would result in an aggregate redemption price in excess of the Maximum Redemption Amount, then such Deposited Debentures at such Incremental Redemption Price will be redeemed on a *pro rata* basis according to the number of Debentures deposited by the depositing Debentureholders.

Deposited Debentures not redeemed because of proration, will be returned to depositing Debentureholders without cost promptly following the Redemption Date by book-entry delivery through CDS to the accounts of the applicable CDS Participants. Deposited Debentures not redeemed will continue to accrue interest at the applicable rate.

As a result of prorationing, some Debentureholders may have Debentures returned that are in a denomination of less than \$1,000 principal amount. The trading market for Debentures in denominations below \$1,000 is generally thin, resulting in the possibility that the liquidity of any such Debentures may be impaired.

In order to facilitate the orderly trade of the Debentures on the TSX, the Debentures trade in multiples of \$1,000. Any portion of the Debentures that are not held in \$1,000 increments will constitute an "odd lot" for purposes of the rules of the TSX. The trading in odd lots is difficult and can result in additional fees being paid by anyone buying or selling odd lot securities

See "*The Put Right – Proration*", "*Mechanics of Redemption – Payment and Return of Unredeemed Debentures*" and "*Risk Factors*".

Procedure for Exercising the Put Right

Registration of interests in and transfers of Debentures may currently only be made through a book-entry only system administered by CDS. Debentureholders who wish to tender their Debentures for redemption under the Put Right and the Redemption Auction can only do so by contacting their broker, dealer, bank, and other financial institution who will then tender the Debentures according to the procedures for book-based transfers of CDS. The Depositary has established an account at CDS for the purpose of the Redemption Auction. **Only tenders of Debentures through this process will constitute a valid tender under the Put Right and Redemption Auction.** CDS will be issuing further instructions directly to CDS Participants on tendering Debentures for redemption under the Put Right and the Redemption Auction, and will provide information on who to contact at the Depositary with respect to further information on tendering such Debentures. See "*The Put Right – Procedure for Exercising the Put Right*".

Debentureholders who instruct their broker, dealer, bank, other financial institution to tender Debentures to the Put Right and the Redemption Auction will also be deemed to bound by certain additional terms. See "*The Put Right – Procedure for Exercising the Put Right*".

It is currently anticipated that the Expiration Time will be 5:00 p.m. (Eastern time) on March 31, 2017. Debentureholders who wish to tender Debentures for redemption under the Put Right and the Redemption Auction must take the necessary steps to exercise their Put Right and tender the Debentures for redemption prior to the Expiration Time. See "*The Put Right – Procedure for Exercising the Put Right*".

Your broker, dealer, bank, other financial institution may set a deadline for the delivery of deposit instructions that is earlier than the Expiration Time, and as such Debentureholders should contact their broker, dealer, bank, other financial institution for assistance at their earliest convenience so as to not miss this deadline. See "*The Put Right – Procedure for Exercising the Put Right*".

Background to the Amendments

The Information Circular contains a summary of the events leading up to the decision to proceed with the Amendments Agreement. See "*The Amendments – Background to the Amendments*".

Reasons For and Anticipated Benefits of the Amendments

See "*The Amendments – Reasons for and Anticipated Benefits of the Amendments*".

Fairness Opinion

Macquarie Capital has provided the Zargon Board with the Fairness Opinion which states that, in the opinion of Macquarie Capital, as of the date of such opinion, and subject to scope of review, assumptions, limitations and qualifications set forth in the Fairness Opinion, the Amendments are fair, from a financial point of view, to the Debentureholders.

The full text of the written Fairness Opinion, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the Fairness Opinion, is attached as Appendix B to this Information Circular. Macquarie Capital provided the Fairness Opinion for the benefit of the Zargon Board in connection with, and for the purpose of, its consideration of the Amendments. The Fairness Opinion is not to be construed as a recommendation to any Debentureholder as whether to vote in favour of the Extraordinary Resolution.

See "*The Amendments – Fairness Opinion*".

Recommendation of the Zargon Board

Following an extensive review and analysis of the Amendments and consideration of other available alternatives and based upon the recommendation of the Special Committee and other relevant factors considered by the Zargon Board, the Zargon Board has unanimously determined that the Amendments are in the best interests of Zargon and the Debentureholders and that the Amendments are fair to the Debentureholders. The Zargon Board unanimously recommends that Debentureholders vote in favour of the Extraordinary Resolution.

The discussion contained in this Information Circular of the information and factors considered and given weight to by the Zargon Board is not intended to be exhaustive. In reaching the determination to approve and recommend the Extraordinary Resolution, the Zargon Board did not assign any relative or specific weight to the factors that were considered, and individual directors may have given a different weight to each factor.

Stock Exchange Listings

It is expected that the Debentures will continue to be listed on the TSX following the Amendments and the exercise of the Put Right by Debentureholders. However, depending on how many Debentures are redeemed pursuant to exercise of the Put Right and the Redemption Auction, there is a possibility that the Debentures may no longer meet the listing requirements of the TSX and may be delisted from the TSX. The Indenture currently requires the

Company to maintain the listing of the Debentures on the TSX. Accordingly, as part of the consequential amendments forming part of the Amendments, the Supplemental Indenture provides that Zargon will not be required to maintain a listing of the Debentures on the TSX if the exercise of the Put Right results in the Debentures no longer meeting the listing requirements of the TSX.

The closing price of the Debentures on January 5, 2017, the last full trading day on the TSX before the public announcement of the proposed Amendments was \$890 for each \$1,000 principal amount of Debenture, and on January 13, 2017, the last full trading day on the TSX before the date of this Information Circular, the closing price of the Debentures was \$910 for each \$1,000 principal amount of Debenture.

Certain Income Tax Consequences of the Amendments

Canada

This Information Circular contains a summary of certain Canadian federal income tax considerations generally applicable certain Debentureholders in connection with the Amendments including the exercise of the Put Right. See "*Tax Considerations To Debentureholders*".

Other

This Information Circular does not contain a summary of the non-Canadian income tax considerations in connection with the Amendments for Debentureholders who are subject to income tax outside of Canada. Such holders should consult their tax advisors with respect to the tax implications of the Amendments, including any associated filing requirements in such jurisdictions.

THE AMENDMENTS

Background to the Amendments

In response to the challenging commodity pricing environment, Zargon has taken various steps to improve the Company's capital structure, including announcing a reduction to the dividend in June 2015 and the suspension of its monthly dividend in November 2015, a reduced capital expenditure program for 2015 and 2016 and selective asset dispositions. In addition, on August 13, 2015, Zargon announced that it had initiated a process to identify, examine and consider a range of strategic alternatives available to the Company with the ultimate goal of maximizing shareholder value. Strategic alternatives could include, but were not limited to, a debt restructuring, a sale of all or a material portion of the assets of Zargon, either in one transaction or in a series of transactions, the outright sale of the Company, or merger or other transaction involving Zargon and a third party, and/or alternative financing initiatives. For the purposes of considering strategic alternatives, Zargon established a special committee (the "**Special Committee**") consisting of directors, K. James Harrison (Chair), Jim Peplinski, Ron Wigham, Kyle D. Kitagawa and Geoffrey C. Merritt to oversee the process.

During the period between August 13, 2015 and the date of this Information Circular, the Special Committee and the Board met on various occasions, to discuss and consider strategic alternatives. During this period, Zargon: (i) completed the sale of all of its Southeast Saskatchewan assets for cash consideration of \$89.5 million (the proceeds of which were used in part to eliminate Zargon's bank debt); (ii) terminated its syndicated credit facilities; and (iii) completed the sale of all of its Killam, Alberta assets for cash consideration of \$4.0 million.

Between July 24, 2016, and January 5, 2017 the Special Committee met several times to identify and evaluate the options available to the Company to address the upcoming maturity of the Debentures, including retiring the Debentures with shares or cash under the existing terms of the Debentures, refinancing the Debentures with another financing vehicle, or amending the terms of the Debentures to extend the maturity date.

Between October 19, 2016 and January 5, 2017, the Special Committee met several times with Macquarie Capital to review the terms of the proposed Amendments and related matters. Zargon's legal advisors reviewed in detail the proposed Amendments and provided their advice to the Special Committee regarding the fiduciary duties of the Special Committee and the Zargon Board, specifically in the context of the proposed terms of the Amendments. Macquarie Capital provided the Special Committee with its advice in respect of the proposed Amendments. The Special Committee and the Zargon Board also reviewed, among other things: (i) information concerning the business, operations, property, assets, financial conditions, operating results and the prospects of Zargon; (ii) historical information regarding the trading price and volumes of the Shares and the Debentures; (iii) current and prospective industry, economic and market conditions and Zargon's prospects going forward; (iv) the financial position of Zargon and its ability to fund its ongoing operations; (v) the risks associated with the Company continuing to pursue its current business strategy and the risks associated with completion and non-completion of the proposed Amendments; (vi) the specific terms of the proposed Amendments; and (vii) alternatives potentially available to the Company.

After such discussions, on January 5, 2017, Macquarie Capital delivered its verbal Fairness Opinion which provided that, subject to the review of the final form of definitive documentation and the scope of review, assumptions, limitations and qualifications to be set forth in the written form of the Fairness Opinion, the Amendments are fair, from a financial point of view, to the Debentureholders. On January 5, 2017, following further deliberations, based, in part again on the advice and analysis provided by Macquarie Capital and the advice of the Company's legal counsel, the Special Committee unanimously determined to recommend to the Zargon Board approval of the Amendments.

On January 5, 2017, following such recommendation and after its own deliberations, the Zargon Board unanimously: (i) determined that the Amendments are in the best interests of Zargon and Debentureholders; (ii) determined that the Amendments are fair to the Debentureholders; (iii) approved the Amendments; and (iv) resolved to recommend that Debentureholders vote in favour of the Extraordinary Resolution.

Reasons For and Anticipated Benefits of the Amendments

In reaching its determination, approval and recommendation in respect of the Amendments, the Zargon Board considered many factors, including the terms and conditions of the Amendments, the recommendation of the Special Committee, various strategic factors and potential advantages and disadvantages of the Amendments. Without limiting the generality of the foregoing, the benefits, risks and other factors considered by the Zargon Board included the following:

- the extension of the maturity date will afford Debentureholders a longer period of time during which to receive interest at a favorable rate. The extended term also creates additional value in the form of a significantly lower conversion price, and this improved conversion option is imbedded in the Debentures;
- based on the current low interest rate environment and in light of other reinvestment opportunities available, the Company believes that the increased interest rate, represents an attractive yield to Debentureholders;
- the decrease in the Conversion Price of the Debentures increases the number of Common Shares underlying each \$1,000 of principal amount of the Debentures by approximately 1,409% from 53 Common Shares to 800 Common Shares, affording Debentureholders a more attractive price if the conversion option is exercised and provides Debentureholders with a better opportunity to benefit from potential future increases in the Company's share price;
- the Amendments giving the Debentureholders the Put Right to have their Debentures redeemed through the Redemption Auction will provide tendering Debentureholders with immediate liquidity and certainty of value;
- the Amendments must be approved by not less than 66 2/3% of the principal amount of the Debentures held by Debentureholders present in person or represented by proxy at the Meeting and voted on the Extraordinary Resolution;
- Macquarie Capital provided the Fairness Opinion which provided that, as of the date of such opinion, and subject to the scope of review, assumptions, limitations and qualifications set forth in its opinion, the Amendments are fair, from a financial point of view, to the Zargon Debentureholders; and
- the Amendments will provide the Company with financing on acceptable terms, thereby avoiding the need to allocate existing cash or raise additional capital to repay the Debentures in 2017 at a time when commodity markets may continue to be depressed and such cash could be better applied to the Company's operating and development activities. Extending the maturity date will also avoid the possibility that the Company will elect to issue Common Shares to satisfy the repayment of principal and will allow the Company to defer the repayment of principal to a time when the commodity markets may be improved.

The foregoing summary of the information and factors considered by the Special Committee and the Zargon Board is not intended to be exhaustive of the factors considered by them in reaching their respective conclusions and making their recommendations. In their evaluation of the Amendments, individual members of the Special Committee and the Zargon Board evaluated the various factors summarized above in light of their own knowledge of the business, financial condition and prospects of Zargon, and based upon the advice of the Zargon Board's and the Special Committee's legal and financial advisors. In view of the numerous factors considered in connection with their evaluation of the Amendments, neither the Special Committee nor the Zargon Board found it practicable to, and did not, quantify or otherwise attempt to assign relative weight to specific factors in reaching their respective conclusions and recommendations. In addition, individual members of the Special Committee and the Zargon Board may have given different weights to different factors. The conclusions and recommendations of the Special Committee and the Zargon Board were made after considering all of the information and factors involved.

Fairness Opinion

Zargon retained Macquarie Capital as its financial advisor in connection with the Amendments. On January 5, 2017, Macquarie Capital provided the verbal Fairness Opinion to the Zargon Board. The written Fairness Opinion dated January 5, 2017 was received by Zargon on January 16, 2017. The Fairness Opinion provides that, as of the date of the Fairness Opinion and subject to the scope of review, assumptions, limitations and qualifications contained therein, the Amendments are fair to the Debentureholders, from a financial point of view.

The full text of the written Fairness Opinion, setting out the assumptions made, matters considered and limitations and qualifications on the review undertaken in connection with the Fairness Opinion, is attached as Appendix B to this Information Circular. The summary of the Fairness Opinion in this Information Circular is qualified in its entirety by reference to the full text of the written Fairness Opinion. The Zargon Board encourages Debentureholders to read the written Fairness Opinion in its entirety. The Fairness Opinion is not intended to be and does not constitute a recommendation to any Debentureholder to vote its Debentures in favour of the Amendments or as an opinion concerning the trading price or value of the Debentures following the announcement or completion of the Amendments. The Fairness Opinion was part of a number of factors taken into consideration by the Special Committee and the Zargon Board in making their determinations in respect of the Amendments described below and in authorizing the submission of the Extraordinary Resolution to the Debentureholders for approval.

