ZAPATA
Energy Corporation

ZAPATA ENERGY CORPORATION

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2009

Dated May 6, 2010

TABLE OF CONTENTS

DEFINITIONS

Unless the context indicates otherwise, the following terms shall have the meanings set out below when used in this Annual Information Form. Certain other terms and abbreviations used herein, but not defined herein, are defined in NI 51-101 or the COGE Handbook and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101 or the COGE Handbook.

"**2007 Bid**" means the normal course issuer bid announced by Zapata in June 2007 through the facilities of the TSXV to acquire for cancellation up to 871,129 Common Shares;

"**2008 Bid**" means the normal course issuer bid announced by Zapata in June 2008 through the facilities of the TSXV to acquire for cancellation up to 864,329 Common Shares;

"**771129**" means 771129 Alberta Ltd., a corporation organized under the ABCA and Zapata's wholly-owned subsidiary;

"**744997**" means 744997 Alberta Ltd., a corporation organized under the ABCA and a predecessor to Zapata by amalgamation;

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

"**AIF**" means this Annual Information Form;

"**Board of Directors**" or "**Board**" means the board of directors of the Corporation;

"**Breaker**" means Breaker Energy Ltd., a publicly traded oil and natural gas company acquired by NAL Oil & Gas Trust in December 2009;

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum;

"**Common Shares**" means the common shares of the Corporation;

"**Corporation**" or "**Zapata**" means Zapata Energy Corporation, a corporation amalgamated under the ABCA;

"**FT Units**" means units issued pursuant to a private placement that took place in conjunction with the Recapitalization, with each unit consisting of one Common Share issued on a "flow-through" basis in accordance with the Tax Act and one Performance Warrant;

"**NAFTA**" means the the North American Free Trade Agreement;

"**NI 51-101**" means National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities;

"**Partnership**" means Zapata Limited Partnership, an Alberta limited partnership;

"**Performance Warrant**" means a Common Share purchase warrant entitling the holder to purchase one Common Share at a price of $5.17 for a period of five years, issued pursuant to the private placement that took place in conjunction with the Recapitalization;

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

"**Recapitalization**" means the change of officers and directors and the private placement of the Corporation conducted pursuant to the Recapitalization Agreement;

"**Recapitalization Agreement**" means the reorganization and investment agreement dated March 24, 2010 among the Corporation and P. Daniel O'Neil, Maxwell Lof, Daniel C. Brown and Paul Colborne;

"**Sproule**" means Sproule Associates Limited, independent oil and gas reservoir engineers;

"**Sproule Report**" means the independent engineering report dated March 25, 2010 and effective December 31, 2009 prepared by Sproule evaluating the oil, NGL and natural gas reserves attributable to the properties of the Corporation;

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

"**Transitional Program**" means the optional five-year transitional royalty program announced by the Alberta Government on November 19, 2008 and November 24, 2008;

"**TSXV**" means the TSX Venture Exchange; and

"**Units**" means units issued pursuant to a private placement that took place in conjunction with the Recapitalization, with each unit consisting of one Common Share and one Performance Warrant.

ABBREVIATIONS AND CONVERSION

In this Annual Information Form, the abbreviations set forth below have the following meanings:

Oil and Natural Gas Liquids

bbl	Barrel
bbls	Barrels
Mbbls	thousand barrels
MMbbls	million barrels
Mstb	1,000 stock tank barrels
bbl/d	barrels per day
NGLs	natural gas liquids
stb	standard tank barrels

Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
MMBtu	million British Thermal Units
Bcf	billion cubic feet
GJ	gigajoule

Other

AECO	a natural gas storage facility located at Suffield, Alberta
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28° API or higher is generally referred to as light crude oil
BOE	barrel of oil equivalent on the basis of 1 BOE to 6 Mcf of natural gas. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 1 BOE for 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead
BOE/d	barrel of oil equivalent per day
m3	cubic metres
MBOE	1,000 barrels of oil equivalent
$000s	thousands of dollars
M$	thousands of dollars
MM$	millions of dollars
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in this Annual Information Form constitute forward-looking statements. The use of any of the words “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements included in this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form.

In particular, this Annual Information Form may contain forward-looking statements pertaining to the following:

- the performance characteristics of the Corporation's oil and natural gas properties;
- oil and natural gas production levels;
- the size of the oil and natural gas reserves;
- projections of market prices and costs;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;
- treatment under governmental regulatory regimes and tax laws; and
- capital expenditure programs;

With respect to forward looking statements contained in this Annual Information Form, the Corporation has made assumptions regarding:

- oil and natural gas production levels;
- commodity prices;
- availability of labour and drilling equipment;
- timing and amount of capital expenditures;
- general economic and financial market conditions; and
- government regulation in the areas of taxation, royalty rates and environmental protection;

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions and exploration and development programs;
- geological, technical, drilling and processing problems;
- changes in legislation, including changes in tax laws and incentive programs relating to the oil and gas industry; and
- the other factors discussed under “Risk Factors”.

Statements relating to “reserves” or “resources” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

