

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.*

*This prospectus supplement, together with the short form base shelf prospectus dated August 22, 2011 (the "Prospectus") to which it relates, as amended or supplemented, and each document incorporated or deemed to be incorporated by reference in the Prospectus constitutes a public offering of these securities only in those jurisdictions where they may lawfully be offered for sale and therein only by persons permitted to sell such securities.*

*These securities have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws, and, except as described under "Plan of Distribution", may not be offered or sold in the United States (as such term is defined in Regulation S under the U.S. Securities Act). This prospectus supplement, together with the Prospectus, does not constitute an offer to sell or a solicitation of an offer to buy any of the securities within the United States. See "Plan of Distribution".*

*Information has been incorporated by reference in this prospectus supplement from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Senior Vice President, General Counsel and Secretary of Veresen Inc. at Suite 900, 222 – 3rd Avenue S.W., Calgary, Alberta, Canada, T2P 0B4, telephone (403) 296-0140, and are also available electronically at [www.sedar.com](http://www.sedar.com).*

## PROSPECTUS SUPPLEMENT

### To a Short Form Base Shelf Prospectus Dated August 22, 2011

New Issue

February 7, 2012

# VERESEN

VERESEN INC.

**\$150,000,000**

### **6,000,000 Cumulative Redeemable Preferred Shares, Series A**

We are hereby qualifying for distribution (the "**Offering**") 6,000,000 Cumulative Redeemable Preferred Shares, Series A (the "**Series A Preferred Shares**") at a price of \$25.00 per Series A Preferred Share (the "**Offering Price**"). The holders of Series A Preferred Shares will be entitled to receive, as and when declared by our board of directors (the "**Board of Directors**"), out of moneys of Veresen properly applicable to the payment of dividends, fixed cumulative preferential cash dividends for the initial period from and including the date of issue of the Series A Preferred Shares to, but excluding, September 30, 2017 (the "**Initial Fixed Rate Period**"), at an annual rate of \$1.10 per Series A Preferred Share, payable quarterly on the last day of March, June, September and December in each year, less any tax required to be deducted or withheld by Veresen. If any such date is not a Business Day (as defined herein), the dividend will be paid on the next succeeding Business Day. Assuming an issue date of February 14, 2012, the first dividend, if declared, will be payable on June 30, 2012 in the amount of \$0.4117 per Series A Preferred Share. See "Details of the Offering".

For each five-year period after the Initial Fixed Rate Period (each a "**Subsequent Fixed Rate Period**"), the holders of Series A Preferred Shares will be entitled to receive, as and when declared by the Board of Directors, fixed cumulative preferential cash dividends, payable quarterly on the last day of March, June, September and December in each year, in the amount per share determined by multiplying one-quarter of the Annual Fixed Dividend Rate (as defined herein) for such Subsequent Fixed Rate Period by \$25.00, less any tax required to be deducted or withheld by Veresen. The Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period will be determined by us on the applicable Fixed Rate Calculation Date (as defined herein) and will be equal to the sum of the Government of Canada Yield (as defined herein) on the applicable Fixed Rate Calculation Date plus a spread of 2.92%. See "Details of the Offering".

The Series A Preferred Shares will not be redeemable prior to September 30, 2017. On September 30, 2017, and on September 30 in every fifth year thereafter, we may, at our option, upon not less than 30 days and not more than 60 days prior written notice, redeem for cash all or any part of the outstanding Series A Preferred Shares by the payment of \$25.00 per Series A Preferred Share plus all accrued and unpaid dividends. See "Details of the Offering".

### Option to Convert Series A Preferred Shares into Series B Preferred Shares

The holders of the Series A Preferred Shares will have the right to convert all or any of their shares into our Cumulative Redeemable Preferred Shares, Series B (the "**Series B Preferred Shares**"), subject to certain conditions, on September 30, 2017 and on September 30 in every fifth year thereafter. The holders of the Series B Preferred Shares will be entitled to receive, as and when declared by the Board of Directors, quarterly floating rate cumulative preferential cash dividends, payable on the last day of March, June, September and December in each year, in the amount per share determined by multiplying the Floating Quarterly Dividend Rate (as defined herein) for such Quarterly Floating Rate Period (as defined herein) by \$25.00 and multiplying that product by a fraction, the numerator of which is the actual number of days in such Quarterly Floating Rate Period and the denominator of which is 365 or 366, depending upon the actual number of days in the applicable year, less any tax required to be deducted or withheld by Veresen. If any such date is not a Business Day, the dividend will be paid on the next succeeding Business Day. The Floating Quarterly Dividend Rate will be the annual rate of interest equal to the sum of the T-Bill Rate (as defined herein) on the applicable Floating Rate Calculation Date (as defined herein) plus a spread of 2.92%. See "Details of the Offering".