In consideration for their services, Zargon agreed to pay to Macquarie Capital a fixed fee upon Macquarie Capital notifying the Company that Macquarie Capital had substantially completed that work that was appropriate in order to render an opinion, to reimburse Macquarie Capital for reasonable out-of-pocket expenses and to indemnify Macquarie Capital and certain of its related parties in respect of certain liabilities as may be incurred in connection with the Amendments. The Company has also agreed to pay Macquarie Capital a fee requisite upon the approval of the Amendments at the Meeting.

Recommendation of the Zargon Board

Following an extensive review and analysis of the Amendments and consideration of other available alternatives and based upon the recommendation of the Special Committee and other relevant factors considered by the Zargon Board, the Zargon Board has unanimously determined that the Amendments are in the best interests of Zargon, the Debentureholders and that the Amendments are fair to the Debentureholders. The Zargon Board unanimously recommends that Debentureholders vote in favour of the Extraordinary Resolution.

Debentureholder Approval

At the Meeting, Debentureholders will be asked to approve the Extraordinary Resolution. The full text of the Extraordinary Resolution is set forth in Appendix A to the Information Circular and must be approved by not less than 66 2/3% of the principal amount of the Debentures held by the Debentureholders present in person or represented by proxy at the Meeting and voted upon the Extraordinary Resolution.

Other Regulatory Approvals

In addition to the approval of Debentures, it is a condition precedent to the implementation of the Amendments that the approval of the TSX be obtained.

Effective Date of the Amendments

The Amendments will become effective on the date the Company enters into the Supplemental Indenture. It is not possible, however, to state with certainty when the effective date of the Amendments will occur. The effective date of the Amendments could be delayed for a number of reasons.

Although Zargon intends to enter into the Supplemental Indenture as soon as possible following approval of the Extraordinary Resolution, the Zargon Board has retained the discretion, without further notice to or

approval of the holders of Debentures, to revoke the Extraordinary Resolution at any time prior to Zargon entering into the Supplemental Indenture.

The Amendments

General

At the Meeting, Debentureholders will be asked to pass an extraordinary resolution approving certain amendments to the Indenture governing the Debentures to:

- (h) extend the maturity date of the Debentures from June 30, 2017 to December 31, 2019;
- (i) increase the interest rate of the Debentures from 6.00% per annum to 8.00% per annum effective April 1, 2017;
- (j) change the interest payment dates applicable to the Debentures under the Indenture from June 30, and December 31 to March 31, and September 30;
- (k) reduce the conversion price in effect for each Common Share to be issued upon the conversion of the Debentures from \$18.80 to \$1.25;
- (l) amend the redemption provisions of the Debentures to provide Debentureholders with the Put Right to require Zargon to redeem up to the Maximum Redemption Amount of Debentures at a cash price to be determined by a Redemption Auction;
- (m) amend the redemption provisions to provide that (other than in connection with the Put Right) the Debentures will not be redeemable by the Company before January 1, 2019, and for the 12 months following January 1, 2019, the Debentures may only be redeemed by the Company if the Current Market Price (as defined in the Indenture) of the Common Shares exceeds 125% of the reduced conversion price;
- (n) make such other consequential amendments as required to give effect to the forgoing.

The full text of the Extraordinary Resolution and the Supplemental Indenture (in draft form) that will be entered into by Zargon and the Trustee to evidence the Amendments if the Extraordinary Resolution is passed by the Debentureholders at the Meeting are set forth in Schedules A and C to this Information Circular, respectively. If the Extraordinary Resolution is approved by the Debentureholders and all other regulatory approvals are obtained, the effective date of the Amendments will be the date that the Company enters into the Supplemental Indenture. **Although Zargon intends to enter into the Supplemental Indenture as soon as possible following approval of the Extraordinary Resolution, the Zargon Board has retained the discretion, without further notice to or approval of the holders of Debentures, to revoke the Extraordinary Resolution at any time prior to Zargon entering into the Supplemental Indenture.**

Debentureholders are encouraged to read the full text of the Extraordinary Resolution and the Supplemental Indenture in their entirety.

Interest Rate and Interest Payment Dates

Currently, pursuant to the terms of the Indenture, the Debentures bear interest at a rate of 6.00% per annum, payable in equal semi-annual instalments in arrears on June 30 and December 31 in each year. If the Amendments are approved and implemented, the next interest payment date will be March 31, 2017 instead of June 30, 2017, which payment will include interest at the rate of 6% per annum from and including December 31, 2016 up to, but not including, April 1, 2017, and the next interest payment will be made at the revised rate of 8% per annum on September 30, 2017 instead of December 31, 2017, which payment will include interest payable from and including April 1, 2017 up to, but not including September 30, 2017.

The Put Right

Included in the Amendments that are being put before the Debentureholders is an amendment to the current redemption provisions of the Debentures to provide Debentureholders with the Put Right to require Zargon to redeem up to the Maximum Redemption Amount of Debentures at a redemption price determined by the Redemption Auction. The Redemption Auction allows Debentureholders to select the price within \$890 and \$1,000 per \$1,000 principal amount Debentures, in increments of \$10, at which such Debentureholders are willing to have their Debentures redeemed.

The Redemption Auction will commence on the date of the Supplemental Indenture and will expire at the Expiration Time, which is expected to be 5:00 pm (Eastern Time) on the date that is 45 days from the date of the Supplemental Indenture. Provided the Amendments are approved by Debentureholders at the Meeting, Zargon intends to enter into the Supplemental Indenture immediately after the Meeting. **It is currently anticipated that the Put Right will expire at 5:00 p.m. (Eastern time) on the date that is 45 days following the date of the Supplemental Indenture, unless terminated, extended or amended by Zargon. Debentureholders who wish to exercise the Put Right and deposit their Debentures for redemption must take the necessary steps to be able to exercise their Put Right and tender the Debentures for redemption prior to the Expiration Time. See "The Put Right – Procedure for Exercising the Put Right".**

Promptly following the Expiration Time, Zargon will redeem Deposited Debentures starting at the lowest Incremental Redemption Price, and continuing with each subsequent Incremental Redemption Price until it has redeemed not more than the Maximum Redemption Amount of Deposited Debentures.

If a Debentureholder's Debentures are redeemed, that Debentureholder will be paid the relevant Incremental Redemption Price (subject to applicable withholding taxes, if any) for each \$1,000 principal amount of Debentures redeemed in cash, together with all accrued and unpaid interest (from and including December 31, 2016 up to but excluding the Redemption Date) promptly following the Redemption Date. Such amounts will be paid by wire transfer to CDS for the account of the Debentureholder's CDS Participant (but subject to applicable withholding taxes, if any), for all Debentures redeemed, upon the terms and subject to the conditions of the Put Right. Under no circumstances will Zargon pay additional interest on the redeemed Debentures, even if there is a delay in making payment.

The redemption of any Deposited Debentures is contingent upon the Company not having reached the Maximum Redemption Amount in redeemed Debentures. See "*Proration*".

Pursuant to the provisions of the Supplemental Indenture, Zargon will have the right, in its sole discretion, at any time or from time to time: (a) to terminate the Put Right and not redeem and return all Deposited Debentures to the holders thereof; and/or (b) to vary the terms of the Redemption Auction in any respect, including increasing or decreasing the Maximum Redemption Amount or the range of prices put forth under the Redemption Auction, extending or amending the period of time during which the Redemption Auction is open, or varying or amending the terms of any redemption, by giving written notice of such extension, amendment, variation or termination to the Depository and by causing the Depository to provide a copy of such notice to CDS.

If Zargon determines not to accept any Debentures tendered for redemption under the Put Right and the Redemption Auction, Deposited Debentures will be promptly returned without cost to the depositing holders by book-entry delivery through CDS to the accounts of the applicable CDS Participants.

Neither Zargon nor the Zargon Board makes any recommendation to any Debentureholder as to whether or not to tender Debentures for redemption under the Put Right and Redemption Auction. Zargon Debentureholders must make their own decisions as to whether to deposit or refrain from depositing Debentures for redemption. Zargon Debentureholders should carefully consider all relevant factors with their own financial advisors, including the income tax consequences of redemption. See: "Certain Income Tax Consequences of the Amendments" and "Risk Factors".

Redemption Price

The redemption price range for Debentures tendered for redemption under the Put Right and the Redemption Auction is \$890 to \$1,000 per \$1,000 principal amount, and must be in increments of \$10 such as \$890, \$900, \$910 and so on. Zargon will redeem Deposited Debentures at the lowest Incremental Redemption Prices within this range that will allow it to redeem the maximum number of Debentures properly tendered and not withdrawn having an aggregate redemption price not exceeding the Maximum Redemption Amount.

As promptly as practicable following the Expiration Time, Zargon will publicly announce the Redemption Date, the number of Debentures validly redeemed and the aggregate redemption price. All Debentureholders who have validly deposited and not withdrawn their Debentures under the Put Right and the Redemption Auction and whose Debentures are being redeemed will receive the applicable Incremental Redemption Price, payable in cash, plus all accrued and unpaid interest (from and including December 31, 2016 up to but excluding the Redemption Date) by wire transfer to CDS for the account of the Debentureholder's CDS Participant promptly following the Redemption Date. See "*Accrued and Unpaid Interest*", "*– Procedure for Exercising the Put Right*" and "*Mechanics of Redemption – Payment and Return of Unredeemed Debentures*".

Accrued and Unpaid Interest

Interest on the Debentures will continue to accrue following the Meeting. Provided the Amendments are approved at the Meeting, interest on the Debentures will start to accrue at 8.00% on April 1, 2017. Debentures that are deposited for redemption pursuant to the Put Right and the Redemption Auction will continue to accrue interest at the current interest rate of 6.00% until they are redeemed by Zargon on the Redemption Date. Once Deposited Debentures have been redeemed, interest shall cease to accrue and no interest will be paid by Zargon or the Depositary on the aggregate funds payable to the holder of such redeemed Debenture, regardless of whether there is a delay in payment of such funds.

Deposited Debentures not redeemed pursuant to the Put Right and the Redemption Auction, including Debentures not redeemed because of proration, will be returned to depositing Debentureholders without cost promptly following the Redemption Date by book-entry delivery through CDS to the accounts of the applicable CDS Participants. Deposited Debentures not redeemed will continue to accrue interest at the applicable rate.

All payments of amounts owing to a depositing Debentureholder will be made in Canadian dollars.

Partial Tenders

A Debentureholder desiring to tender Debentures for redemption under the Put Right and the Redemption Auction with respect to only a portion of the aggregate principal amount of such Debentureholder's Debentures may do so, provided that the principal amount of Debentures deposited is in a denomination of \$1,000 or an integral multiple thereof, by depositing a Debenture in the manner described in this Information Circular. No tenders that are in a denomination of less than \$1,000 will be accepted.

Proration

If the aggregate redemption price for all Deposited Debentures is less than or equal to the Maximum Redemption Amount, Zargon will redeem all such Deposited Debentures at each tendered price. If the redemption of the aggregate principal amount of Deposited Debentures at any Incremental Redemption Price would result in an aggregate redemption price in excess of the Maximum Redemption Amount, then such Deposited Debentures at such Incremental Redemption Price will be redeemed on a *pro rata* basis according to the number of Debentures deposited by the depositing Debentureholders.

Deposited Debentures not redeemed because of proration, will be returned to depositing Debentureholders without cost promptly following the Redemption Date by book-entry delivery through CDS to the accounts of the applicable CDS Participants. Deposited Debentures not redeemed will continue to accrue interest at the applicable rate.

As a result of the prorationing, some Debentureholders may have Debentures returned that are in a denomination of less than \$1,000 principal amount. The trading market for Debentures in denominations below \$1,000 is generally thin, resulting in the possibility that the liquidity of any such Debentures may be impaired. See "Risk Factors".

In order to facilitate the orderly trade of the Debentures on the TSX, the Debentures trade in multiples of \$1,000. Any portion of the Debentures that are not held in \$1,000 increments will constitute an "odd lot" for purposes of the rules of the TSX. The trading in odd lots is difficult and can result in additional fees being paid by anyone buying or selling odd lot securities.

Procedure for Exercising the Put Right

Registration of interests in and transfers of Debentures may currently only be made through a book-entry only system administered by CDS. Debentureholders who wish to tender their Debentures for redemption under the Put Right and the Redemption Auction can only do so by contacting their broker, dealer, bank, other financial institution who will then tender the Debentures according to the procedures for book-based transfers of CDS. The Depository has established an account at CDS for the purpose of the Redemption Auction. **Only tenders of Debentures through this process will constitute a valid tender under the Put Right and Redemption Auction.** CDS will be issuing further instructions directly to CDS Participants on tendering Debentures for redemption under the Put Right and the Redemption Auction, and will provide information on who to contact at the Depository with respect to further information on tendering such Debentures.

Redemption Auction Procedure

Debentureholders making an Auction Tender must tender a minimum of \$1,000 principal amount of their Debentures, and any additional Debentures in integral multiples of \$1,000, and must specify the minimum price per Debenture (of not less than \$890 and not more than \$1,000, in increments of \$10) at which that Debentureholder is willing to have its Debentures redeemed by Zargon. Debentures validly deposited pursuant to an Auction Tender and not withdrawn will only be redeemed if the price specified in the Auction Tender is equal to or less than the highest Incremental Redemption Price at which Debentures are redeemed by Zargon.