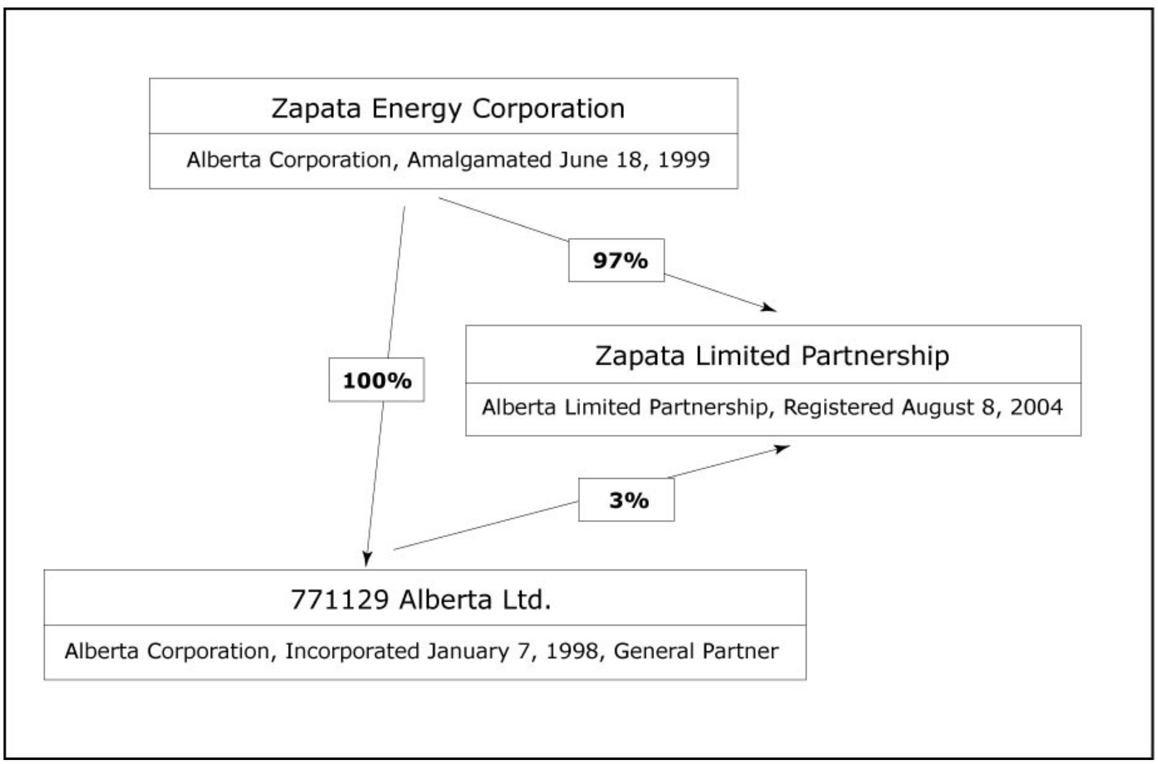
Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Annual Information Form are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements other than as required under applicable securities laws.

ZAPATA ENERGY CORPORATION

General

The Corporation is a Calgary, Alberta-based, public company whose Common Shares are listed on the TSXV under the symbol "ZCO". The Corporation was incorporated on January 26, 1998 under the ABCA as "Zapata Capital Inc." and completed its initial public offering of 1,000,000 Common Shares on August 21, 1998 under the Alberta Stock Exchange's junior capital pool program. On June 18, 1999, the Corporation acquired all of the issued and outstanding shares of 744997, a private corporation, as the Corporation's major transaction under the Alberta Stock Exchange's junior capital pool program and amalgamated with 744997 on that date under the name "Zapata Energy Corporation".

Further Canadian assets were acquired in 2002 including 771129, which is now Zapata's wholly-owned subsidiary. Certain producing assets of Zapata and 771129 now reside in the Partnership, an Alberta limited partnership. Zapata and 771129 own 100 percent of the Partnership.



The Corporation's head office is located at Suite 500, 435 - 4th Avenue S.W., Calgary, Alberta, T2P 3A8 and the Corporation's registered office is located at Suite 1200, 425 – 1st Street S.W., Calgary, Alberta, T2P 3L8.

DEVELOPMENT OF THE BUSINESS

General

Zapata is an independent Alberta oil and gas company which acquires interests in petroleum and natural gas rights, and explores for, develops, produces and markets petroleum and natural gas reserves in Alberta and British Columbia. The Corporation's strategy for growth is based on certain guiding principles including the pursuit of oil and liquids rich gas prospects in the Western Canadian Sedimentary Basin, generation of prospects internally, managing debt levels and assembling and maintaining large land interests in diversified core areas and maintaining operatorship of such areas.

2007

During 2007, the Corporation drilled 11 (5.1 net) wells resulting in seven (2.5 net) natural gas wells, one (one net) oil well and one (one net) abandonment. The Corporation achieved average annual production of 2,967 boe/d in 2007. Total proved plus probable reserves at December 31, 2007 totalled 8.7 MMboe (gross using forecast prices before royalties) consisting of 52 percent natural gas and 48 percent crude oil and NGL.

During 2007, Zapata purchased and cancelled 267,200 Common Shares pursuant to the 2007 Bid at an average price of $2.11 per Common Share.

2008

In 2008, Zapata drilled or participated in drilling 27 (17.9 net) wells resulting in 15 (7.4 net) gas wells, ten (8.5 net) oil wells and two net abandoned wells.

The largest increase in reserves related to the Silver area where successful drilling and waterflood results led to extensions and increased recovery factors. Revisions and new reserves (discoveries) added 1,282.7 Mboe to the company's reserves. Production reduced the Corporation's reserves by 1,042.5 Mboe. Other minor factors reduced reserves by 79.8 mboe. The Corporation increased its net result of the above was an increase of 160.4 Mboe of proved and probable reserves at December 31, 2008.

During 2008, the Corporation acquired and cancelled a total of 619,900 Common Shares pursuant to the 2008 Bid at an average cost of $2.96 per Common Share.

2009 to March 2010

Between December 2009 and January 2010, Zapata completed a private placement of an aggregate total of 1,344,399 units and 757,000 Common Shares issued on a "flow-through" basis in accordance with the Tax Act. Each unit consisted of one Common Share and one Common Share purchase warrant (with each whole warrant exercisable into one Common Share at a price of $4.00 per Common Share until December 23, 2010).

In 2009, Zapata drilled or participated in drilling 17 (13.6 net) wells resulting in four (0.6 net) gas wells, 11 (11 net) oil wells, one (one net) standing well and one (one net) abandoned well. In 2009, Zapata purchased and cancelled 36,000 Common Shares pursuant to the 2008 Bid at an average cost of $1.83 per Common Share.

The Recapitalization

On March 24, 2010, the Corporation entered into the Recapitalization Agreement. The Recapitalization Agreement provided for the transactions described under this heading.

On April 13, 2010, the then existing directors and officers of the Corporation resigned and were replaced by the current directors and officers of the Corporation. The Corporation concurrently completed a non-brokered private placement pursuant to which it issued 1,787,500 Common Shares at a price of $4.40 per Common Share, 1,394,317 units (the "Units") at a price of $4.40 per Unit and 681,819 flow-through units (the "FT Units") at a price of $4.40 per FT Unit, for total proceeds of approximately $17.0 million. Each Unit consists of one Common Share and one Common Share purchase warrant ("Performance Warrant") entitling the holder to purchase one Common Share at a price of $5.17 for a period of five years, subject to certain conditions. Each FT Unit consists of one Common Share issued on a "flow-through" basis in accordance with the Tax Act and one Performance Warrant.