The Series A Preferred Shares and Series B Preferred Shares are series of shares in the same class. The conversion right entitles holders to elect periodically which of the two series they wish to hold, subject to certain restrictions and automatic conversion in certain circumstances, and does not entitle holders to receive a different class or type of securities. Other than the different dividend rights and redemption rights attached thereto, the Series A Preferred Shares and the Series B Preferred Shares are identical in all material respects. See "Details of the Offering".

### Price: \$25.00 per Series A Preferred Share to initially yield 4.40% per annum

	Price to the Public	Underwriters' Fee <sup>(1)</sup>	Net Proceeds to Veresen
Per Series A Preferred Share.....	\$25.00	\$0.75	\$24.25
Total.....	\$150,000,000	\$4,500,000	\$145,500,000

**Notes:**

- (1) The Underwriters' fee for the Series A Preferred Shares is \$0.25 for each share sold to certain institutions by closing of the Offering, and \$0.75 per share for all other Series A Preferred Shares purchased by the Underwriters (as defined herein). The Underwriters' fee indicated in the table assumes that no Series A Preferred Shares are sold to such institutions.
- (2) We have granted the Underwriters an option (the "**Underwriters' Option**"), exercisable at any time until 6:30 a.m. (Calgary time) on the date that is two business days prior to the Closing Date (as defined herein), to purchase up to an aggregate of 2,000,000 additional Series A Preferred Shares on the same terms as set forth above. If the Underwriters' Option is exercised in full and using the same assumptions as are set forth in note 1, the Price to the Public, the Underwriters' Fee and the Net Proceeds to Veresen will be \$200,000,000, \$6,000,000 and \$194,000,000, respectively. This prospectus supplement qualifies the distribution of the Series A Preferred Shares issuable upon exercise of the Underwriters' Option.

Underwriters' Position	Maximum Size	Exercise Period	Exercise Price
Underwriters' Option	2,000,000 Series A Preferred Shares	Up to 6:30 a.m. (Calgary time) on the date that is two business days prior to the Closing Date	\$25.00 per Series A Preferred Share

**There is no market through which the Series A Preferred Shares may be sold and purchasers may not be able to resell Series A Preferred Shares purchased under this prospectus supplement. This may affect the pricing of the Series A Preferred Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Series A Preferred Shares and the extent of issuer regulation. See "Risk Factors".** The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Series A Preferred Shares and the Series B Preferred Shares. Listing will be subject to us fulfilling all of the listing requirements of the TSX on or before May 7, 2012.

**An investment in the Series A Preferred Shares and the Series B Preferred Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors".**

Scotia Capital Inc., TD Securities Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., Canaccord Genuity Corp. and HSBC Securities (Canada) Inc. are acting as underwriters (collectively, the "**Underwriters**") of the Offering. The Underwriters, as principals, conditionally offer the Series A Preferred Shares, subject to prior sale, if, as and when issued, sold and delivered by us to, and accepted by, the Underwriters in accordance with the terms and conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on our behalf by Bennett Jones LLP and on behalf of the Underwriters by Blake, Cassels & Graydon LLP. Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Series A Preferred Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

**Scotia Capital Inc., TD Securities Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., National Bank Financial Inc. and HSBC Securities (Canada) Inc. are directly or indirectly, subsidiaries or affiliates of Canadian chartered banks that are lenders to us under our Revolving Credit Facility (as defined herein). In addition, Canadian chartered banks that are affiliates of Scotia Capital Inc., TD Securities Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., National Bank Financial Inc. and HSBC Securities (Canada) Inc. have extended the New Credit Facility (as defined herein) to us in connection with financing the Acquisition (as defined herein). Accordingly, pursuant to applicable securities legislation, we may be considered a "connected issuer" of such Underwriters. See "Relationship Among the Corporation and Certain Underwriters".**

Subscriptions for the Series A Preferred Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about February 14, 2012 (the "**Closing Date**"), or such other date as may be agreed upon by the Underwriters and us, but not later than February 29, 2012. One or more book entry only certificates representing the Series A Preferred Shares distributed hereunder will be issued in registered form only to CDS Clearing and Depository Services Inc. ("**CDS**") or its nominee and will be deposited with CDS on the Closing Date. See "Depository Services".