If a Debentureholder validly deposits Debentures pursuant to an Auction Tender at \$890 per \$1,000 principal amount Debenture (the minimum redemption price under the Redemption Auction), that Debentureholder can reasonably expect to have some portion of its Deposited Debentures redeemed. Debentures deposited pursuant to an Auction Tender will only be redeemed if the price specified in the Auction Tender is equal to or less than the highest Incremental Redemption Price at which Zargon redeems Debentures. Zargon will only redeem Debentures at \$900, being the next lowest Incremental Redemption Price under the Redemption Auction, if the aggregate amount of Debentures tendered at \$890 does not total the Maximum Redemption Amount, and will only redeem Debentures at each subsequent Incremental Redemption Price until the aggregate total of redeemed Debentures reaches the Maximum Redemption Amount. If at any Incremental Redemption Price, the redemption of the aggregate principal amount of Deposited Debentures deposited at that Incremental Redemption Price would result in an aggregate redemption exceeding the Maximum Redemption Amount, then Zargon will redeem such Deposited Debentures at such Incremental Redemption Price on a *pro rata* basis according to the number of Debentures deposited by the depositing Debentureholders. Any Debentures tendered at higher Incremental Redemption Prices or not redeemed after proration, will be returned to Debentureholders.

The Depository will receive reasonable and customary compensation for its services in connection with the Redemption, will be reimbursed for certain out-of-pocket expenses and will be indemnified by Zargon against certain liabilities under applicable securities laws and expenses in connection therewith.

Except as set forth above or elsewhere in this Information Circular, Zargon will not pay any fees or commissions to any broker or dealer or any other person for soliciting deposits of Debentures for redemption.

Book-Entry Transfer Procedures

Registration of interests in and transfers of Debentures may currently only be made through a book-entry only system administered by CDS. The existing Debentures are registered in the name of CDS & Co., the nominee of CDS, any and all transfers of the Debentures can be made only through the depository services of CDS through a participant in the depository service of CDS.

An account with respect to the Debentures will be established at CDS for purposes of the Redemption Auction. Any CDS Participant may make book-entry delivery of the Debentures through CDSX, CDS's on-line tendering system pursuant to which book-entry transfers may be effected by causing CDS to transfer such Debentures into the Depository's account in accordance with CDS's procedures for such transfer. Delivery of Debentures to the Depository by means of a book-entry transfer through CDSX will constitute a valid tender of Debentures under the Put Right and Redemption Auction. Debentureholders may tender Debentures for redemption under the Put Right and Redemption Auction by following the procedures for book-entry transfers established by CDS, provided that a book-entry confirmation through CDS's book-based system for electronic deposits, known as CDSX, is received by the Depository prior to the Expiration Time.

All questions as to the price per Debenture to be paid therefor, and the validity, form, eligibility (including timely receipt) and acceptance of any Debentures and accompanying documents deposited pursuant to the Put Right and Redemption Auction will be determined by Zargon in its sole discretion. Depositing holders agree that such determinations will be final and binding. Zargon reserves the absolute right to reject any and all deposits which it determines not to be in proper form or which may be unlawful to accept under the laws of any jurisdiction. Zargon reserves the absolute right to waive any defect or irregularity in the deposit of any Debentures for redemption under the Put Right and Redemption Auction. There is no duty or obligation on the part of Zargon or the Depository to give notice of any defects or irregularities in any deposit of Debentures and no liability will be incurred by any of them for not giving any such notice. All improperly tendered Debentures will be returned without cost to the tendering Holder promptly by book-entry delivery through CDS to the accounts of the applicable CDS Participants, unless the irregularities and defects of that tender are timely cured or waived.

The proper deposit of Debentures pursuant to the procedures described above will constitute a binding agreement between CDS, on behalf of the depositing debentureholders, and Zargon in accordance with the terms and conditions of the Redemption Auction. Each such depositing Debentureholder shall, or shall be deemed to:

- (a) understand that the Incremental Redemption Price at which the Debentures are being tendered must be indicated;
- (b) understand that: (i) for the purposes of the Put Right and Debenture Auction, Debentures tendered for redemption will not be redeemed by Zargon if the price specified is greater than the highest Incremental Redemption Price at which Zargon redeems Debentures; and (ii) if the aggregate redemption price for the Deposited Debentures exceeds the Maximum Redemption Amount, then the Deposited Debentures may not be redeemed at all, or may only be redeemed on a *pro rata* basis in accordance with the provisions of the Indenture, as amended;
- (c) understand that, subject to and effective upon the Redemption Date, interest upon the redeemed Debentures shall cease and no interest shall accrue on any redeemed Debentures;
- (d) have made the representations and warranties that: (i) its CDS Participant has full power and authority to deposit, sell, assign and transfer such Deposited Debentures on its behalf; (ii) it owns such Deposited Debentures free and clear of any hypothecs, mortgages, liens, charges, restrictions, security interests, claims, pledges, equitable interests and encumbrances of any nature or kind whatsoever and has not sold, assigned or transferred, or agreed to sell, assign or transfer, any of the Deposited Debentures to any other person; and (iii) the deposit of the Deposited Debentures complies with applicable securities laws;

- (e) have directed Zargon and the Trustee, upon Zargon redeeming the Deposited Debentures, to pay for the redeemed Debentures through a wire transfer to CDS for the account of the Debentureholder's CDS Participant;
- (f) have waived any right to receive notice of the redemption of the Deposited Debentures;
- (g) have irrevocably constituted and appointed Zargon, and any other persons designated by Zargon in writing, as the true and lawful agents, attorneys and attorneys-in-fact of CDS, on behalf of such Debentureholder with respect to the Deposited Debentures deposited therewith and redeemed by Zargon, effective from and after the Expiration Time, with full power of substitution, in the name of and on behalf of CDS and the Debentureholder with respect to the Deposited Debentures (such power of attorney being deemed to be an irrevocable power coupled with an interest):
 - (i) to register or record the cancellation of such Deposited Debentures on the appropriate registers (as applicable);
 - (ii) to exercise any and all rights in respect of the Deposited Debentures, including, without limitation, to vote any or all Deposited Debentures, to execute and deliver any and all instruments of proxy, authorizations or consents in a form and on terms satisfactory to Zargon in respect of any or all Deposited Debentures, to revoke any such instrument, authorization or consent given prior to or after the Expiration Time, to designate in such instrument, authorization or consent and/or designate in any such instruments of proxy any person or persons as the proxy of CDS, on behalf of the Debentureholder, in respect of such Deposited Debentures, for all purposes including, without limitation, in connection with any meeting or meetings (including without limitation the Meeting, and whether annual, special or otherwise, or any adjournment thereof) or resolutions (including without limitation the Extraordinary Resolution) of Debentureholders; and
 - (iii) to exercise any other rights of a holder of Deposited Debentures.
- (h) have covenanted to execute, upon request, any additional documents, transfers and other assurances as may be necessary or desirable in connection with the foregoing or the redemption in order to complete the redemption of the Deposited Debentures;
- (i) have acknowledged that all authority conferred or agreed to be conferred by CDS and by the Debentureholder in respect of the Deposited Debentures is, to the maximum extent permitted by law, irrevocable and coupled with an interest and shall survive the death or incapacity, bankruptcy or insolvency of CDS, and of the Debentureholder, and that all obligations of CDS and the Debentureholder in respect of the Deposited Debentures herein shall be binding upon the heirs, executors, administrators, attorneys, personal representatives, successors and assigns of CDS and of the Debentureholder in respect of the Deposited Debentures; and
- (j) have agreed and acknowledged that: (i) all questions as to the form of documents and the validity, eligibility (including time of receipt) and acceptance for redemption of any deposit of Deposited Debentures, will be determined by Zargon, in its sole discretion, which determination will be final and binding on all parties, (ii) Zargon reserves the absolute right to reject any or all deposits of Deposited Debentures determined by it in its sole discretion not to be in proper form nor completed in accordance with the instructions set forth herein or the acceptance for payment of, or payment for, which may, in the opinion of Zargon's counsel, be unlawful under the laws of any jurisdiction, (iii) Zargon reserves the absolute right to waive any of the conditions of the Put Right or any defect or irregularity in any deposit of Deposited Debentures, (iv) no deposit of Deposited Debentures will be deemed to be properly made until all defects and irregularities have been cured or waived, and (v) Zargon's interpretation of the terms and conditions of the Put Right will be final and binding on all parties. **There is no duty or obligation on the part of Zargon or the Depository to give notice of any defects or irregularities in any deposit of Debentures and no liability will be incurred by any of them for not giving any such notice.**

Withdrawal Rights

Unless otherwise required or permitted by applicable law, any Deposited Debentures may be withdrawn by or on behalf of the depositing Debentureholder at any time before the Expiration Time. A notice of withdrawal must: (i) be signed by the CDS Participant who tendered the Debentures through CDSX in the same manner as the CDS Participant's name is listed on the applicable book-entry confirmation or be accompanied by evidence sufficient to the Depository that the person withdrawing the Debentures has succeeded to the beneficial ownership of the Debentures; and (ii) specify the name of the person who deposited the Debentures to be withdrawn and the principal amount of Debentures to be withdrawn. A withdrawal of Debentures deposited for redemption can only be accomplished in accordance with the foregoing procedure. The withdrawal shall take effect only upon actual receipt by the Depository of a properly completed and executed notice of withdrawal in writing.

All questions as to form and validity (including, without limitation, time of receipt) of notices of withdrawal shall be determined by Zargon in its sole discretion and such determination shall be final and binding. There shall be no duty or obligation on Zargon, the Depository, or any other person to give notice of any defect or irregularity in any notice of withdrawal and no liability shall be incurred by any of them for failure to give such notice.

Any Debentures properly withdrawn will thereafter be deemed not validly deposited for redemption. However, withdrawn Debentures may be re-deposited at any subsequent time prior to the Expiration Time by again following the procedures described above, "*Procedure for Depositing Debentures*".

If Zargon extends the Expiration Time, then, without prejudice to Zargon's other rights under the Indenture, as amended, the Depository may, subject to applicable law, retain on behalf of Zargon all Deposited Debentures, and such Debentures may not be withdrawn except to the extent that depositing Debentureholders are entitled to withdrawal rights as set forth herein or pursuant to applicable law.

Extension, Variation and Termination of the Put Right

Pursuant to the provisions of the Supplemental Indenture, Zargon will have the right, in its sole discretion, at any time or from time to time, to extend the period of time during which the Redemption Auction is open, to vary the terms of any redemption, or to terminate the Put Right by giving written notice, of extension, variation or termination to the Depository and by causing the Depository to provide a copy of such notice to CDS. In addition, Zargon expressly reserves the right, in its sole discretion, prior to the Redemption Date: (a) to not redeem and return all Deposited Debentures to the holders thereof; and/or (b) at any time or from time to time, to vary the terms of the Redemption Auction in any respect, including increasing or decreasing the aggregate redemption price or the range of prices put forth under the Redemption Auction, subject to compliance with the Indenture, as amended by the Supplemental Indenture.

Promptly after giving notice of an extension, variation or termination to the Depository, Zargon will make a public announcement of the extension or variation and provide or cause to be provided notice of such extension, variation or termination to the TSX and the applicable Canadian securities regulatory authorities. Without limiting the manner in which Zargon may choose to make any public announcement, except as provided by applicable law, Zargon will have no obligation to publish, advertise or otherwise communicate any such public announcement other than by making a release through its usual news wire service. Any notice of extension, variation or termination will be deemed to have been given and be effective on the day on which it is delivered or otherwise communicated by facsimile or electronic mail to the Depository at its principal office in Calgary, Alberta.

Where the terms of the Put Right and Redemption Auction are varied, the period during which Debentures may be deposited for redemption will not expire before 10 days after the date of the notice of variation. In the event of any variation, all Debentures previously deposited for redemption will remain tendered for redemption unless withdrawn.

Mechanics of Redemption

Deposit of Redemption Monies

In accordance with the terms of the Supplemental Indenture, Zargon will deposit with the Debenture Trustee or any paying agent to the order of the Debenture Trustee, on or before 11:00 a.m. (Calgary time) on the Redemption Date, such sums of money as may be sufficient to pay the aggregate redemption price of the Deposited Debentures to be redeemed, together with accrued and unpaid interest. The delivery of such funds to the Debenture Trustee will satisfy and discharge the liability of Zargon for the redeemed Debentures and such Debentures will be considered to no longer be outstanding on the Redemption Date and a holder of redeemed Debentures will have no right in regard thereto other than to receive the aggregate payment to which it is entitled. From the sums so deposited, the Debenture Trustee shall pay or cause to be paid to the holders with redeemed Debentures the aggregate Incremental Redemption Price plus accrued and unpaid interest to which they are respectively entitled on redemption, less applicable withholding taxes, if any. From and after the Redemption Date, no interest shall accrue or be paid by Zargon, the Debenture Trustee or the Depositary on any redeemed Debentures to any person for such redeemed Debentures regardless of any delay in making payment.

The aggregate redemption price and interest will be denominated in Canadian dollars and all payments to Debentureholders will be made in Canadian dollars. Payments will be made net of any applicable withholding taxes.