All of the Common Shares, Units and FT Units issued pursuant to the non-brokered private placement are subject to a contractual escrow arrangement under which one-third of the securities are released from escrow each six months following the date of issuance.

Following the Recapitalization

On May 5, 2010, the Corporation completed a bought-deal short form prospectus offering of 6,945,000 Common Shares at a price of $7.20 per Common Share for gross aggregate proceeds of $50,004,000. Pursuant to the offering, the underwriters were granted an over-allotment option to purchase up to an additional 1,042,000 Common Shares to cover over-allotments, if any, at a price of $7.20 per Common Share for additional gross proceeds of approximately $7,502,400. The over-allotment option is exercisable in whole or in part for a period of 30 days following closing of the offering.

DESCRIPTION OF THE BUSINESS

Corporate Strategy

The Corporation's business plan is to build an oil and liquids rich gas company that acquires, exploits and explores for production and reserves in western Canada. To accomplish this, the Corporation intends to place high priority on positioning the Corporation in significant oil resource plays to provide a definable, high rate of return drilling inventory, where it can utilize its proven experience with enhanced oil recovery and drilling horizontal multi-frac wells.

The Corporation intends to maintain a balance between, exploitation and development drilling for oil and gas reserves, asset and corporate acquisition opportunities that meet the Corporation's business parameters and resource play exploration. To achieve sustainable and profitable growth, management of the Corporation believes in controlling the timing and costs of its projects wherever possible. Accordingly, the Corporation seeks to become the operator of its properties to the greatest extent possible. Further, to minimize competition within its geographic areas of interest, the Corporation strives to maximize its working interest ownership in its properties where reasonably possible.

In reviewing potential drilling or acquisition opportunities, the Corporation gives consideration to the following criteria:

(a) risk capital to secure or evaluate the opportunity;

(b) the potential return on the project, if successful;

(c) the likelihood of success; and

(d) risked return versus cost of capital.

In general, the Corporation pursues a portfolio approach in developing a large number of opportunities with a balance of risk profiles in an attempt to generate sustainable high levels of growth. It should be noted that the Board of Directors may, in its discretion, approve asset or corporate acquisitions or investments that do not conform to the guidelines discussed above based upon the Board's consideration of the qualitative aspects of the subject properties, including risk profile, technical upside, reserve life and asset quality.

In addition, the new management team of the Corporation, as described below under "*Directors and Officers*", is currently assessing the assets and operations of the Corporation, including its existing land base, facilities, reserves, prospects and personnel. The Corporation is in the process of further evaluating its existing reserves, drilling prospects and capital expenditure program, among other items, with a view towards setting its capital budget and corporate strategy for 2010. Such review has commenced but has not been completed as of the date hereof. The new management team at Zapata may determine that assumptions, assessments, decisions or strategies adopted by Zapata's prior management are no longer applicable or appropriate and will not be continued, endorsed or followed.

In such event, Zapata may reassess the plans for or importance assigned to certain assets or prospects and announce a realignment of historical corporate priorities. Such reassessment and realignment may result in changes to the value attributed to such assets or prospects, or potentially, the disposition of such assets or prospects, which individually or in the aggregate may be material.

Presentation of Oil and Natural Gas Reserves Data and Other Information

Zapata’s Statement of Oil and Gas Reserves Data and Other Oil and Gas Information for the year ended December 31, 2009, dated March 25, 2010 including the Report on Reserves Data by Sproule Associates Limited (“Sproule”) in Form 51-101F2 and the Report of Management and Directors of the Corporation in Form 51-101F3 attached as Exhibits “A” and “B” thereto, respectively, (the “Sproule Report”), is hereby incorporated by reference in and forms part of this Annual Information Form. The Sproule Report is available through the internet on Zapata’s SEDAR profile at www.sedar.com.

Competition

The oil and natural gas industry is competitive in all its phases. The Corporation competes with numerous other participants in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. The Corporation's competitors include resource companies which have greater financial resources, staff and facilities than those of the Corporation. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery. The Corporation believes that its competitive position is equivalent to that of other oil and gas issuers of similar size and at a similar stage of development.

Seasonal Factors

The exploration for and development of oil and natural gas reserves is dependent on access to areas where production is to be conducted. Seasonal weather variations, including freeze-up and break-up, affect access in certain circumstances.

Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Compliance with such legislation can require significant expenditures or result in operational restrictions. Breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage and the imposition of material fines and penalties, all of which might have a significant negative impact on earnings and overall competitiveness. See below under the headings “Industry Conditions - Environmental Regulation” and “Risk Factors – Environmental Concerns”.

The Corporation is obligated to abandon, retire and reclaim wells and wellsites in compliance with applicable environmental laws and regulations. As of December 31, 2009, the Corporation has recorded an asset retirement obligation of $5,388,480. The Corporation anticipates that the expenditures necessary to satisfy the asset retirement obligation will be incurred over a period of 50 years, with the majority of the expenditures being incurred from years 2 to 50. Other than asset retirement obligations and ordinary course operational expenditures necessary to ensure environmental compliance, the Corporation is not aware of any environmental protection requirement that will impact its capital expenditures, earnings or competitive position in a manner disproportionate to that of its peers in its area of operations.

Personnel

As at December 31, 2009, the Corporation had 20 employees, 4 consultants and 31 contract operators.

SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of Common Shares and an unlimited number of Preferred Shares issuable in series. As at May 6, 2010, there were 30,794,181 Common Shares and no Preferred Shares issued and outstanding.

Common Shares

The holders of Common Shares are entitled to: (i) one vote for each Common Share held at all meetings of shareholders of the Corporation other than meetings of the holders of any class or series of shares meeting as a class or series; (ii) receive any dividends declared by the Corporation on the Common Shares; and (iii) subject to the rights of shares ranking prior to the Common Shares, to receive the remaining property of the Corporation on dissolution, after the payment of all liabilities.