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

## TABLE OF CONTENTS

	Page
DEFINITIONS AND OTHER MATTERS .....	S-1
TECHNICAL ABBREVIATIONS .....	S-2
FORWARD-LOOKING INFORMATION .....	S-2
RESOURCES DISCLOSURE .....	S-3
IMPORTANT NOTICE REGARDING FINANCIAL INFORMATION .....	S-3
DOCUMENTS INCORPORATED BY REFERENCE .....	S-4
VERESEN INC. ....	S-5
RECENT DEVELOPMENTS .....	S-5
CONSOLIDATED CAPITALIZATION .....	S-11
MARKET FOR SECURITIES .....	S-15
EARNINGS COVERAGE .....	S-16
PRIOR SALES .....	S-17
DESCRIPTION OF SHARES .....	S-17
USE OF PROCEEDS .....	S-18
DETAILS OF THE OFFERING .....	S-18
RATINGS .....	S-25
DEPOSITORY SERVICES .....	S-25
PLAN OF DISTRIBUTION .....	S-26
RELATIONSHIP AMONG THE CORPORATION AND CERTAIN UNDERWRITERS .....	S-27
ELIGIBILITY FOR INVESTMENT .....	S-28
CANADIAN FEDERAL INCOME TAX CONSIDERATIONS .....	S-28
RISK FACTORS .....	S-30
INTERESTS OF EXPERTS .....	S-34
AUDITORS' CONSENT .....	S-35
INDEX TO FINANCIAL STATEMENTS .....	F-1
CERTIFICATE OF THE UNDERWRITERS .....	C-1

## DEFINITIONS AND OTHER MATTERS

In this prospectus supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. Unless the context otherwise requires, all references in this prospectus supplement to "we", "us", "our", "Veresen" or "the Corporation" refer to Veresen Inc. and our consolidated subsidiary corporations and partnerships, not including our jointly held businesses in which we hold an interest of 50% or less.

Prior to January 1, 2011, we operated as a limited partnership structure under the name of Fort Chicago Energy Partners L.P. ("**Fort Chicago**"). Pursuant to a plan of arrangement ("**Arrangement**") under the *Business Corporations Act* (Alberta) ("**ABCA**"), at 12:01 a.m. (Calgary time) on January 1, 2011 Fort Chicago converted to a corporate structure and holders of Class A limited partnership units of Fort Chicago ("**Class A Units**") exchanged their Class A Units for common shares of Veresen ("**Common Shares**") on a one-for-one basis.

Certain disclosures included or incorporated by reference in this prospectus supplement relate to information prior to January 1, 2011. As the exchange of Class A Units for Common Shares pursuant to the Arrangement was effective at 12:01 a.m. (Calgary time) on January 1, 2011, information provided before such date is provided for Fort Chicago and information provided at January 1, 2011 and later is provided for Veresen. Therefore, as the context requires, references to "we", "us", "our", "Veresen" or "the Corporation" when used in a historical context prior to January 1, 2011 refer to Fort Chicago and when used in the present tense or prospectively those terms refer to Veresen.

Investors should rely only on the information contained in or incorporated by reference in this prospectus supplement and the Prospectus. If the description of the Series A Preferred Shares or the Series B Preferred Shares varies between this prospectus supplement and the Prospectus, investors should rely on the information in this prospectus supplement. We have not authorized anyone to provide investors with different or additional

information. We are not making an offer of the Series A Preferred Shares in any jurisdiction where the offer is not permitted by law. If anyone provides investors with any different or inconsistent information, investors should not rely on it. Investors should not assume that the information contained in or incorporated by reference in this prospectus supplement or the Prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

The information in this prospectus supplement relating to the Acquired Business (as defined herein) has been summarized from publicly available information and information obtained from Encana (as defined herein) and other third parties.