Payment and Return of Unredeemed Debentures

Payment for Deposited Debentures accepted for redemption will be made by depositing the aggregate redemption price for such Debentures with the Debenture Trustee by bank transfer or other means satisfactory to the Debenture Trustee. **Under no circumstances will interest accrue or be paid by Zargon or the Depositary on any redeemed Debentures to any person for such Debentures regardless of any delay in making payment.**

In the event the redemption of the aggregate principal amount of Deposited Debentures deposited at any Incremental Redemption Price would result in an aggregate redemption exceeding the Maximum Redemption Amount, then Zargon will redeem such Deposited Debentures on a *pro rata* basis according to the number of Debentures deposited by the depositing Debentureholders. However, Zargon does not expect to be able to announce the final results of any such proration for at least three Business Days after the Redemption Date. Debentures deposited pursuant to Auction Tenders indicating a price in excess of the highest Incremental Redemption Price at which Zargon redeems Debentures will not be redeemed.

Debentures not redeemed, including all Debentures deposited pursuant to Auction Tenders at prices in excess of the highest Incremental Redemption Price at which Zargon redeems Debentures, and Debentures not selected for redemption at the highest Incremental Redemption Price at which Debentures are redeemed, will be returned as soon as practicable after the Expiration Time.

Zargon reserves the right, in its sole discretion, to delay redemption and payment for any Debentures or to terminate the Redemption Auction and make no payment for any Deposited Debentures, by giving written notice thereof or other communication confirmed in writing to the Depositary. Zargon also reserves the right, in its sole discretion and notwithstanding any other condition of the Put Right, to delay redemption and payment for the Debentures in order to comply, in whole or in part, with any applicable law.

All Debentures redeemed shall forthwith be cancelled and no Debentures shall be issued in substitution therefor.

Notice

Without limiting any other lawful means of giving notice, any notice to be given by Zargon or the Depositary under the Redemption Auction will be deemed to have been properly given if it is mailed by first-class mail or delivered by an overnight delivery service to CDS, unless otherwise specified by applicable securities legislation. Zargon understands that, upon receipt of any such notice, CDS will provide notice to its CDS Participants in accordance with the applicable CDS policies and procedures for the book-entry system then in effect.

These provisions apply notwithstanding any accidental omission to give notice and notwithstanding any interruption of mail services in Canada or the United States following mailing. In the event of an interruption of mail service following mailing, Zargon will use reasonable efforts to disseminate the notice by other means, such as publication. If post offices are not open for deposit of mail, or there is reason to believe there is or could be a disruption in all or any part of the postal service, any notice which Zargon or the Depositary may give or cause to be given under the Redemption Auction will be deemed to have been properly given and to have been received if it is issued by way of a news release using Zargon's typical methods of dissemination.

Interests of Certain Persons in the Amendments

As at the date of the Information Circular, other than Craig Hansen, the President and Chief Executive Officer of Zargon, who owns and controls \$470,000 principal amount of Debentures, none of the directors or executive officers of Zargon owned any Debentures. Mr. Hansen has advised Zargon that he intends to vote such Debentures in favour of the Extraordinary Resolution. Mr. Hansen has also advised Zargon that he does not intend to exercise his option to have his Debentures redeemed under the Put Right.

Stock Exchange Listing

The Debentures are listed and posted for trading on the TSX under the trading symbol "ZAR.DB". The Debentures commenced trading on the TSX on May 1, 2012. It is expected that the Debentures will continue to be listed on the TSX following the Amendments. Depending on how many Debentures are redeemed pursuant to the Put Right, there is a possibility that the Debentures may no longer meet the listing requirements of the TSX and may be delisted from the TSX. The Indenture currently requires Zargon to maintain the listing of the Debentures on the TSX. Accordingly, as part of the consequential amendments forming part of the Amendments, the Supplement Indenture provides that Zargon will not be required to maintain a listing of the Debentures on the TSX if the exercise of the Put Right results in the Debentures no longer meeting the listing requirements of the TSX.

The closing price of the Debentures on January 5, 2017, the last full trading day on the TSX before the public announcement of the proposed Amendments was \$890 for each \$1,000 principal amount of Debenture, and on January 13, 2017, the last full trading day on the TSX before the date of this Information Circular, the closing price of the Debentures was \$910 for each \$1,000 principal amount of Debenture.

The following table sets forth the high and low trading prices and the aggregate volume of trading of the Debentures (per \$100 principal amount of Debentures), as reported by the TSX for the periods indicated.

Period	High, \$	Low, \$	Volume (000's)
2017			
January 1 – January 13	94.00	88.01	1,442
2016			
January	42.62	21.99	17,710
February	32.00	24.50	7,850
March	40.01	25.73	1,041
April	39.10	29.75	962
May	42.00	34.00	1,694
June	54.25	42.00	2,154
July	85.00	49.99	3,275
August	81.00	73.49	3,884
September	85.00	79.00	1,814
October	85.00	82.00	860
November	84.00	77.00	1,681
December	88.00	78.80	1,189

TAX CONSIDERATIONS TO DEBENTUREHOLDERS

Certain Canadian Federal Income Tax Considerations

In the opinion of Burnet, Duckworth & Palmer LLP, counsel to the Company, the following summary describes the principal Canadian federal income tax considerations in respect of the arising from and relating to the Debenture Amendments generally applicable to a Debentureholder who, for purposes of the Tax Act, and at all relevant times, deals at arm's length with and is not affiliated with the Company, and holds Debentures as capital property (a "**Holder**"). Debentures will generally be considered to be capital property to a Holder unless the Holder holds such Debentures in the course of carrying on a business or the Holder acquired such Debentures in a transaction or transactions considered to be an adventure or concern in the nature of trade. Certain Canadian resident Holders whose Debentures might not otherwise be considered capital property may, in certain circumstances, make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have the Debentures and all other "Canadian Securities", as defined in the Tax Act, owned by such Holder in the taxation year, and in all subsequent taxation years, deemed to be capital property. Holders should consult with their own tax advisors if they contemplate making such an election.

This summary is based upon the current provisions of the Tax Act, counsel's understanding of existing case law and the published administrative practices of the Canada Revenue Agency ("**CRA**"). This summary also takes into account 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 (the "**Tax Proposals**") and assumes that all Tax Proposals will be enacted in the form proposed. This summary is not exhaustive of all possible Canadian federal income tax considerations nor does it take into account or consider other federal or any provincial, territorial or foreign tax considerations.

This summary is not applicable to: (a) a Holder that is a "financial institution" (for the purposes of the "mark-to-market" rules) or a "specified financial institution", each as defined in the Tax Act; (b) a Holder an interest in which would be a "tax shelter investment" within the meaning of the Tax Act; (c) a Holder whose "functional currency" for the purposes of the Tax Act is the currency of a country other than Canada; or (d) a Holder that has entered into or will enter into a "derivative forward agreement" with respect to the Debentures within the meaning of the Tax Act. Such Holders should consult their own tax advisors.

No legal opinion from counsel or advance income tax ruling from the CRA has been requested, or obtained to confirm the tax consequences to Debentureholders of the Amendments. This summary is not binding on the CRA, and the CRA is not precluded from taking a position that is different from, and contrary to, the positions taken in this summary. In addition, because the authorities on which this summary is based are subject to various interpretations, the CRA and the Canadian courts could disagree with one or more of the positions taken in this summary.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Debentureholder. Debentureholders are urged to consult their own tax advisors for advice regarding the income tax consequences to them of disposing of their Debentures having regard to their own particular circumstances.

Holdings Resident in Canada

The following portion of the summary is generally applicable to a Holder who, for purposes of the Tax Act and any applicable income tax treaty or convention, and at all relevant times, is resident or deemed to be resident in Canada (a "**Resident Holder**").

Amendment of the Debentures

It is not certain whether the Amendments would result in a disposition of the Debentures for Canadian tax purposes. Canadian jurisprudence has held that the amendment of fundamental terms of a debt instrument can result in the creation of a new debt obligation in some circumstances, and for certain purposes. Thus, there can be no assurance that the CRA would not treat the Amendments as a disposition of the Debentures, or that a Canadian court would agree with the CRA's position. Each Resident Holder should consult its own tax advisor regarding the proper treatment of the Amendments for Canadian tax purposes.

In the event that the Amendments do not cause a disposition of the Debentures, then a Resident Holder will not be considered to have disposed of any property for tax purposes, and will have no adverse Canadian tax consequences at the time the Amendments become effective.

In the event that the Amendments do cause a disposition of the Debentures, a Resident Holder will be deemed to have received proceeds of disposition equal to the fair market value of the Debentures owned by the Resident Holder at the time the Amendments become effective. The Resident Holder will recognize a capital gain (or loss) on the disposition equal to the amount by which the Resident Holder's proceeds of disposition, net of any reasonable costs of disposition, are greater than (or less than) the adjusted cost base to the Resident Holder of the Debentures owned at the time the Amendments become effective. See "*Taxation of Capital Gains and Losses*" below. In such a case, the cost of the Debentures to the Resident Holder immediately after the time the Amendments become effective will be equal to the fair market value of the Debentures at that time.

Redemption of Debentures Pursuant to the Put Right

A Resident Holder who disposes of Debentures pursuant to a redemption by the Company under the terms of the Amendments will generally be considered to have disposed of such Debentures for proceeds of disposition equal to the Redemption Price less any accrued interest (the "**Net Redemption Price**"). However, any other amount of this Net Redemption Price greater than the principal amount of the Debentures will be deemed to be interest (and not proceeds of disposition) if it can reasonably be considered to relate to amounts that would have been paid on the Debentures as interest had the Debentures not been redeemed by the Company.

The Resident Holder will realize a capital gain (capital loss) on the disposition of the Debentures equal to the amount by which the Resident Holder's proceeds of disposition, net of any reasonable costs of disposition, are greater than (less than) the adjusted cost base to the Resident Holder of the Debentures redeemed. See "*Taxation of Capital Gains and Losses*".

Upon the disposition, any (i) interest paid to a Resident Holder, and (ii) interest which has accrued on the Debentures to the date of disposition, must be included in computing the income of the Resident Holder except to the extent it was included in the income of the Resident Holder for a previous year.

Taxation of Capital Gains and Losses

Generally, a Resident Holder is required to include in computing its income for a taxation year one-half of the amount of any capital gain (a "**taxable capital gain**") realized in such taxation year. Subject to and in accordance with the provisions of the Tax Act, a Resident Holder is required to deduct one-half of the amount of any capital loss (an "**allowable capital loss**") realized in a taxation year from taxable capital gains realized by the Resident Holder in the year. Allowable capital losses in excess of taxable capital gains may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years to the extent and in the circumstances described in the Tax Act.

Capital gains realized by an individual or by most trusts may give rise to alternative minimum tax under the Tax Act. In addition, Canadian-controlled private corporations (as defined in the Tax Act) may be subject to an additional refundable tax of 10 $\frac{2}{3}$ % on certain investment income, including interest and taxable capital gains.

Holders Not Resident in Canada

The following portion of the summary is generally applicable to a Holder who, for the purposes of the Tax Act and any applicable income tax treaty or convention, and at all relevant times, is not and has not been a resident or deemed to be a resident of Canada and does not use or hold, and is not deemed to use or hold, Debentures in connection with carrying on a business in Canada (a "**Non-Resident Holder**"). Special rules, which are not discussed in this summary, apply to a non-resident that is an insurer carrying on business in Canada and elsewhere.

Disposition of Debenture pursuant to Amendments or Redemption

A Non-Resident Holder of a Debenture will not be subject to tax under the Tax Act in respect of any capital gain (and will not be entitled to deduct any amount in respect of any capital loss) realized on the disposition of a Debenture under either the Amendments or a redemption pursuant to the terms of the Amendments unless such Debenture constitutes "taxable Canadian property" to the Non-Resident Holder and does not constitute "treaty-protected property". See "*Taxable Canadian Property*".

Additionally, subject to the discussion set out below, a Non-Resident Holder should not be subject to withholding tax under the Tax Act in respect of interest (including (i) interest paid to a Non-Resident Holder, (ii) interest which has accrued on the Debentures to the date of disposition, and (iii) amounts deemed to be interest (see "*Holdings Resident in Canada – Redemption of Debentures Pursuant to the Amendments*")) paid to the Non-Resident Holder on their disposition of a Debenture pursuant to the Amendments or pursuant to a redemption under the terms of the Amendments.

Generally, no Canadian withholding tax is payable under the Tax Act on interest paid or credited to non-residents of Canada with whom the payer deals at arm's length. However, Canadian withholding tax continues to apply to payments of interest that constitute "participating debt interest". By virtue of the fact that the Debentures are convertible into Shares of the Company, there is a risk that the interest paid to a Non-Resident Holder, the interest which has accrued on the Debentures to the date of disposition, and other amounts deemed to be interest on a Debenture could be held to come within the classification of participating debt interest, in which case it would be subject to Canadian withholding tax.

If the interest is considered participating debt interest, then the interest would be subject to Canadian withholding tax at a rate of 25%, or such lower rate as may be provided under the terms of an applicable tax treaty. Under the US Treaty, the rate of withholding tax would be reduced to 15%.

Taxable Canadian Property

Generally, a Debenture will not be taxable Canadian property to a Non-Resident Holder at the time of disposition provided that: (a) the Non-Resident Holder, persons with whom the Non-Resident Holder does not deal at arm's length, or the Non-Resident Holder together with such persons, did not own 25% or more of the issued Common Shares at any time during the 60-month period immediately preceding that time; and (b) such Debentures are not deemed to be taxable Canadian property for purposes of the Tax Act. Even if the Debentures are taxable Canadian property to a Non-Resident Holder, a taxable capital gain resulting from the disposition of Debentures will not be included in computing the Non-Resident Holder's income for the purposes of the Tax Act if the Debentures constitute "treaty-protected property". Debentures owned by a Non-Resident Holder will generally be treaty-protected property if the gain from the disposition of such Debentures would, because of an applicable income tax treaty, be exempt from tax under the Tax Act. In the event that Debentures constitute taxable Canadian property but not treaty-protected property to a particular Non-Resident Holder, the tax consequences as described above under "Holdings Resident in Canada" will generally apply. A Non-Resident Holder who disposes of taxable Canadian property must file a Canadian income tax return for the year in which the disposition occurs, regardless of whether the Non-Resident Holder is liable for Canadian tax on any gain realized as a result.