Preferred Shares

The Preferred Shares may be issued in one or more series. The Board of Directors is authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series. The Preferred Shares are entitled to a priority over the Common Shares with respect to the payment of dividends and the distribution of assets upon the liquidation, dissolution or winding-up of Zapata.

DIVIDEND POLICY

The Corporation has not declared or paid any dividends on the Common Shares since its incorporation. Any decision to pay dividends on the Common Shares will be made by the Board of Directors on the basis of the Corporation's earnings, financial requirements and other conditions existing at such future time.

ESCROWED SECURITIES

The following securities of the Corporation are subject to contractual escrow restrictions pursuant to the terms of escrow agreements dated April 13, 2010 between the Corporation, the holders of the securities and Olympia Trust Company as escrow agent. These securities were issued pursuant to the Recapitalization and will be released as to one-third on each of October 13, 2010, April 13, 2011 and October 13, 2011. See “Development of the Business – The Recapitalization”.

Class of Securities	Number of Securities Escrowed	Percentage of Class
Common Shares	3,863,636	13%
Performance Warrants	2,076,136	100%

MARKET FOR SECURITIES

The Common Shares are listed for trading on the TSXV under the trading symbol “ZCO”. The following table sets forth the price range and trading volume of the Common Shares for the periods indicated.

Period	Price Range ($) High	Price Range ($) Low	Trading Volume
2009			
January	1.81	1.50	46,500

February	2.00	1.58	78,400
March	1.99	1.50	83,700
April	1.84	1.35	219,000
May	1.84	1.37	170,500
June	1.98	1.62	102,000
July	2.45	1.74	145,700
August	2.43	2.09	52,700
September	2.54	2.30	105,000
October	3.33	2.33	241,800
November	3.00	2.60	129,000
December	3.48	2.81	409,200

DIRECTORS AND OFFICERS

In conjunction with the completion of the non-brokered private placement on April 13, 2010, the then existing directors and officers of the Corporation were replaced by the current directors and officers of the Corporation. The name, municipality of residence, principal occupation for the prior five years and position with the Corporation of each of the directors and officers of the Corporation are as follows:

Name and Residence	Position	Principal Occupation During Previous Five Years
P. Daniel O'Neil(3) Calgary, Alberta	Director and President and Chief Executive Officer	President and Chief Executive Officer of the Corporation. Prior thereto, President and Chief Executive Officer of Breaker Energy Ltd. ("Breaker"), a publicly traded oil and natural gas company, from its formation in September 2004 until its acquisition by NAL Oil & Gas Trust in December 2009.
Paul Colborne(3) Calgary, Alberta	Chairman of the Board of Directors	President of StarValley Oil & Gas Ltd., a private oil and natural gas company, since October 2006. Prior thereto, President and Chief Executive Officer of StarPoint Energy Trust, a publicly traded oil and natural gas income trust, until its merger to form Canetic Resources Trust in January 2006.
Robert Leach(1) (2) Calgary, Alberta	Director	President and Chief Executive Officer of Custom Truck Sales Ltd., a private company operating Kenworth truck dealerships in Saskatchewan and Manitoba, and President of International Fitness Holdings, an operating arm of a private equity firm operating 25 health clubs in Alberta.
Peter Bannister(1) (3) Calgary, Alberta	Director	President of Destiny Energy Inc, a privately owned oil and gas company. Prior thereto, Vice-President Exploration of Mission Oil & Gas Inc. until its acquisition by Crescent Point Energy Trust in January 2006. Prior thereto, Vice-President Exploration of StarPoint Energy Inc. and President of Impact Energy Inc.
Keith Macdonald(1) (3) Calgary, Alberta	Director	President of Bamako Investment Management Ltd., a financial consulting and investment holding company.
James Pasieka(2) Calgary, Alberta	Director	Partner of the national law firm Heenan Blaikie LLP since 2001.

Maxwell Lof Calgary, Alberta	Chief Financial Officer	Chief Financial Officer of the Corporation. Prior thereto, Chief Financial Officer of Breaker from its formation in September 2004 until its acquisition by NAL Oil & Gas Trust in December 2009.
Dan Brown Calgary, Alberta	Chief Operating Officer	Chief Operating Officer of the Corporation. Prior thereto, Chief Operating Officer of Breaker from August 2009 until its acquisition by NAL Oil & Gas Trust in December 2009. Previous to Breaker, Business Unit Team Lead at a major North American production company.
Margaret Elekes Calgary, Alberta	Vice-President, Land	Vice-President, Land of the Corporation. Prior thereto, Consulting Landman for Breaker from its formation in September 2004 until its acquisition by NAL Oil & Gas Trust in December 2009 and Consulting Landman with Legacy Oil + Gas Inc. from December 2009 to March 2010.
Malcolm Adams Calgary, Alberta	Vice-President, Corporate Development	Vice-President, Corporate Development of the Corporation. Vice-President of ARC Financial Corp. from October 2001 to April 2010.
Kevin Angus Calgary, Alberta	Vice President, Exploration	Vice President, Exploration of the Corporation. Executive Vice-President and Director of Pegasus Oil and Gas Inc. from June 2006 to August 2009. Prior thereto, Vice-President, Exploration at Mustang Resources Inc. from June 2003 to July 2005 and President of KD Angus & Associates Ltd. from 1997 to 2003.

Notes:

(1) Member of the audit committee.

(2) Member of the compensation committee.

(3) Member of the reserves committee and environment, health and safety committee.

As a group, the directors and executive officers of the Corporation beneficially own, control or direct, directly or indirectly, 1,861,816 Common Shares, representing approximately 6.05% of the outstanding Common Shares.

Corporate Cease Trade Orders

To the knowledge of management of the Corporation, no director or executive officer of the Corporation is, or within the 10 years before the date of this AIF, has been, a director, chief executive officer or chief financial officer of any other issuer that:

a) was the subject of a cease trade or similar order or an order that denied the other issuer access to any exemptions under Canadian securities legislation that lasted for a period of more than 30 consecutive days that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

b) was subject to a cease trade or similar order or an order that denied the relevant issuer access to any exemption under securities legislation that lasted for a period of more than 30 consecutive days that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while the person was acting in the capacity as director, chief executive officer or chief financial officer.