#### **TECHNICAL ABBREVIATIONS**

bbls	=	barrels (42 US gallons)	km	=	kilometer
bbls/d	=	barrels per day	kms	=	kilometers
Bcf	=	billion cubic feet	LNG	=	liquefied natural gas
Bcf/d	=	billion cubic feet per day	MMcf/d	=	million cubic feet per day
btu	=	British thermal unit	MW	=	megawatt
btu/cf	=	British thermal unit per one cubic foot	NGL	=	natural gas liquid
hp	=	horsepower	tcf	=	trillion cubic feet

#### **FORWARD-LOOKING INFORMATION**

Certain statements and other information included or incorporated by reference in the Prospectus and this prospectus supplement constitute forward-looking statements as defined under applicable securities legislation. All statements, other than statements of historical fact included or incorporated by reference in the Prospectus and this prospectus supplement, which address activities, events or developments that we expect or anticipate may or will occur in the future, are forward-looking information. Forward-looking information typically contains statements with words such as "may", "estimate", "anticipate", "believe", "expect", "plan", "intend", "target", "project", "forecast", "outlook", "focus", "potential", "should", "could" or similar words suggesting future outcomes or outlook. Forward-looking information in this prospectus supplement includes statements with respect to such things as timing of the closing of the Acquisition, anticipated benefits of the Acquisition, the integration of the Acquired Business into our existing business, the growth opportunities associated with the Acquired Business, the anticipated retention of operational employees, the average take-or-pay volumes under the MSA (as defined herein), the average annual fees from the Acquired Business over the next five years, expected returns and contributions to cash flow from the Acquired Business, estimated contingent resources in the Cutbank Ridge region, potential future increases in production in the Cutbank Ridge region, the impact of the Acquisition on our tax horizon and opportunities for future midstream infrastructure investment.

The following discussion identifies certain factors, although not necessarily all factors, which could cause future outcomes to differ materially from those set forth in the forward-looking information. The risks and uncertainties that may affect our operations, performance, development, and the results of our businesses include, but are not limited to, the following factors:

- our ability to successfully implement our strategic initiatives and achieve expected benefits;
- levels of oil and gas exploration and development activity;
- the status, credit risk and continued existence of contracted customers;
- the availability and price of capital;
- the availability and price of energy commodities;
- the availability of construction services and materials;
- fluctuations in foreign exchange and interest rates;
- our ability to successfully obtain regulatory approvals;
- changes in tax, regulatory, environmental and other laws and regulations;
- competitive factors in the pipeline, midstream and power industries;

- operational breakdowns, failures or other disruptions;
- the prevailing economic conditions in North America;
- our ability to successfully integrate the Acquired Business; and
- risks associated with completing the Acquisition and realizing the anticipated benefits of the Acquisition.

Additional information on these and other risks, uncertainties and factors that could affect our operations or financial results are included under the heading "Risk Factors" in this prospectus supplement and "Risks" in the 2010 MD&A (as defined herein) filed with the securities commissions or similar authorities in each of the provinces of Canada and as may be updated from time to time in our interim management's discussion and analysis. We caution investors that the foregoing list of factors and risks is not exhaustive. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are independent and management's future course of action would depend on its assessment of all information at that time. Although we believe the expectations conveyed by the forward-looking information are reasonable based on information available to us on the date of preparation, we can give no assurances as to future results, levels of activity and achievements. Investors should not place undue reliance on the information contained in this prospectus supplement or incorporated by reference herein, as actual results achieved will vary from the information provided herein and the variations may be material. We make no representation that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Furthermore, the forward-looking statements contained or incorporated by reference herein are made as of the date of this prospectus supplement or as of the date specified in the documents incorporated by reference into this prospectus supplement, as the case may be, and, except as required by law, we do not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise. We expressly qualify any forward-looking information contained in the Prospectus and this prospectus supplement or incorporated by reference herein by this cautionary statement.

### **RESOURCES DISCLOSURE**

Resources estimates in this prospectus supplement have an effective date of December 31, 2011 and have been prepared by GLJ Petroleum Consultants ("**GLJ**"), independent qualified reserves evaluators, in accordance with the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**").