Certain Other Tax Considerations

The Information Circular does not contain a summary of the non-Canadian income tax considerations of the Amendments for Debentureholders who are subject to income tax outside of Canada. Such Debentureholders should consult their own tax advisors with respect to the tax implications of the Amendments, including any associated filing requirements in such jurisdictions.

PRIOR VALUATIONS AND BONA FIDE PRIOR OFFERS

To the knowledge of the Company and its directors and senior officers, after reasonable enquiry, there have been no prior valuations (as such term is defined in MI 61-101) of the Company, its material assets or its Debentures made in the 24 months preceding the date of this Information Circular. No *bona fide* prior offer (within the meaning of MI 61-101) has been received by the Company that relates to the Debentures or is otherwise relevant to the Amendments during the 24 months before the date of this Information Circular.

RISKS RELATED TO THE DEBENTURE AMENDMENTS

Market for Debentures

The Debentures currently trade on the TSX. However, no assurance can be given that an active or liquid trading market for the Debentures will continue or be sustained. If an active or liquid market for the Debentures fails to be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including the liquidity of the Debentures, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Company's financial condition, historic financial performance and future prospects.

The exercise of the Put Right could reduce the liquidity of the Debentures that are not tendered.

It is expected that the Debentures will continue to be listed on the TSX following the Amendments and the exercise of the Put Right by Debentureholders. However, depending on how many Debentures are redeemed pursuant to exercise of the Put Right, there is a possibility that the Debentures may no longer meet the listing requirements of the TSX and may be delisted from the TSX. The Indenture currently requires the Company to maintain the listing of the Debentures on the TSX. Accordingly, as part of the consequential amendments forming part of the Amendments, the Supplemental Indenture provides that Zargon will not be required to maintain a listing of the Debentures on the TSX if the exercise of the Put Right results in the Debentures no longer meeting the listing requirements of the TSX.

In the event the Company is required to redeem certain Deposited Debentures on a *pro rata* basis, Debentures returned to holders of such prorated Debentures may be in denominations of less than \$1,000 principal amount. Debentures are typically traded in lots made up of integral multiples of \$1,000 principal amount of Debentures. As a result, Debentureholders may find it difficult to find a buyer for Debentures in denominations of less than \$1,000 principal amount.

Repayment of the Debentures

The ability of Zargon to make scheduled payments on or refinance its debt obligations, including the Debentures, depends on Zargon's financial condition and operating performance, which are subject to a number of factors beyond Zargon's control. Zargon may be unable to maintain a level of cash flows from operating activities sufficient to permit Zargon to pay the principal, premium, if any, and interest on its indebtedness, including the Debentures.

If Zargon's cash flows and capital resources are insufficient to fund its debt service obligations, Zargon could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance its indebtedness, including the Debentures. Zargon may not be able to effect any such alternative measures on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow Zargon to meet its scheduled debt service obligations.

Zargon's inability to generate sufficient cash flows to satisfy its debt obligations, or to refinance its indebtedness on commercially reasonable terms or at all, would materially and adversely affect Zargon's business, results of operations, financial condition and its ability to satisfy its obligations under the Debentures.

The Debentures will be subordinate to senior indebtedness of, and to any indebtedness of trade creditors of, the Company. In the event of the Company'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 Company's obligations to the holders of the Debentures. Additionally, the Indenture does not, and the Supplemental Indenture will not, restrict the Company or any of its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its assets to secure any indebtedness. Accordingly, all or a substantial portion of the Company's assets could be unavailable to satisfy the claims of the holders of the Debentures.

Redemption Prior to Maturity

The Debentures may be redeemed, at the option of the Company prior to the maturity date at any time and from time to time, in the circumstances and at the redemption prices set forth in the Supplemental Indenture, together with any accrued and unpaid interest. Holders of Debentures should assume that this redemption option, when available, will be exercised if the Company is able to refinance at a lower interest rate or it is otherwise in the interest of the Company to redeem the Debentures. The Company may determine to redeem outstanding Debentures for Common Shares or repay outstanding principal amounts of the Debentures at maturity by issuing additional Common Shares which could negatively affect the market price of the Common Shares.

Certain Consequences if the Debenture Amendments are not approved by Debentureholders

If the Extraordinary Resolution is not approved by the Debentureholders at the Meeting, or any adjournment thereof, and the maturity of the Debentures is therefore not extended to December 31, 2019 from June 30, 2017, the Company will consider the alternatives available to it to address the maturity of the Debentures. The options may include arranging for alternate debt financing in order to fund the pay-out in cash of the principal amount together with the accrued and unpaid interest thereon and/or satisfying the obligation to pay the amount owing on the maturity date, in whole or in part, through the issuance of Common Shares. The Company may consider paying-out all of the Debentures through the exercise of the Common Share Redemption Right (as defined in the Indenture) on the maturity date. Under the Common Share Redemption Right, the number of Common Shares issuable would be determined by dividing the principal amount of the Debentures being redeemed by 95% of the then Current Market Price (as defined in the Indenture) of the Common Shares, as determined in accordance with the Indenture, on the date of maturity. This would result in dilution of existing shareholders' interest in the Company which could negatively affect the market price of the Common Shares.

Risks to Approving the Extraordinary Resolution

To the extent that Debentureholders vote in favour of the Extraordinary Resolution, Debentureholders may ultimately find that the Company is unable to repay the Debentures at the amended maturity date. Following the maturity date of the existing Debentures but before the maturity date of the amended Debentures, the Company may become subject to a bankruptcy or similar proceeding. If so, Debentureholders may have been paid in full, had they not voted in favour of the Extraordinary Resolution. If Debentureholders vote in favour of the Extraordinary Resolution, Debentureholders will be exposed to the risk of nonpayment for a longer period of time.

Common Shares Issuable as a Result of the Amendments

To the extent that Debentureholders approve the Extraordinary Resolution which will result in a modified conversion price, Debentureholders will receive additional Common Shares on conversion of the Debentures which will result in an increased number of Common Shares issued to Debentureholders. If all of the Debentures are converted into Common Shares and the Put Right is not exercised by any of the Debentureholders a total of 46 million Common Shares may be issued upon conversion of the \$57.5 million amount of Debentures currently outstanding. Based on the Company's current issued and outstanding Common Shares of approximately 30.67 million, and assuming all Debentures are converted at Cdn\$1.25 per share, the total outstanding Common Shares would be approximately 76.78 million if the Extraordinary Resolution is approved.

The Company currently has the right to issue Common Shares, valued at 95% of the then Current Market Price as defined in the Indenture, to repay all of the outstanding principal of the Debentures on maturity instead of a cash payment. For example, if the Indenture is not amended and the Company elects to exercise that right on the existing maturity date of June 30, 2017, and the Current Market Price on the maturity date is the same as the closing trading price of the Company's Common Shares on the TSX on December 13, 2016 of \$0.74, then approximately 81.79

million Common Shares would be issued on June 30, 2017, and the total outstanding shares on that date would be 112.46 million (assuming no other Common Shares are issued before then).

In certain circumstances, the amendment to the conversion price of the Debentures, could result in a Debentureholder becoming an insider or control person of the Company and subject to various applicable securities law requirements. However, as of the date hereof, the directors and executive officers of Zargon are not aware of any Debentureholder that would have the right to acquire more than 10% of the issued and outstanding Common Shares as a result of the amendment to the conversion price of the Common Shares.

Debentureholder Vote

The Indenture permits holders of 66 2/3% of the Debentureholders represented at the Meeting to approve the Extraordinary Resolution. The quorum requirement for the Meeting is 25% of all outstanding principal amount of Debentures; therefore, the Extraordinary Resolution can be approved with the support of only 16.67% of the Debentureholders.

INFORMATION CONCERNING THE MEETING

Purpose of the Meeting

The information contained in this Information Circular is furnished in connection with the solicitation of proxies by the management of Zargon for use at the Meeting. At the Meeting, Debentureholders will consider and vote upon the Extraordinary Resolution and such other business as may properly come before the Meeting.

Following an extensive review and analysis of the Amendments and consideration of other available alternatives and based upon the recommendation of the Special Committee and other relevant factors considered by the Zargon Board, the Zargon Board has unanimously determined that the Amendments are in the best interests of Zargon, the Debentureholders and that the Amendments are fair to the Debentureholders. The Zargon Board unanimously recommends that Debentureholders vote in favour of the Extraordinary Resolution. See "*The Amendments – Background to the Amendments*" and "*The Amendments – Reasons for and Anticipated Benefits of the Amendments*" and "*The Amendments – Recommendation of the Zargon Board*".

Date, Time and Place of Meeting

The Meeting will be held at **3:30 p.m. (Calgary time) on February 14, 2017** at the Calgary Petroleum Club, 319, 5th Avenue S.W., Calgary, Alberta, for the purposes set forth in the accompanying Notice of Extraordinary Meeting of Debentureholders. The purpose of the Meeting is for Debentureholders to consider and, if deemed advisable, approve the Extraordinary Resolution.

Debentureholders whose names have been entered in the registers of holders of Debentures on the close of business on the Record Date will be entitled to receive notice of and to vote at the Meeting or any adjournment thereof. The quorum requirements of the Indenture will be satisfied by the presence in person or by proxy of Debentureholders representing at least 25% of the principal amount of Debentures outstanding on the date of the Meeting. If a quorum is not present in person or by proxy within 30 minutes after the appointed time of the Meeting, the Meeting shall be adjourned to a date that is not less than 14 nor more than 60 days later, and at such place and time as may be appointed by the chairman of the Meeting, provided that at least 10 days' notice is provided for such meeting. At the adjourned meeting, the Debentureholders present in person or represented by proxy shall constitute a quorum, even if they hold less than 25% of the outstanding principal amount.

Solicitation of Proxies

This Information Circular is provided in connection with the solicitation of proxies by the management of Zargon for use at the Meeting for the purposes set forth in the accompanying Notice of Extraordinary Meeting of Debentureholders. Solicitations of proxies will be primarily by mail, but may also be in person or by telephone, fax or oral communication by directors, officers, employees and/or agents of Zargon, including by proxy solicitation

agents that may be specifically retained for such purpose. All costs of the solicitation for the Meeting will be borne by Zargon, and Zargon will reimburse Broadridge (as such term is defined below) and intermediaries for the reasonable fees and costs incurred by them in mailing soliciting materials to Beneficial Debentureholders. Also see "Advice to Beneficial Debentureholders" below.

The Company is not using "notice and access" to send its proxy related materials to Debentureholders, including this Information Circular and the Instrument of Proxy.

Information for U.S. Debentureholders

The solicitation of proxies for the Meeting is not subject to the requirements of Section 14(a) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). Accordingly, the solicitations and transactions contemplated in this Information Circular are made in the United States with respect to securities of a Canadian issuer in accordance with Canadian corporate and securities laws. Debentureholders in the United States should be aware that such laws are different from those of the United States applicable to registration statements under the United States Securities Act of 1933, as amended, and proxy statements under the Exchange Act. In addition, tax considerations applicable to persons subject to U.S. taxation have not been included in this Information Circular and there may be material United States tax consequences for persons subject to U.S. taxation in connection with the Redemption. Such Debentureholders should consult their tax advisors to determine the particular tax consequences to them in connection with the Redemption.

Voting Rights and Appointment of Proxies

As at the date hereof, the Company has \$57,500,000 aggregate principal amount of Debentures issued and outstanding. Each \$1,000 principal amount of Debentures entitles the holder of record as at the close of business on the Record Date to one vote at the Meeting. **All of the Debentures are registered under the name of CDS & Co. (the registration name for CDS). Accordingly, in order for a beneficial holder of Debentures to vote its Debentures FOR or AGAINST the Extraordinary Resolution, it must complete and sign the applicable instrument of proxy or other voting instruction form provided by its broker or other intermediary and return such instrument of proxy or other voting instruction form in accordance with the instructions provided therein well in advance of the Meeting. Failure to do so will result in your Debentures not being voted at the Meeting. See "Advice to Beneficial Holders of Debentures".**

Revocation of Proxies

A beneficial Debentureholder may revoke a proxy or voting instruction form provided by its broker or other intermediary in accordance with the instructions provided therein.

Voting of Proxies

The Debentures represented by the accompanying form of proxy will be voted in accordance with the instructions of the Debentureholder on any ballot that may be called for, and if the Debentureholder specifies a choice with respect to any matter to be acted upon, the Debentures will be voted accordingly. **In the absence of such direction, Debentures represented by proxies will be voted FOR the Extraordinary Resolution.**

The accompanying form of proxy confers discretionary authority on the persons named therein with respect to amendments or variations to matters identified in the Notice, or other matters which may properly come before the Meeting. At the time of printing this Circular, management of the Company knows of no such amendments, variations or other matters to come before the Meeting.

Advice to Beneficial Debentureholders

The information set forth in this section is of significant importance to all Debentureholders, as all of the Debentures are registered in the name of CDS and are held through brokers, intermediaries, trustees or other persons. Without specific instructions, a broker, intermediary, trustee, other person or nominee is prohibited from voting Debentures for its clients.