Bankruptcies

To the knowledge of management of the Corporation, no director or executive officer, or any shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, or a personal holding company of any such person:

a) is, at the date of this AIF or has been within the 10 years before the date of this AIF, a director or executive officer of any company that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

b) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or shareholder.

Penalties or Sanctions

To the knowledge of management of the Corporation, no director or executive officer, or any shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has:

a) been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with the Canadian securities regulatory authority; or

b) been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

The directors and officers of the Corporation may participate in activities and investments in the oil and gas industry outside the scope of their engagement or employment as directors or officers of the Corporation. As a result, the directors and officers may become subject to conflicts of interest. The ABCA provides that, in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the ABCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the ABCA, the written mandate of the Board of Directors and the Corporation's corporate governance policies.

As at the date hereof, the Corporation is not aware of any existing or potential material conflicts of interest between the Corporation and a director or officer of the Corporation.

INDUSTRY CONDITIONS

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreements among the governments of Canada, Alberta and British Columbia, all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these controls or regulations will affect the operations of the Corporation in a manner materially different than they would affect other oil and gas issuers of similar size. All current legislation is a matter of public record and the Corporation is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry in the jurisdictions in which the Corporation currently operates.

Pricing and Marketing – Oil

In Canada, producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Such price depends in part on oil type and quality, price of competing fuels, distance to market, the value of refined products, supply/demand balance and other contractual terms. Oil exporters are also entitled to enter into export contracts and export oil provided that, for contracts that do not exceed one year in the case of light crude oil and two years in the case of heavy crude oil, an export order is obtained from the National Energy Board prior to the export. Any export pursuant to a contract of longer duration (to a maximum of 25 years) must be made pursuant to an National Energy Board export license and Governor in Council approval.

Pipeline Capacity

Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market production. In addition, the pro-rationing of capacity on the inter provincial pipeline systems also continues to affect the ability to export oil and natural gas.

The North American Free Trade Agreement

On January 1, 1994, the NAFTA among the governments of Canada, the U.S. and Mexico became effective. The NAFTA carries forward most of the material energy terms contained in the Canada U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports of energy resources to the U.S. or Mexico will be allowed, provided that any export restrictions are justified under certain provisions of the General Agreement on Tariffs and Trade, and further provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to the total supply of the energy resource (based upon the proportion prevailing in the most recent 36 month period or in such other representative period as the parties may agree), (ii) impose an export price higher than the domestic price subject to an exception with respect to certain measures which only restrict the volume of exports, and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum or maximum export or import price requirements, provided, in the case of export price requirements, prohibition in any circumstances in which any other form of quantitative restriction is prohibited, and in the case of import price requirements, such requirements do not apply with respect to enforcement of countervailing and anti dumping orders and undertakings.

The NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. The NAFTA also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements, which is important for Canadian natural gas exports.

Provincial Royalties and Incentives

General

In addition to federal regulation, each province has legislation and regulations that govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas, natural gas liquids and sulphur production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is also subject to certain provincial taxes and royalties. Operations not on Crown lands and subject to the provisions of specific agreements are also usually subject to royalties negotiated between the mineral owner and the lessee. These royalties are not eligible for incentive programs sponsored by various governments as discussed below. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are from time to time carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests or net carried interests.

From time to time the governments of the western Canadian provinces have established incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and natural gas exploration or enhanced recovery projects. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry. Royalty holidays and reductions would reduce the amount of Crown royalties paid by oil and gas producers to the provincial governments and would increase the net income and funds from operations of such producers. However, the trend in recent years has been for provincial governments to allow such incentive programs to expire without renewal, and consequently few such incentive programs are currently operative.

Alberta

In Alberta, the Crown royalty rates on conventional oil and natural gas fluctuate, depending on when a well was drilled, well depth, well production volume and the price of oil and natural gas. On October 25, 2007 the Alberta Government introduced a new royalty regime which became effective on January 1, 2009 and is applicable to all existing conventional oil and natural gas wells in Alberta. The new royalty regime assesses the applicable royalty rate on a well by well basis using a sliding scale which takes into account the price of oil and/or natural gas and the well’s production volumes.

Under the new Alberta royalty regime, the royalty reserved to the Alberta Crown on conventional oil production ranges from zero percent (0%) to fifty percent (50%) and is capped at fifty percent once the price of conventional oil reaches Cdn $120 per barrel. The royalty applicable to natural gas production under the new royalty regime ranges from five percent (5%) to fifty percent (50%) and is capped at 50% once the price of natural gas reaches Cdn $16.59 per gigajoule. The new royalty regime has retained the Natural Gas Deep Drilling Program and the Deep Oil Exploration Program. The new royalty regime also sets royalties for natural gas liquids at forty percent (40%) for pentanes and thirty percent (30%) for butanes and propane.

On November 19, 2008 and November 24, 2008, the Alberta Government announced details of an optional five-year transitional royalty program (“Transitional Program”). The Transitional Program applies to conventional oil and natural gas wells drilled to measured depths between 1,000 to 3,500 meters between November 19, 2008 and January 1, 2014. For each well, the producer can make a one time election to produce the well under the Transitional Program or the new royalty regime. As of January 1, 2014 all production subject to the Transitional Program will revert to the new royalty regime. The Natural Gas Deep Drilling and Deep Oil Exploration programs are not available to wells producing under the Transitional Program.

For conventional oil produced under the Transitional Program, the royalty reserved to the Alberta Crown is variable, depending on the pool’s vintage (when the pool was discovered), oil density, well production volume, and the price of oil. The royalty is capped at thirty-five percent (35%), which maximum is reached at an oil price of approximately Cdn $30 per barrel, depending on other factors such as production rates.

For natural gas produced under the Transitional Program, the royalty reserved to the Alberta Crown varies depending on the vintage, production volume and the inflation adjusted price of gas less adjustments for the cost of processing the Crown’s share of the gas. The royalty will vary between fifteen percent (15%) to thirty-five percent (35%), which maximum is reached at a natural gas price of approximately Cdn $3.70 per gigajoule, depending on other factors such as production rates.

