

# Zargon Announces a Proposed Transaction to Restructure its Convertible Debentures

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CALGARY, Nov. 21, 2018 - Zargon Oil & Gas Ltd. ("Zargon" or the "Company") (TSX:ZAR; ZAR.DB.A) announces a proposed transaction to settle its \$41.94 million principal amount of outstanding 8.00% convertible unsecured subordinated debentures due December 31, 2019 (the "Debentures") for equity (the "Transaction").

## THE PROPOSAL

The Company intends to make a proposal to the holders (the "Debentureholders") of the Debentures pursuant to which all of the Debentures will be settled and all claims of the Debentureholders thereunder will be extinguished in exchange for common shares ("Common Shares") in the capital of Zargon, including the payment, in the form of Common Shares, of the accrued interest owing on the Debentures on the closing date of the Transaction on the basis of a price of \$0.10 per Common Share. Pursuant to the Transaction, Zargon will issue approximately 428.8 million Common Shares representing approximately 93.28% of the pro forma Common Shares outstanding on the closing of the Transaction which is expected to be on or about January 10, 2019 (the "Closing Date").

## EXCHANGE PRICE

The rules of the Toronto Stock Exchange (the "TSX") require the exchange price to be at market. The price of \$0.10 per Common Share underlying the proposed Transaction represents the volume weighted average trading price ("VWAP") of the Common Shares on the TSX for the 5 trading days ending November 20, 2018, in accordance with the TSX definition.

If the Transaction is not approved, the Debentures will be required to be repaid pursuant to and in accordance with the terms of the indenture (as supplemented) governing the Debentures (the "Indenture").

## ADVANTAGES OF THE PROPOSAL

Management and the Board of Directors of Zargon (the "Board") believe that the Transaction is in the best interests of all stakeholders, and provides a number of benefits including the following:

- Reduces Zargon's overall debt by \$41.94 million;
- Pro forma debenture interest burden reduced by approximately \$4.20 million for the 15 month period ending December 31, 2019, resulting in increased cash flow available to actively invest in low risk oil exploitation capital projects and enhance the Company's net asset value;
- Reduces financial risk for the Company in a difficult economic environment;
- Simplifies the capital structure of the Company;
- Removes the uncertainty surrounding the settlement of the Debentures at the end of 2019;
- Positions the Company to attract future capital, retain staff and ultimately create more investor interest in the Company;
- Positions the Company to continue with a strategic alternatives initiative that may include a corporate merger, sale or reorganization.
- Allows Debentureholders to receive full face value of the Debentures even though they are trading at a substantial discount in the market; and
- Provides certainty with respect to the dilution resulting from the conversion of the Debentures into Common Shares.

## BACKGROUND TO THE PROPOSAL

The Debentures mature on December 31, 2019. The Company intends to settle the Debentures in Common Shares upon their maturity if the proposal to the Debentureholder is not approved in accordance with existing terms of the Debentures.

In accordance with their terms, the Company currently has the option to settle all or a portion of the outstanding principal amount of the Debentures at maturity through the issuance of Common Shares by giving notice of such intent to Debentureholders not more than 60 and not less than 40 days prior to the maturity date at a price equal to 95% of the Current Market Price (as defined in the indenture governing the Debentures) on the maturity date.

Zargon's Board has determined that the Transaction is in the best interests of the Company and its stakeholders given, among other considerations, that it will reduce Zargon's overall debt and interest burden, simplify its capital structure, provide for a more orderly issuance of Common Shares to Debentureholders relative to the alternatives and provide considerable improvement in Zargon's financial liquidity.

## KEY STEPS TO THE TRANSACTION

Zargon expects to hold a meeting of the Debentureholders to consider the Transaction in January, 2019. Pursuant to the Indenture, an extraordinary resolution approving the Transaction is required to be passed at a meeting of Debentureholders in which the holders of not less than 25% of the principal value of the Debentures outstanding are present in person or by proxy. The resolution must be passed by 66 2/3% of the votes cast. If a quorum is not achieved at the initial meeting, the meeting will be adjourned to a date not less than 14 nor more than 60 days later. At the adjourned meeting, Debentureholders present in person or by proxy shall constitute a quorum. Votes submitted by proxy for the initial meeting shall remain valid for the adjourned meeting, unless withdrawn by the Debentureholder.

The Transaction will not require any action by shareholders and is not subject to any shareholder vote. The Transaction is subject to approval by the TSX.

Further information about the Transaction and the meeting of Debentureholders will be provided in an information circular expected to be distributed to Debentureholders in the coming weeks, as well as in other Zargon continuous disclosure filings available on SEDAR ([www.sedar.com](http://www.sedar.com)), on the Company's website ([www.zargon.ca](http://www.zargon.ca)) or from the Company on request.

For further information, please contact:

C.H. Hansen  
President and Chief Executive Officer

Zargon Oil & Gas Ltd.  
Telephone: 403-264-9992  
E-mail: [zargon@zargon.ca](mailto:zargon@zargon.ca)  
Website: [www.zargon.ca](http://www.zargon.ca)

## FORWARD LOOKING STATEMENTS

This news release contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "plan", "intend", "believe" and similar expressions (including the negatives thereof) are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this news release contains forward-looking information and statements pertaining to the following: the benefits of the Transaction and the impact of the Transaction on the Company; Zargon's common share interests assuming the completion of the Transaction; Zargon's ability to implement its plans relating to the Transaction; anticipated dates and information relating to the Debentureholder meeting and the closing of the Transaction; and Zargon's intentions if the Transaction is not approved.

The forward-looking information and statements included in this news release are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: those relating to results of operations and financial condition; general economic conditions; industry conditions; changes in regulatory and taxation regimes; volatility of commodity prices; escalation of operating and capital costs; currency fluctuations; the availability of services; imprecision of reserve estimates; geological, technical, drilling and processing problems; environmental risks; weather; the lack of availability of qualified personnel or management; stock market volatility; the ability to access sufficient capital from internal and external sources; competition from other industry participants for, among other things, capital, services, acquisitions of reserves, undeveloped lands and skilled personnel and the rule that regulatory and Debentureholder approval in respect of the Transaction will not be received in a timely manner or at all. Risks are described in more detail in our Annual Information Form and other public documents, which are available on [www.zargon.ca](http://www.zargon.ca) and on [www.sedar.com](http://www.sedar.com). Forward-looking statements are provided to allow investors to have a greater understanding of our business.

You are cautioned that the assumptions used in the preparation of such information and statements, including, among other things: future oil and natural gas prices; future capital expenditure levels; future production levels; future exchange rates; the cost of developing and expanding our assets; our ability to obtain equipment in a timely manner to carry out development activities; our ability to market our oil and natural gas successfully to current and new customers; the impact of increasing competition; the availability of adequate and acceptable debt and equity financing and funds from operations to fund our planned expenditures; our ability to add production and reserves through our development and acquisition activities; and the receipt, in a timely manner, of regulatory and Debentureholder approval in respect of the Transaction, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance, or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them. The forward-looking information and statements contained in this document is expressly qualified by this cautionary statement. Our policy for updating forward-looking statements is that Zargon disclaims, except as required by law, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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