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from beneficial Debentureholders in advance of securityholder meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions to clients, which should be carefully followed by Beneficial Debentureholders in order to ensure that their Debentures are voted at the Meeting. The VIF supplied to a Beneficial Debentureholder is similar to the Instrument of Proxy provided to registered Debentureholders by Zargon; however, its purpose is limited to instructing the registered Debentureholder (the broker or the agent of the broker) how to vote on behalf of the Beneficial Debentureholder. The majority of brokers now delegate responsibility for obtaining voting instructions from clients to Broadridge Financial Solutions, Inc. ("**Broadridge**"). Broadridge typically mails a scannable voting instruction form instead of the form of Instrument of Proxy. The Beneficial Debentureholder is asked to complete the voting instruction form and return it to Broadridge by mail or facsimile. Alternatively, the Beneficial Debentureholder may call a toll-free number to vote the shares held by the Beneficial Debentureholder or vote online. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of the Shares or Debentures to be represented at the Meeting.

A Beneficial Debentureholder receiving a VIF cannot use that VIF to vote Shares or Debentures directly at the Meeting, but rather a Beneficial Debentureholder must submit its voting instructions in accordance with the instructions in the VIF.

Although a Beneficial Debentureholder may not be recognized directly at the Meeting for the purposes of voting Shares registered in the name of his broker (or agent of the broker), a Beneficial Debentureholder may attend the Meeting as proxyholder for the registered Debentureholder and vote the Shares or Debentures in that capacity. Beneficial Debentureholders who wish to attend the Meeting and indirectly vote their Shares or Debentures as proxyholders for the registered Debentureholder should enter their own names in the blank space on the VIF provided to them and return the same in accordance with the instructions provided well in advance of the Meeting.

The Company will not send proxy-related materials directly to non-objecting beneficial Debentureholders. Such materials will be delivered to objecting Debentureholders by Broadridge or through the non-objecting beneficial Debentureholder's intermediary. Zargon will pay the reasonable fees and costs of Broadridge or an objecting Beneficial Debentureholder's intermediary to deliver the proxy-related materials and Form 54-101F7 – *Request for Voting Instructions Made by Intermediary* of National Instrument 54-101 to objecting Beneficial Debentureholders.

Voting Securities and Principal Holders Thereof

As of the date hereof, the directors and executive officers of Zargon are not aware of any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the issued and outstanding Debentures.

Quorum

A quorum at the Meeting is that number of Debentureholders present in person or by proxy representing not less than 25% of the aggregate principal amount of Debentures then outstanding. If a quorum is not present within 30 minutes from the time fixed for the holding of the Meeting, the Meeting may be adjourned to such date, being not less than 14 and not more than 60 days later, and to such place and time as may be appointed by the chairman of the Meeting. No less than 10 days notice shall be given of the time and place of such adjourned Meeting. At the adjourned Meeting the Debentureholders present in person or by proxy shall form a quorum and may transact the business for which the Meeting was originally convened, notwithstanding that they may not represent 25% of the aggregate principal amount of Debentures then outstanding.

Other Business

Management of Zargon does not intend to present and does not have any reason to believe that others will present any item of business other than those set forth in this Information Circular at the Meeting. However, if any other business is properly presented at the Meeting and may properly be considered and acted upon, proxies will be voted by those named in the form of proxy in their sole discretion, including with respect to any amendments or variations to the matters identified in this Information Circular.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Other than as disclosed herein, there were no material interests, direct or indirect, of directors or executive officers of the Company, of any shareholder who beneficially owns or controls or directs, directly or indirectly, more than 10% of the outstanding Shares, or any other Informed Person (as defined in National Instrument 51-102) or any known associate or affiliate of such persons, in any transaction since the commencement of the most recently completed financial year of the Company or in any proposed transaction which has materially affected, or would materially affect, the Company or any of its subsidiaries. Grant Zawalsky, a director of Zargon, is a partner of Burnet, Duckworth & Palmer LLP, which firm receives fees for legal services provided to Zargon.

ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR at www.sedar.com. Financial information in respect of the Company and its affairs is provided in the Company's annual audited comparative financial statements for the year ended December 31, 2015 and the Company's unaudited interim comparative financial statements for the three and nine months ended September 30, 2016 and the related management's discussion and analysis. Copies of the Company's financial statements and related management's discussion and analysis are available upon request from the Corporate Secretary of Zargon at Zargon's head office, Suite 700, 333 – 5th Avenue S.W., Calgary, Alberta, T2P 3B6, Tel: (403) 264-9992.

APPROVAL

This Information Circular and the delivery thereof to Debentureholders has been approved and authorized by the Zargon Board.

APPENDIX A

EXTRAORDINARY RESOLUTION

BE IT RESOLVED AS AN EXTRAORDINARY RESOLUTION THAT:

1. Zargon Oil & Gas Ltd. ("**Zargon**") and Computershare Trust Company of Canada (the "**Trustee**") be and are hereby authorized to enter into and perform their respective obligations under a supplemental indenture (the "**Supplemental Indenture**") to be entered into between Zargon and the Trustee at such time as may be determined by Zargon, in its sole discretion, pursuant to which the trust indenture governing the 6.00% convertible unsecured subordinated debentures ("**Debentures**") of Zargon shall be supplemented and amended to: (i) extend the maturity date of the Debentures from June 30, 2017 to December 31, 2019; (ii) increase the interest rate of the Debentures from 6.00% per annum to 8.00% per annum effective April 1, 2017; (iii) reduce the conversion price in effect for each common share of Zargon to be issued upon the conversion of the Debentures from \$18.80 to \$1.25; (iv) amend the redemption provisions of the Debentures to provide Debentureholders with a right (the "**Put Right**") to require Zargon to redeem up to \$19 million aggregate principal amount of Debentures (or such other amount as may be determined by Zargon) at a cash price to be determined by a "Dutch auction" process; (v) amend the redemption provisions to provide that (other than in connection with the Put Right) the Debentures will not be redeemable by the Company before January 1, 2019, and for the 12 months following January 1, 2019, the Debentures may only be redeemed by the Company if the Current Market Price (as defined in the Indenture) of the Common Shares exceeds 125% of the reduced conversion price; (vi) change the interest payment dates applicable to the Debentures under the Indenture from June 30, and December 31 to March 31, and September 30; and (vii) make such other consequential amendments as required to give effect to the forgoing, a copy of which Supplemental Indenture (in draft form) is attached as Appendix C to the management information circular of Zargon dated January 16, 2017, such Supplemental Indenture being subject to such changes and amendments as may be approved by the persons referred to in paragraph 3 hereof, such approval to be evidenced conclusively by their execution and delivery of such Supplemental Indenture (as changed or amended), and the Supplemental Indenture (as changed or amended, if applicable) as signed is that which is hereby approved;
2. notwithstanding that this extraordinary resolution has been duly passed, the board of directors of Zargon may, without further notice to or approval of the holders of Debentures, revoke this extraordinary resolution at any time prior to Zargon entering into the Supplemental Indenture; and
3. any single director or officer of Zargon be and is hereby authorized, for and on behalf of Zargon, to execute and deliver the Supplemental Indenture and to execute, with or without the corporate seal, and, if appropriate, deliver all other documents and instruments and to do all other things as in the opinion of such director or officer may be necessary or desirable to implement this resolution, the Supplemental Indenture and the matters authorized hereby and thereby, such determination to be conclusively evidenced by the execution and delivery of any such document or instrument, and the taking of any such action.

APPENDIX B
FAIRNESS OPINION

January 5, 2017

STRICTLY CONFIDENTIAL

The Board of Directors of Zargon Oil & Gas Ltd.
Suite 700, 333 – 5th Avenue S.W.
Calgary, Alberta T2P 3B6



To the Board of Directors of Zargon Oil & Gas Ltd. (the “Board”):

Introduction

The Macquarie Capital division of Macquarie Capital Markets Canada Ltd. (“**Macquarie Capital**” or “**we**”) understands that Zargon Oil & Gas Ltd. (the “**Company**”) proposes to amend certain terms of the indenture (the “**Indenture**”) governing the 6.00% convertible unsecured subordinated debentures of the Company due June 30, 2017 (as currently held or as amended, the “**Debentures**”) pursuant to an extraordinary resolution (the “**Resolution**”) of the holders of the Debentures (the “**Debentureholders**”) in accordance with the terms of the Indenture.

1 THE AMENDMENTS

Pursuant to the Resolution, holders of the Debentures will be asked to approve the following amendments to the Indenture: (i) extension of the maturity date of the Debentures from June 30, 2017 to December 31, 2019; (ii) to increase the interest rate of the Debentures from 6.00% per annum to 8.00% per annum; (iii) to reduce the conversion price in effect for each common share of the Company to be issued upon the conversion of the Debentures from \$18.80 to \$1.25 (the “**Revised Conversion Price**”); (iv) to amend the redemption provisions of the Debentures to provide that (other than in connection with the Put Right) the Debentures will not be redeemable by the Company before January 1, 2019 and for the 12 months following January 1, 2019, the Debentures may only be redeemed by the Company if the Current Market Price (as defined in the indenture governing the debentures of the Common Shares exceeding 125% of the reduced conversion price (in both instances except pursuant to change of control as outlined in Indenture); (v) to amend the redemption provisions of the Debentures to provide Debentureholders with a right (the “**Put Right**”) pursuant to which Debentureholders may tender their Debentures for redemption at a price per \$1,000 principal amount of Debentures specified by the Debentureholder, which price may be not less than \$890 per \$1,000 principal amount of Debentures. The Put Right will expire at 5:00 p.m. (Eastern time) on the date that is 45 days from the date of the Supplemental Indenture (as defined below) unless terminated, extended or varied by Zargon (such time and date, the “**Expiration Time**”). Promptly following the Expiration Time, Zargon will redeem the Debentures tendered, starting with those tendered at the lowest price, and continuing with those tendered at increasing prices, until it has redeemed not more than \$19 million in total of tendered Debentures; and (vi) such other consequential amendments as required to give effect to the foregoing (collectively, the “**Amendments**”).

The proposed Amendments to the Indenture are subject to approval of the Board, approval of the Resolution by the Debentureholders and various conditions, including, without

limitation, receipt of all required regulatory approvals, approval of the Toronto Stock Exchange and other customary conditions. The Amendments will be reflected in the supplemental trust indenture (the “**Supplemental Indenture**”) to be entered into between the Company and Computershare Trust Company of Canada and will be described in the Company’s management information circular (the “**Circular**”) to be mailed to the Debentureholders in connection with the special meeting of the Debentureholders to be held to consider and, if deemed advisable, to approve the Resolution. The Put Right and all tenders of Debentures are subject to the terms and conditions of the Indenture, as amended by the Supplemental Indenture and the Circular.

2 MACQUARIE CAPITAL’S ROLE

The Company initially contacted Macquarie Capital on September 21, 2016 and formally engaged Macquarie Capital pursuant to an engagement agreement dated October 14, 2016 (the “**Engagement Agreement**”) to provide financial advisory services in connection with the proposed Amendments, including Macquarie Capital’s opinion to the Board as to the fairness of the Amendments to Debentureholders, from a financial point of view (the “**Opinion**”). In consideration for the preparation and delivery of the Opinion, the Company will pay Macquarie Capital a fee that is not contingent upon the conclusions reached herein or completion of the Amendments and will reimburse Macquarie Capital for its reasonable expenses. Macquarie Capital will also be entitled to a separate fee contingent upon approval of the Amendments and is to be reimbursed for reasonable expenses in connection with the other financial advisory and professional services provided under the Engagement Agreement. In addition, pursuant to the Engagement Agreement, Macquarie Capital and its affiliates and their respective directors, officers, employees, agents and consultants are to be indemnified by the Company under certain circumstances from and against certain liabilities arising in connection with the Opinion and the financial advisory and professional services rendered to the Company and the Board.

3 CREDENTIALS OF MACQUARIE CAPITAL

Macquarie Capital is a wholly owned subsidiary of the Macquarie Group which is a diversified international provider of specialist investment, advisory, trading and financial services in select markets around the world. Macquarie Capital is a member of the Investment Industry Regulatory Organization of Canada and a member of the TSX and the TSX Venture Exchange. Macquarie Capital’s advisory services include the areas of mergers, acquisitions, divestments, restructurings, fairness opinions and valuations. The Opinion expressed herein is Macquarie Capital’s and has been approved by senior corporate and financial advisory professionals of Macquarie Capital who have been involved in a number of transactions involving the merger, acquisition, divestiture and valuation of publicly traded and private Canadian issuers and in providing fairness opinions in respect of such transactions.

4 INDEPENDENCE OF MACQUARIE CAPITAL

None of Macquarie Capital, its affiliates or associates, is an insider, associate or affiliate (within the meanings attributed to those terms in the *Securities Act* (Alberta)), or a related entity of the Company or any of their respective associates or affiliates (collectively, the “**Interested Parties**”). Macquarie Capital is not acting as an advisor, financial or otherwise, to any Interested Party in connection with the Amendments other than to the Company pursuant to the Engagement Agreement, or in connection with any other transaction. Macquarie Capital has not provided any financial advisory or financing services to an Interested Party or otherwise had a material financial interest in any transaction involving an Interested Party, in each case, within the past two years. Macquarie Capital and its employees, including members of the deal team, beneficially own less than 1% of the outstanding Debentures.

There are no understandings, agreements or commitments between Macquarie Capital and any Interested Party with respect to any future business dealings, other than a general right of first refusal to provide certain financial advisory services to the Company within a limited period of time, as set out in the Engagement Agreement, however, Macquarie Capital may in the future in the ordinary course of business seek to perform financial advisory services for any one or more of them from time to time.

Macquarie Capital acts as a trader and dealer, both as principal and agent, in Canadian financial markets and, as such, may have, today, or in the future, positions in the securities of any Interested Party, and from time to time, may have executed or may execute transactions on behalf of any Interested Party or other clients for which it received or may receive compensation. In addition, as an investment dealer, Macquarie Capital conducts research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on issues and investment matters, including with respect to an Interested Party or the Amendments.