On March 3, 2009 the Government of Alberta announced an additional incentive program in respect of oil and gas wells drilled on Alberta Crown lands. This program provides that, in respect of any wells drilled between April 1st, 2009 and April 1, 2011, the operator will receive (a) a drilling credit equal $200 of royalty per metre drilled on conventional oil and natural gas wells and (b) a maximum royalty rate of 5% on such wells until the first to occur of twelve calendar months, 50,000 barrels of oil production or 500 million cubic feet (MMcf) of gas production.

British Columbia

Oil produced from Crown leases in British Columbia are subject to a Crown royalty which varies from zero percent (0%) to forty percent (40%). B.C. Crown royalty rates depend on the volume produced monthly, the vintage of the oil (whether it was produced from a pool discovered before or after October 31, 1975), whether the oil is considered third tier or produced from a well shut-in for at least 36 months immediately preceding January 1, 1981, meets locational requirements, and which resumed production on or after such date and the viscosity of oil produced. Oil produced from the discovery of pools discovered after June 30, 1974 may be exempt from the payment of a royalty for the first 36 months of production up to a certain monthly production threshold and thereafter is subject to royalty payments. Subject to the minimum royalties described in the following sentence, the royalty payable on natural gas is determined by a sliding scale based on a reference price, which is the greater of the amount obtained by the producer and a prescribed minimum price. Natural gas produced in association with oil has a minimum royalty of eight percent (8%) while the royalty in respect of other natural gas may not be less than nine percent (9%). Natural gas wells drilled after May 1998 have a maximum royalty rate of twenty-seven percent (27%). Natural gas wells producing less than a specified daily volume of gas may be eligible for a reduction in the applicable royalty rate.

Land Tenure

Crude oil and natural gas located in the western Canadian provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licenses and permits for varying periods and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

Environmental Regulation

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions and regulation on the storage and transportation of various substances produced or utilized in association with certain oil and gas industry operations and can affect the location and operation of wells and facilities and the extent to which exploration and development is permitted. In addition, legislation requires that well and facilities sites be abandoned and reclaimed to the satisfaction of provincial authorities. As well, applicable environmental laws may impose remediation obligations with respect to property designated as a contaminated site upon certain responsible persons, which include persons responsible for the substance causing the contamination, persons who caused the release of the substance and any past or present owner, tenant or other person in possession of the site. Compliance with such legislation can require significant expenditures and a breach of such legislation may result in the suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, the imposition of fines and penalties or the issuance of clean up orders.

Environmental legislation in the Province of Alberta is governed by the *Environmental Protection and Enhancement Act* (Alberta) and the *Oil and Gas Conservation Act* (Alberta). British Columbia's *Environmental Assessment Act* became effective June 30, 1995. This legislation rolls the previous processes for the review of major energy projects into a single environmental assessment process with public participation in the environmental review process.

In addition to existing environmental legislation, a number of federal and provincial governments have announced intentions to regulate greenhouse gases and other air pollutants. These governments are currently developing the regulatory and policy frameworks to deliver on their announcements. In most cases there are few technical details regarding the implementation and coordination of these plans to regulate emissions. Additionally, it is anticipated that other federal and provincial announcements and regulatory frameworks to address emissions will continue to emerge. As these federal and regional programs are under development, the Corporation is unable to predict the total impact of the potential regulations upon its business.

The operations of the Corporation are, and will continue to be, affected in varying degrees by laws and regulations regarding environmental protection. The Corporation is committed to meeting its responsibilities to protect the environment and the Corporation will be taking such steps as required to ensure compliance with the environmental legislation and regulations in the jurisdictions in which it operates. The Corporation believes that it is reasonably likely that the trend towards stricter standards in environmental legislation and regulation will continue and anticipates making increased expenditures of both a capital and an expense nature as a result of the increasingly stringent laws relating to the protection of the environment. However, it is not currently possible to quantify any such increased expenditures and it is not anticipated that The Corporation's competitive position will be adversely affected by current or future environmental laws and regulations governing its oil and natural gas operations.

RISK FACTORS

Operational Risks

Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and natural gas wells, producing facilities, other property and the environment or in personal injury. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor are all such risks insurable. Although the Corporation maintains liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a materially adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities.

To the extent the Corporation will not be the operator of its oil and natural gas properties, it will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent. Although the Corporation intends to operate the majority of its properties, there is no guarantee that it will remain operator of such properties or that the Corporation will operate other properties it may acquire in the future.

In addition, the success of the Corporation will be largely dependent upon the performance of its management and key employees. The Corporation does not have any key man insurance policies and, therefore, there is a risk that the death or departure of any member of management or any key employee could have a material adverse affect on the company.

The Corporation's ability to market oil and natural gas from its wells also depends upon numerous other factors beyond its control, including, among other things, the availability of natural gas processing and storage capacity, the availability of pipeline capacity, the price of oilfield services and the effects of inclement weather. Because of these factors, the Corporation may be unable to market some or all of the oil and natural gas it produces or to obtain favourable prices for the oil and natural gas it produces.

Reserve Estimates

There are numerous uncertainties inherent in evaluating quantities of reserves and the net present value of future net revenue to be derived therefrom, including many factors beyond the control of the Corporation. The reserves information contained in the Sproule Report and set forth herein, including information respecting the net present value of future net revenue from reserves, represents an estimate only. This estimate is based on number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the Sproule Report was prepared and many of these assumptions are subject to change and are beyond the control of the Corporation. Ultimately, the actual reserves attributable to the Corporation's properties will vary from the estimates contained in the Sproule Report and those variations may be material and affect the market price of the Common Shares.

Reserve Replacement

The Corporation's future oil and natural gas reserves and production and the cash flows to be derived therefrom are highly dependent on successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in reserves will depend not only on the Corporation's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Corporation's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Industry Regulation and Competition

There is strong competition relating to all aspects of the oil and natural gas industry. The Corporation will actively compete for capital, skilled personnel, undeveloped land, reserve acquisitions, access to drilling rigs, service rigs and other equipment, access to processing facilities and pipeline and refining capacity, and in all other aspects of its operations with a substantial number of other organizations, many of which may have greater technical and financial resources than the Corporation. Some of those organizations not only explore for, develop and produce oil and natural gas but also carry on refining operations and market petroleum and other products on a world-wide basis and as such have greater and more diverse resources on which to draw. The Corporation's ability to increase reserves and production in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling.