5 SCOPE OF REVIEW

In connection with rendering this Opinion, Macquarie Capital has reviewed and relied upon, or carried out, among other things, the following in respect of the Company:

- (a) the annual report of the Company for the period ended December 31, 2015;
- (b) audited annual financial statements of the Company as at and for the year ended December 31, 2015, together with management's discussion & analysis of financial condition and operating results for each such financial period and management's certifications of annual filings in respect thereof (in each case, as publicly filed by the Company with applicable securities regulatory authorities);
- (c) independent reserve reports concerning the Company's summary of oil and gas reserves and net present values of future net revenue dated as of January 21, 2016, prepared by McDaniel & Associates Consultants Ltd.;
- (d) unaudited financial statements of the Company as at and for the interim periods ended March 31, 2016, June 30, 2016 and September 30, 2016, together with management's discussion & analysis of financial condition and operating results for each such interim periods and management's certifications of interim filings in respect thereof (in each case, as publicly filed by the Company with applicable securities regulatory authorities);
- (e) the management information circular of the Company in respect of the annual meeting of common shareholders held on May 30, 2016;
- (f) the annual information form of the Company dated March 7, 2016 for the year ended December 31, 2015;
- (g) the material change report dated November 17, 2015 and the news release dated November 11, 2015 relating to the suspension of the Company's monthly dividend on its common shares;
- (h) the material contracts - Eighth Amending Agreement dated June 18, 2016 and the news release dated June 21, 2016 relating to the renewal and extension of the Company's committed syndicated credit facilities;

- (i) the material change report dated September 1, 2016 and the news release dated September 1, 2016 relating to the closing of the sale of all of the Company's Southeast Saskatchewan assets for cash consideration of \$89.5 million (the "**Saskatchewan Disposition**"), the proceeds from the Saskatchewan Disposition being used to eliminate the Company's bank debt and the Company entering into a definitive agreement for the sale of all of its Killam, Alberta assets for cash consideration of \$4.0 million;
- (j) the news release dated October 17, 2016 with respect to the resignation of the Company's former Chief Financial Officer and the corporate reorganization;
- (k) the news release dated November 14, 2016 with respect to Q4 2016 guidance and the strategic alternatives process update;
- (l) the news release dated November 30, 2016 with respect to hedging agreements and appointment of an Interim Chief Financial Officer;
- (m) the news release dated December 12, 2016 with respect to the Company's 2017 capital expenditure budget;
- (n) certain internal financial information, and financial and operational analysis, projections and models prepared by, or on behalf of the Company, relating to its business;
- (o) a certificate of representation as to certain factual matters dated the date hereof, addressed to Macquarie Capital provided by senior officers of the Company;
- (p) reviewed historical and forecast commodity prices and foreign exchange rates, and considered the impact of various commodity pricing and foreign exchange rate assumptions on the business, prospects and financial forecasts of the Company;
- (q) discussions with management of the Company with regard to, among other things, the business, past and current operations, quality of assets, financial projections, current financial condition, future potential and environmental matters of the Company;
- (r) other public information relating to the business and financial condition of the Company and other selected public oil and natural gas companies Macquarie Capital considered relevant; and
- (s) Macquarie Capital's internal financial models and various other methods of financial analytics and valuation.

In addition to the information detailed above, Macquarie Capital has further reviewed, considered and relied upon, among other things, the following:

- a) a draft of the Circular;
- b) information with respect to selected precedent auction tender and convertible debenture redemption transactions Macquarie Capital considered relevant;
- c) information with respect to the current and historical trading performance of the Company and other selected comparable public companies;
- d) a due diligence questionnaire with senior management of the Company; and

- e) other information, analysis, investigations and discussions as Macquarie Capital considered relevant and appropriate in the circumstances.

Macquarie Capital did not meet with the auditors of the Company and has assumed the accuracy and fair presentation of the audited and unaudited financial statements of the Company, and, as applicable, the reports of the auditors thereon. Macquarie Capital did not meet with the independent reserve engineers of the Company and has assumed the accuracy and fair presentation of the reserve reports of the Company.

Macquarie Capital has not, to its knowledge, been denied access to any information requested.

6 ASSUMPTIONS AND LIMITATIONS

We have relied upon and have assumed the completeness, accuracy and fair representation of all financial and other information, data, documents, materials, advice, opinions and representations obtained by us, including information relating to the Company provided to us by or on behalf of the Company and its affiliates or otherwise pursuant to the Engagement Agreement, and this Opinion is conditional upon such completeness, accuracy, and fairness. We have not attempted to verify independently the accuracy or completeness of any such information, data, advice, opinions or representations. Senior officers of the Company have represented to Macquarie Capital, in a certificate dated as at the date hereof, among other things, that to the best of their knowledge after due inquiry, with the exception of certain forecasts, projections or estimates, (i) the information, data, opinions, representations and other materials (oral or written) (collectively referred to as the “**Information**”) provided to Macquarie Capital and its affiliates by or on behalf of the Company was at the dates the Information was provided true, complete and correct and not misleading in light of the circumstances under which they were made or presented and did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the Information not misleading in light of the circumstances under which the Information was provided; and (ii) since the dates on which the Information was provided, there has been no material change (as such term is defined in the *Securities Act* (Alberta) or new material fact, financial or otherwise, relating to the Amendments, the financial condition, assets, liabilities (contingent or otherwise), business, affairs, operations or prospects of the Company or any of their respective subsidiaries, associates or affiliates or any change in any material fact or in any material element of any of the Information, or new material fact, any of which is of a nature as to render any portion of the Information untrue or misleading in any material respect or which could reasonably be expected to have a material effect on this Opinion.

We have also assumed that the process undertaken by the Company was appropriate. With respect to the operating and financial projections of the Company which were furnished to us, we have assumed that such projections have been reasonably prepared by the Company on bases reflecting the best currently available estimates and good faith judgments by management of the Company of the future competitive, operating and regulatory environments and related financial performance of the Company. We express no view as to any such financial projections or the assumptions on which any of them are based.

For purposes of rendering this Opinion, we have assumed that the requirements of the Company to be contained in the Supplemental Indenture will be performed by it under the Supplemental Indenture without waiver or amendment. The Amendments are subject to a number of conditions outside the control of any party involved in the Amendments and Macquarie Capital has assumed all conditions precedent to the completion of the Amendments can be satisfied in due course and all consents, permissions, exemptions or orders of relevant regulatory authorities will be obtained, without adverse conditions or qualification. In rendering this Opinion, we express no view as to the likelihood that the

conditions respecting the Amendments will be satisfied or waived or that the Amendments will be implemented within the time frame indicated in the Circular.

In addition, we have assumed that the Company will not incur, other than as contemplated pursuant to the Amendments, any material liability or obligation, or lose any material rights, as a result of completion of the Amendments and that the procedures being followed to implement the Amendments are valid and effective, and in accordance with applicable laws and that the disclosure of the Company and the Amendments in any disclosure documents will be accurate and will comply with the requirements of applicable laws.

This Opinion is rendered on the basis of market, economic, financial and general business and other conditions prevailing as at the date hereof, and the Information made available to Macquarie Capital as at the date hereof. In rendering this Opinion, Macquarie Capital has assumed that there are no undisclosed material facts relating to the Company or its businesses, operations, capital or future prospects. Any changes therein may affect this Opinion and, although we reserve the right to change, withdraw or supplement this Opinion in such event or in the event that subsequent developments affect this Opinion, we disclaim any obligation to advise any person of any change that may come to our attention or to update, revise or reaffirm this Opinion after the date hereof.

In its analyses and in connection with the preparation of this Opinion, Macquarie Capital made numerous assumptions with respect to industry performance, general business, market and economic conditions and other matters, many of which are beyond the control of any party involved in the Amendments. While in the opinion of Macquarie Capital, our assumptions used in preparing this Opinion are reasonable in the current circumstances, some or all of these assumptions may prove to be incorrect.

Macquarie Capital believes that the analyses and factors considered in arriving at this Opinion must be considered as a whole and are not amenable to partial analyses or summary description and that selecting portions of the analyses and the factors considered, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on any particular factor or analysis. In arriving at this Opinion, Macquarie Capital has not attributed any particular weight to any specific analyses or factor but rather based this Opinion on a number of qualitative and quantitative factors deemed appropriate by Macquarie Capital based on Macquarie Capital's experience in rendering such opinions.

Macquarie Capital has not been asked to pass upon, and expresses no opinion with respect to, any matter other than whether, as of the date hereof, the Amendments, are fair, from a financial point of view, to the Debentureholders. Macquarie Capital has not been engaged to prepare, and has not prepared, a valuation or appraisal of the Company or any of its assets, securities or liabilities (contingent or otherwise), nor have we been furnished with any such valuations appraisals, nor have we evaluated the solvency or fair value of the Company under any applicable laws relating to bankruptcy, insolvency or similar matters, and this Opinion should not be construed as such. Furthermore, this Opinion is not, and should not be construed as, advice as to the price at which the Debentures may trade at any future date (whether before or after the completion of the Amendments). In addition, this Opinion does not address the overall fairness of the Amendments to the holders of any other class of securities (only the fairness of the Amendments to the Debentureholders as expressly set out in the Opinion), creditors or other constituencies of the Company, or the fairness of the amount or nature of any compensation to be paid or payable to any of the officers, directors, consultants or employees of the Company in their capacities as such and in connection with the Amendments. This Opinion does not address the relative merits of the Amendments as compared to other business or financial strategies that might be available to the Company or any other party to the Amendments, nor does it address the underlying business decision of the Company, or any other party relating to the

Amendments. We were not engaged to review any legal, regulatory, tax or accounting aspects of the Amendments and, accordingly, express no view thereon and have assumed the accuracy and completeness of assessments by the Company and its advisors with respect to legal, regulatory, tax and accounting matters.

This Opinion has been prepared in accordance with the Disclosure Standards for Formal Valuations and Fairness Opinions of Investment Industry Regulatory Organization of Canada (“IIROC”) but IIROC has not been involved in the preparation or review of this Opinion.

7 CONCLUSION

Based upon and subject to the foregoing and such other matters as Macquarie Capital considers relevant, it is Macquarie Capital’s opinion that, as of the date hereof, the Amendments, are fair, from a financial point of view, to the Debentureholders.

This Opinion is not, and is not intended to be, a recommendation to Debentureholders as to how to vote at the Meeting. This Opinion has been provided solely for the use of the Board for the purposes of its consideration of the Amendments and may not be used or relied upon by any other person or for any other purpose without the express prior written consent of Macquarie Capital. This Opinion shall not be reproduced, disseminated, quoted from or referred to (in whole or in part) and no public reference to Macquarie Capital Markets Canada Ltd. or its affiliates relating to the Amendments or this Opinion shall be made without the express prior written consent of Macquarie Capital, except that we consent to the inclusion of the complete text of this Opinion and to appropriate references to, or summaries of, this Opinion, subject to our review to our satisfaction of the final form and context of such disclosures in the Circular, or other form of document(s) required to be mailed to Debentureholders in connection with the Amendments.

Yours sincerely,

A handwritten signature in black ink that reads "Macquarie Capital Markets Canada Ltd." in a cursive, flowing script.

Macquarie Capital Markets Canada Ltd.

APPENDIX C

DRAFT FORM OF SUPPLEMENTAL INDENTURE

FIRST SUPPLEMENTAL CONVERTIBLE DEBENTURE INDENTURE

This First Supplemental Convertible Debenture Indenture is entered into as of the 14th day of February, 2017, between:

ZARGON OIL & GAS LTD., a corporation amalgamated under the laws of the Province of Alberta, and having its head office in the City of Calgary, in the Province of Alberta (hereinafter called "**Zargon**")

- and -

COMPUTERSHARE TRUST COMPANY OF CANADA, a trust company incorporated under the federal laws of Canada having an office in the City of Calgary, in the Province of Alberta (hereinafter called the "**Debenture Trustee**")

WITNESSETH THAT:

WHEREAS Zargon and the Debenture Trustee entered into a convertible debenture indenture dated as of May 1, 2012 (the "**Indenture**") to provide for the creation and issuance of the first series of debentures being 6.00% convertible unsecured subordinated debentures of Zargon due June 30, 2017(the "**First Debentures**");

AND WHEREAS the holders (the "**Debentureholders**") of the First Debentures have duly passed an Extraordinary Resolution (as defined in the Indenture) authorizing Zargon and the Debenture Trustee to enter into and perform their respective obligations under this First Supplemental Convertible Debenture Indenture;

AND WHEREAS Section 16.1 of the Indenture provides that Zargon and the Debenture Trustee may supplement the Indenture for the purpose of, *inter alia*, giving effect to any Extraordinary Resolution passed as provided in Article 13 of the Indenture;

AND WHEREAS all necessary acts and proceedings have been done and taken and all necessary resolutions have been passed to authorize the execution and delivery of this First Supplemental Convertible Debenture Indenture, to make the same effective and binding upon Zargon and the Debenture Trustee;

AND WHEREAS the foregoing recitals are made as representations and statements of fact by Zargon and not by the Debenture Trustee;

NOW THEREFORE it is hereby covenanted, agreed and declared as follows:

ARTICLE 1 **DEFINITIONS AND AMENDMENTS TO INDENTURE**

1.1 Amendments to Indenture

- (a) This First Supplemental Convertible Debenture Indenture is supplemental to the Indenture and both shall hereafter be read together and shall have effect, so far as practicable, with respect to the Debentures as if all the provisions of the Indenture and this First Supplemental Convertible Debenture Indenture were contained in one instrument. The Indenture is and shall remain in full force and effect with regards to all matters governing the Debentures, except as the Indenture is amended, superseded, modified or supplemented by this First Supplemental Convertible Debenture Indenture. Any references in the text of this First Supplemental Convertible Debenture Indenture to section, article or paragraph numbers refer to the Indenture unless otherwise qualified.