The marketability of oil and natural gas acquired or discovered will be affected by numerous factors beyond the control of the Corporation. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulation. Oil and natural gas operations (exploration, production, pricing, marketing, transportation and royalty rates) are subject to extensive controls and regulations imposed by various levels of government, including those described above under the heading "Industry Conditions", which may be amended from time to time. The Corporation's oil and natural gas operations may also be subject to compliance with federal, provincial and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment. Changes to the regulation of the oil and gas industry in jurisdictions in which the Corporation operates may adversely impact the Corporation's ability to economically develop existing reserves and add new reserves.

Volatility of Oil and Gas Prices and Markets

The Corporation's financial performance and condition are substantially dependent on the prevailing prices of oil and natural gas which are unstable and subject to fluctuation. Fluctuations in oil or natural gas prices could have an adverse effect on the Corporation's operations and financial condition and the value and amount of its reserves. Prices for crude oil fluctuate in response to global supply of and demand for oil, market performance and uncertainty and a variety of other factors which are outside the control of the Corporation including, but not limited, to the world economy and the Organization of the Petroleum Exporting Countries' ability to adjust supply to world demand, government regulation, political stability and the availability of alternative fuel sources. Natural gas prices are influenced primarily by factors within North America, including North American supply and demand, economic performance, weather conditions and availability and pricing of alternative fuel sources.

Decreases in oil and natural gas prices typically result in a reduction of the Corporation's net production revenue and may change the economics of producing from some wells, which could result in a reduction in the volume of the Corporation's reserves. Any further substantial declines in the prices of crude oil or natural gas could also result in delay or cancellation of existing or future drilling, development or construction programs or the curtailment of production. All of these factors could result in a material decrease in the Corporation's net production revenue, cash flows and profitability causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to the Corporation will in part be determined by the Corporation's borrowing base. A sustained material decline in prices from historical average prices could further reduce such borrowing base, therefore reducing the bank credit available and could require that a portion of its bank debt be repaid.

The Corporation may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases.

Variations in Foreign Exchange Rates and Interest Rates

The Corporation's expenses will be denominated in Canadian dollars, while the price of oil and natural gas will generally be denominated in U.S. dollars or impacted by the Canadian dollar to U.S. dollar exchange rate. As the exchange rate for the Canadian dollar versus the U.S. dollar increases, the Corporation will generally receive fewer Canadian dollars for its production. If the value of the Canadian dollar against the U.S. dollar increases, the financial results of the Corporation may be negatively affected. The Corporation's management may initiate certain hedges to mitigate these risks. Future fluctuations in the Canadian/United States foreign exchange rate may impact the future value of the Corporation's reserves as determined by independent evaluators. In addition, variations in interest rates could result in a significant change in the amount the Corporation will pay to service debt, potentially adversely affecting the value of the Common Shares.

Price Volatility of Publicly Traded Securities

In recent years, the securities markets in Canada and the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It is likely that the market price for the Common Shares will be subject to market trends generally, notwithstanding the financial and operational performance of the Corporation.

Substantial Capital Requirements; Liquidity

The Corporation may have to make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If revenues or reserves decline, the Corporation may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the company. Moreover, future activities may require the Corporation to alter its capitalization significantly. The inability of the company to access sufficient capital for its operations could have a material adverse effect on its financial condition, results of operations or prospects.

Issuance of Debt

From time to time the Corporation may enter into transactions to acquire assets or shares of other corporations. These transactions may be financed partially or wholly through debt, which may increase debt levels above industry standards. The Corporation's articles and by-laws do not limit the amount of indebtedness it may incur. The level of the Corporation's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Environmental Concerns

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. Such legislation may be changed to impose higher standards and potentially more costly obligations on the Corporation. Compliance with environmental legislation can require significant expenditures, including expenditures for clean up costs and damages arising out of contaminated properties and failure to comply with environmental legislation may result in the imposition of fines and penalties. Although it is not expected that the costs of complying with environmental legislation will have a material adverse effect on the Corporation's financial condition or results of operations, no assurance can be made that the costs of complying with environmental legislation in the future will not have such an effect.

In 1994, the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol which requires participating countries, upon ratification, to reduce their emissions of carbon dioxide and other greenhouse gases. Canada ratified the Kyoto Protocol in late 2002, and the Canadian federal government and various Canadian provincial governments are currently evaluating other proposals and legislative measures that would achieve similar objectives. However, until a detailed implementation plan is developed, it is difficult to determine what, if any, impact future environmental laws and regulations may have on the Corporation's environmental liabilities, on prices for oil and natural gas or on other general economic factors which may affect the Corporation's financial position and results. It is possible that the Corporation could face increased operating costs in order to comply with emissions legislation.

Abandonment and Reclamation Costs

The Corporation will be responsible for compliance with terms and conditions of environmental and regulatory approvals and all laws and regulations regarding abandonment and reclamation in respect of its properties, which abandonment and reclamation costs may be substantial. A breach of such legislation or regulations may result in the imposition of fines and penalties, including an order for cessation of operations at the site until satisfactory remedies are made.

Possible Failure to Realize Anticipated Benefits of Future Acquisitions

The Corporation may complete acquisitions to strengthen its position in the oil and natural gas industry and to create the opportunity to realize certain benefits including, among other things, potential cost savings. Achieving the benefits of any future acquisitions depends, in part, on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with its own. The integration of acquired businesses requires the dedication of substantial management effort, time and resources which may divert management’s focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect the Corporation's ability to achieve the anticipated benefits of these and future acquisitions.

Delay in Cash Receipts and Credit Worthiness of Counterparties

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of the Corporation's properties, and by the operator to the Corporation, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of the Corporation's properties or the establishment by the operator of reserves for such expenses. In addition, the insolvency or financial impairment of any counterparty owing money to the Corporation, including industry partners and marketing agents, could prevent the Corporation from collecting such debts.

On July 22, 2008, SemGroup LP filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code and two of SemGroup LP's Canadian subsidiaries, SemCanada Crude Corporation and SemCAMS ULC filed for creditor protection under the *Companies' Creditors Arrangement Act* in Canada. The Corporation sold crude oil to SemCanada Crude Corporation and natural gas to a party which sold natural gas to SemCAMS ULC, and has a financial exposure to these two entities totalling approximately $4.0 million at December 31, 2009. At this time, the Corporation is unable to ascertain the amount of June and July 2008 revenues that will be recoverable but has recorded a provision in the financial statements equal to approximately 96% of the amount owed at December 31, 2009. The $3.84 million provision is based on the final court order but is subject to change based on final payments yet to be received.

Dilution

Common Shares, including rights, warrants, special warrants, subscription receipts and other securities to purchase, to convert into or to exchange into Common Shares, may be created, issued, sold and delivered on such terms and conditions and at such times as the Board may determine. In addition, the Corporation may issue additional Common Shares from time to time pursuant to the Corporation's stock option plan. The issuance of these Common Shares would result in dilution to holders of Common Shares.

Net Asset Value

The Corporation's net asset value will vary depending upon a number of factors beyond the control of the Corporation's management, including oil and natural gas prices. The trading price of the Common Shares is also determined by a number of factors which are beyond the control of management and such trading price may be greater than or less than the net asset value of the Corporation.

Reliance on Management

Shareholders will be dependent on the management of the Corporation in respect of the administration and management of all matters relating to the Corporation and its properties and operations. Investors who are not willing to rely on the management of the Corporation should not invest in Common Shares.

Permits and Licenses

The operations of the Corporation may require licenses and permits from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

Title to Properties

Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells as determined appropriate by management, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat a claim of the Corporation which could result in a reduction of the revenue received by the Corporation.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to resources and various properties in western Canada. Such claims, in relation to any of the Corporation's lands, if successful, could have an adverse effect on its operations.

Corporate Matters

To date, the Corporation has not paid any dividends on its outstanding Common Shares. Certain of the directors and officers of the Corporation are also directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of the Corporation, as the case may be, and as officers and directors of such other companies.

Failure to Maintain Listing of the Common Shares

The Common Shares are currently listed for trading on the facilities of the TSXV. The failure of the Corporation to meet the applicable listing or other requirements of the TSXV in the future may result in the Common Shares ceasing to be listed for trading on the TSXV, which would have a material adverse affect on the value of the Common Shares. There can be no assurance that the Common Shares will continue to be listed for trading on the TSXV.

Structure of the Corporation

From time to time, the Corporation may take steps to organize its affairs in a manner that minimizes taxes and other expenses payable with respect to the operation of the Corporation and its subsidiaries. If the manner in which the Corporation structures its affairs is successfully challenged by a taxation or other authority, the Corporation and the holders of Common Shares may be adversely affected.

Changes in Legislation

It is possible that the Canadian federal and provincial government or regulatory authorities could choose to change the Canadian federal income tax laws, royalty regimes, environmental laws or other laws applicable to oil and gas companies and that any such changes could materially adversely affect the Corporation, its shareholders and the market value of the Common Shares.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no legal proceedings involving claims for damages for which the potential exposure is more than 10% of the Corporation's current assets to which the Corporation is or was a party or in respect of which any of its properties are or were subject during the year ended December 31, 2009, nor are there any such proceedings known to the Corporation to be contemplated.

During the year ended December 31, 2009 there were (i) no penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority; (ii) no other penalties or sanctions imposed by a court or regulatory body against the Corporation that it believes would likely be considered important to a reasonable investor in making an investment decision; and (iii) no settlement agreements entered into by the Corporation with a court relating to securities legislation or with a securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

In connection with the Recapitalization, on April 13, 2010 the current directors and officers of the Corporation purchased 20,452 Common Shares at a price of $4.40 per Common Share, 1,099,413 Units at a price of $4.40 per

Unit and 661,951 FT Units at a price of $4.40 per FT Unit. Each Unit consists of one Common Share and Performance Warrant while each FT Unit consists of one Common Share issued on a “flow-through” basis in accordance with the Tax Act and one Performance Warrant.

James Pasieka, a director of the Corporation, is a partner of Heenan Blaikie LLP, which law firm renders legal services to the Corporation.

Except as disclosed above or as may be disclosed elsewhere in this AIF, none of the directors, executive officers or principal shareholders of the Corporation, and no associate or affiliate of any of them, has or has had any material interest in any transaction or any proposed transaction which has materially affected or is reasonably expected to materially affect Zapata or any of its affiliates.

AUDITOR, TRANSFER AGENT AND REGISTRAR

The auditor of the Corporation is KPMG LLP who has been the auditor since May 5, 2010.

The transfer agent and registrar for the Common Shares is Olympia Trust Company at its principal offices in Calgary, Alberta and Toronto, Ontario.

INTEREST OF EXPERTS

The Sproule Report and certain reserves estimates contained in filings made by the Corporation under National Instrument 51-102 – Continuous Disclosure Requirements during the year ended December 31, 2009 were prepared by Sproule. As at the date of this Annual Information Form, the directors, officers, employees and consultants of Sproule who participated in the preparation of the Sproule Report or such reserves estimates or who were in a position to directly influence the preparation or outcome of the preparation of the Sproule Report or such reserves estimates, as a group, owned, directly or indirectly, less than 1% of the outstanding Common Shares.

Certain audit reports contained in filings made by the Corporation under National Instrument 51-102 – Continuous Disclosure Requirements during the year ended December 31, 2009 were prepared by Collins Barrow Calgary LLP. KPMG LLP were appointed auditors of the Corporation on May 5, 2010. KPMG LLP are independent of the Corporation pursuant to the rules of professional conduct of the Institute of Chartered Accountants of Alberta. The previous auditors of the Corporation, Collins Barrow Calgary LLP, were independent of the Corporation pursuant to the rules of professional conduct of the Institute of Chartered Accountants of Alberta for the period during which they were the auditors of the Corporation.

ADDITIONAL INFORMATION

Additional information concerning the Corporation may be found under the Corporation's profile on SEDAR at www.sedar.com. Additional information, including information concerning directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, will be contained in the information circular of Zapata for the annual general and special meeting of the holders of Common Shares scheduled for June 25, 2010. Additional financial information is provided in the Corporation's comparative financial statements and management's discussion and analysis for the year ended December 31, 2009.