- (b) The following definitions shall be added to Section 1.1 of the Original Indenture:

"**Auction Redemption Date**" has the meaning ascribed thereto in paragraph 2.4(m);

"**Auction Redemption Price**" has the meaning ascribed thereto in paragraph 2.4(m);

"**CDS**" means CDS & Co. (the registration name for the Canadian Depository for Securities Limited);

"**Deposited Debentures**" means Initial Debentures deposited by Debentureholders pursuant to paragraph 2.4(m);

"**Depositary**" means Computershare Investor Services Inc.;

"**Expiration Time**" has the meaning ascribed thereto in paragraph 2.4(m);

"**Maximum Redemption Amount**" unless otherwise amended, means \$19 million principal amount;

"**Put Right**" has the meaning ascribed thereto in paragraph 2.4(m); and

"**Redemption Auction**" has the meaning ascribed thereto in paragraph 2.4(m).

- (c) Section 1.1 of the Indenture shall be amended by:

(i) replacing the reference to "\$18.80" in the definition of "Conversion Price" with "\$1.25"; and

(ii) replacing the reference to "Valiant Trust Company" in the definition of "Debenture Trustee" with "Computershare Trust Company of Canada".

- (d) Paragraph (b) of Section 2.4 of the Indenture shall be amended by replacing the reference to "June 30, 2017" therein with "December 31, 2019".

- (e) Paragraph (c) of Section 2.4 of the Indenture shall be deleted in its entirety and replaced with the following:

"Until April 1, 2017, the Initial Debentures shall bear interest at the rate of 6.00% per annum and at the rate of 8.00% per annum thereafter, payable in equal semi-annual instalments in arrears on March 31 and September 30 in each year computed on the basis of a 365-day year or 366-day year, as the case may be. The last interest payment (representing interest payable from and including the last Interest Payment Date) will fall due on the Maturity Date or the earlier date of redemption or repayment. Interest is payable after as well as before maturity and after as well as before default, with interest on amounts after maturity or in default at the same rate, compounded semi-annually. Any payment required to be made on any day that is not a Business Day will be made on the next succeeding Business Day. The record dates for the payment of interest on the Initial Debentures will be the fifth Business Day preceding the Interest Payment Date in each year."

- (f) The first two sentences of paragraph (d) of Section 2.4 of the Indenture shall be deleted in its entirety and replaced with the following:

"Subject to Subsection 2.4(m), the Initial Debentures are redeemable in accordance with the terms of Article 4 hereof, provided that the Initial Debentures will not be redeemable before January 1, 2019 (except in limited circumstances following a Change of Control as provided in Section 2.4(j)). On or after January 1, 2019 and prior to the Maturity Date, the Initial Debentures may be redeemed by the Corporation, in whole or in part from time to time, at the option of the Corporation on notice as provided for in Section 4.3 at the Redemption Price on the Redemption Date, provided that the Current Market Price on the date on

which such notice of redemption is given exceeds 125% of the Conversion Price and the Corporation shall have provided to the Debenture Trustee an Officer's Certificate confirming such Current Market Price."

- (g) The first sentence of paragraph (f) of Section 2.4 of the Indenture shall be deleted in its entirety and replaced with the following:

"Upon and subject to the provisions and conditions of Article 6 hereof and Section 3.7, the holder of each Initial Debenture shall have the right at such holder's option, at any time prior to 5:00 p.m. (Calgary time) on the earliest of: (i) the Business Day immediately preceding the Maturity Date; (ii) the last Business Day immediately preceding any Redemption Date specified by the Corporation for redemption of such Initial Debentures by notice to the holders of Initial Debentures in accordance with Sections 2.4(d) and 4.3 of this Indenture (the earliest of which will be the "**Time of Expiry**" for the purposes of Article 6 hereof); (iii) if called for repurchase pursuant to the exercise by the Corporation of the 90% Redemption Right, on the Business Day immediately preceding the payment date; (iv) if subject to compulsory acquisition as provided for in Article 12, on the Business Day immediately prior to the day on which such acquisition becomes effective; or (v) the last Business Day immediately preceding the Expiration Date, subject to the satisfaction of certain conditions, to convert the whole or, in the case of a Initial Debenture of a denomination in excess of \$1,000, any part which is \$1,000 or an integral multiple thereof, of the principal amount of such Initial Debenture into Common Shares at the Conversion Price in effect on the Date of Conversion."

- (h) The first sentence of the second paragraph of Section 2.4(f) of the Indenture shall be deleted in its entirety and replaced with the following:

"The Conversion Price in effect on the date hereof for each Common Share to be issued upon the conversion of Initial Debentures shall be equal to \$1.25 such that 800 Common Shares shall be issued for each \$1,000 principal amount of Initial Debentures so converted, subject to the terms of Section 6.6."

- (i) The following shall be added as paragraph (m) of Section 2.4 of the Indenture:

"Notwithstanding anything else contained herein, including paragraphs 2.4(d) and 2.2(h) and Article 4, up to the Maximum Redemption Amount of the outstanding Initial Debentures may be redeemed at the option of the Corporation, at a cash redemption price per \$1,000 principal amount of Initial Debentures determined through auction tenders pursuant to which Debentureholders may tender a minimum of \$1,000 principal amount of their Initial Debentures, and additional Initial Debentures in integral amounts of \$1,000, for redemption pursuant to which such tendering Debentureholders specify a redemption price, in increments of \$10, of not less than \$890 and not more than \$1,000 per \$1,000 principal amount Initial Debenture (the "**Redemption Auction**").

The right to tender such Initial Debentures for redemption (the "**Put Right**") will expire at 5:00 p.m. (Eastern time) on the date that is 45 days from the date hereof unless otherwise terminated, extended or amended by the Corporation (such time and date, the "**Expiration Time**"). Following and effective as of the Expiration Time (the "**Auction Redemption Date**"), the Corporation will redeem the Initial Debentures tendered, starting with those tendered at the lowest redemption price, and continuing with those tendered at increasing incremental redemption prices (each, an "**Incremental Redemption Price**"), until it has redeemed not more than the Maximum Redemption Amount in total of the Initial Debentures tendered for redemption. The Corporation will not redeem any Initial Debentures tendered with an Incremental Redemption Price above the Incremental Redemption Price at which a total of the Maximum Redemption Amount of Debentures have been redeemed or are redeemable.

If a Debentureholder's Initial Debentures are redeemed, that Debentureholder will be paid the relevant Incremental Redemption Price (subject to applicable withholding taxes, if any) for each \$1,000 principal amount of Initial Debentures redeemed in cash, together with all accrued and unpaid interest (up to but

excluding the Auction Redemption Date) (the "**Auction Redemption Price**"). Under no circumstances will the Corporation pay additional interest on the redeemed Initial Debentures, even if there is a delay in making payment.

If the redemption of the aggregate principal amount of deposited Debentures at any Incremental Redemption Price would result in an aggregate redemption price in excess of the Maximum Redemption Amount, then such Deposited Debentures at such Incremental Redemption Price will be redeemed on a *pro rata* basis according to the number of Initial Debentures deposited by the depositing Debentureholders. Deposited Debentures not redeemed because of proration, which may be in denominations of less than \$1,000, will be returned to depositing Debentureholders.

The Corporation will deposit with the Debenture Trustee or any paying agent to the order of the Debenture Trustee, on or before 11:00 a.m. (Calgary time) on the Auction Redemption Date, such sums of money as may be sufficient to pay the aggregate Auction Redemption Price of the Deposited Debentures to be redeemed. The Corporation may elect to satisfy this requirement by providing the Debenture Trustee with a certified cheque or banker's draft for such amount post-dated to the Auction Redemption Date or by providing the Debenture Trustee with such funds through electronic transfer of such funds on the Business Day immediately prior to the Auction Redemption Date.

The delivery of such funds to the Debenture Trustee will satisfy and discharge the liability of the Corporation for the Initial Debentures being redeemed and such Initial Debentures will thereafter be considered to no longer be outstanding under this Indenture. From the sums so deposited, the Debenture Trustee shall pay or cause to be paid to the holders of such Initial Debentures so called for redemption, upon surrender of such Initial Debentures, the Auction Redemption Price for such Initial Debentures. Such holders will otherwise have no other right in regard to such Initial Debentures. From and after the Redemption Date, no interest shall accrue or be paid by the Corporation, the Debenture Trustee or the Depository on any redeemed Debentures to any person for such redeemed Debentures regardless of any delay in making payment

The aggregate Auction Redemption Price will be denominated in Canadian dollars and all payments to Debentureholders will be made in Canadian dollars. Payments will be made net of any applicable withholding taxes.

The Corporation has the right, in its sole discretion, at any time or from time to time: (a) to terminate the Put Right and not redeem and return all Deposited Debentures to the holders thereof; and/or (b) to vary the terms of the Redemption Auction in any respect, including increasing or decreasing the Maximum Redemption Amount or the range of prices put forth under the Redemption Auction, extending or amending the period of time during which the Redemption Auction is open, or varying or amending the terms of any redemption, by giving written notice of such extension, amendment, variation or termination to the Depository and by causing the Depository to provide a copy of such notice to CDS.

Promptly after giving notice of an extension, variation or termination to the Depository, the Corporation will make a public announcement of the extension or variation and provide or cause to be provided notice of such extension, variation or termination to the TSX and the applicable Canadian securities regulatory authorities. Without limiting the manner in which the Corporation may choose to make any public announcement, except as provided by applicable law, the Corporation will have no obligation to publish, advertise or otherwise communicate any such public announcement other than by making a release through its usual news wire service. Any notice of extension, variation or termination will be deemed to have been given and be effective on the day on which it is delivered or otherwise communicated by facsimile or electronic mail to the Depository at its principal office in Calgary, Alberta.

Without limiting any other lawful means of giving notice, any notice to be given by the Corporation or the Depository under the Redemption Auction will be deemed to have been properly given if it is mailed by

first-class mail or delivered by an overnight delivery service to CDS, unless otherwise specified by applicable securities legislation. The Corporation understands that, upon receipt of any such notice, CDS will provide notice to its CDS Participants in accordance with the applicable CDS policies and procedures for the book-entry system then in effect.

These provisions apply notwithstanding any accidental omission to give notice and notwithstanding any interruption of mail services in Canada or the United States following mailing. In the event of an interruption of mail service following mailing, the Corporation will use reasonable efforts to disseminate the notice by other means, such as publication. If post offices are not open for deposit of mail, or there is reason to believe there is or could be a disruption in all or any part of the postal service, any notice which the Corporation or the Depository may give or cause to be given under the Redemption Auction will be deemed to have been properly given and to have been received if it is issued by way of a news release using the Corporation's typical methods of dissemination."

- (j) The following paragraph shall be inserted as the last paragraph of Section 14.2 of the Indenture:

"Notwithstanding anything to the contrary in this Indenture, including the preceding paragraphs of this Section 14.2, all notices required to be given pursuant to Subsection 2.4(m), shall be deemed to be validly given if sent by the Debenture Trustee or the Corporation to the Depository by first class mail, email or facsimile and shall be deemed to have been effectively given the date of mailing or sending of such email or facsimile."

- (k) Section 14.3 of the Indenture shall be deleted in its entirety and replaced with the following:

"14.3 Notice to Debenture Trustee

Any notice to the Debenture Trustee under the provisions of this Indenture shall be valid and effective if delivered to the Debenture Trustee at its offices in the City of Calgary at 530 - 8th Avenue SW, Suite 600, Calgary, Alberta T2P 3S8, Attention: Manager, Corporate Trust or if sent by facsimile to facsimile number (403) 267-6598, Attention: Manager, Corporate Trust Department, or if given by registered letter, postage prepaid, to such offices and so addressed and, if mailed, shall be deemed to have been effectively given three days following the mailing thereof."

ARTICLE 2
ADDITIONAL MATTERS

2.1 Confirmation of Indenture

The Indenture, as amended and supplemented by this First Supplemental Convertible Debenture Indenture, is in all respects confirmed.

2.2 Acceptance of Trusts

The Debenture Trustee hereby accepts the trusts in this First Supplemental Convertible Debenture Indenture declared and provided for and agrees to perform the same upon the terms and conditions and subject to the provisions set forth in the Indenture.

2.3 Governing Law

This First Supplemental Convertible Debenture Indenture shall be construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein and shall be treated, in all respects, as an Alberta contract.

2.4 Further Assurances

The parties shall, with reasonable diligence, do all such things and provide all such reasonable assurances as may be required to consummate the transactions contemplated by this First Supplemental Convertible Debenture Indenture, and each party shall provide such further documents or instruments required by the other party as may be reasonably necessary or desirable to effect the purpose of the Indenture and this First Supplemental Convertible Debenture Indenture and carry out its provisions.

2.5 Counterparts and Formal Date

This First Supplemental Convertible Debenture Indenture may be simultaneously executed in several counterparts, each of which when so executed shall be deemed to be an original and all such counterparts together shall constitute one and the same instrument and notwithstanding their date of execution shall be deemed to bear date as of February 14, 2017.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF the parties hereto have executed these presents under their respective corporate seals and the hands of their proper officers in that behalf.

ZARGON OIL & GAS LTD.

Per: _____

Per: _____

COMPUTERSHARE TRUST COMPANY OF CANADA

Per: _____

Per: _____