"Resources" are quantities of recoverable natural gas that have not met the reserves requirements at the time of the estimate. "Contingent Resources" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. Contingent resources are further classified in accordance with the level of certainty associated with the estimates and may be sub-classified based on economic status. There are three categories in evaluating Contingent Resources: Low Estimate, Best Estimate and High Estimate. The resource estimates presented in this prospectus supplement all refer to the Best Estimate category. Best Estimate is a classification of resources described in the COGE Handbook as being considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the Best Estimate. If probabilistic methods are used, there should be a 50% probability (P50) that the quantities actually recovered will equal or exceed the Best Estimate. There is no certainty that it will be commercially viable to produce any portion of the contingent resources disclosed in this prospectus supplement.

### **IMPORTANT NOTICE REGARDING FINANCIAL INFORMATION**

For financial years commencing prior to January 1, 2012 and for interim periods therein we have prepared and will prepare, as applicable, our consolidated financial statements in accordance with Canadian generally accepted accounting principles ("**Canadian GAAP**") as set out in Part V of the CICA Handbook. For financial years commencing on or after January 1, 2012 and for the interim periods therein, we intend to prepare and file our consolidated financial statements in accordance with United States generally accepted accounting principles ("**US**

**GAAP**"). Information for the comparative periods presented in the aforementioned consolidated financial statements will also be prepared in accordance with US GAAP.

The audited financial statements of the Acquired Business as at and for the years ended December 31, 2010 and 2009 included in this prospectus supplement have been prepared in accordance with Canadian GAAP. The unaudited financial statements of the Acquired Business as at and for the nine months ended September 30, 2011 included in this prospectus supplement have been prepared in accordance with international financial reporting standards ("**IFRS**") with a reconciliation to Canadian GAAP.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

This prospectus supplement is deemed to be incorporated by reference into the Prospectus solely for the purposes of the Offering. Other information has also been incorporated by reference in the Prospectus from documents filed with the securities commission or similar regulatory authority in each of the provinces of Canada. Copies of the documents incorporated by reference herein may be obtained on request without charge from the Senior Vice President, General Counsel and Secretary of Veresen at Suite 900, 222 – 3rd Avenue S.W., Calgary, Alberta, Canada, T2P 0B4, telephone (403) 296-0140, and are also available electronically at [www.sedar.com](http://www.sedar.com).

The following documents of Veresen have been filed with the securities commission or similar regulatory authority in each of the provinces of Canada and are specifically incorporated by reference into and form an integral part of the Prospectus and this prospectus supplement:

- (a) the Information Circular of Veresen dated March 23, 2011 relating to the annual meeting of Shareholders held on May 12, 2011;
- (b) the Information Circular of Veresen dated October 19, 2010 relating to the special meeting of holders of Class A Units held on November 23, 2010 to approve the Arrangement;
- (c) the Annual Information Form of Veresen dated March 23, 2011 for the year ended December 31, 2010 (the "**AIF**");
- (d) the audited comparative consolidated financial statements of Veresen as at and for the years ended December 31, 2010 and 2009, together with the notes thereto and the report of the auditors thereon;
- (e) the management's discussion and analysis of Veresen as at and for the year ended December 31, 2010 (the "**2010 MD&A**");
- (f) the unaudited interim consolidated financial statements of Veresen as at September 30, 2011 and for the three and nine months ended September 30, 2011 and 2010, together with the notes thereto;
- (g) the management's discussion and analysis of Veresen as at and for the three and nine months ended September 30, 2011;
- (h) the material change report of Veresen dated January 10, 2011 relating to the completion of the Arrangement; and
- (i) the material change report of Veresen dated December 16, 2011 relating to the Acquisition.

**Any statement contained in the Prospectus, in this prospectus supplement or in any other document (or part thereof) incorporated or deemed to be incorporated by reference into the Prospectus shall be deemed to be modified or superseded for the purposes of this prospectus supplement to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference in the Prospectus modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other**

**information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement or the Prospectus.**

## **VERESEN INC.**

We are a publicly traded corporation based in Calgary, Alberta, that owns and operates energy infrastructure assets across North America. We are engaged in three principal businesses:

- (a) a pipeline business comprised of interests in two pipeline systems, the Alliance Pipeline and the Alberta Ethane Gathering System;
- (b) a midstream business which includes a significant interest in a world-class natural gas liquids extraction facility near Chicago and other NGL and natural gas processing infrastructure; and
- (c) a power business with renewable and gas-fired facilities and development projects in Canada and the United States, and district energy systems in Ontario and Prince Edward Island.

We and each of our pipeline, midstream and power businesses are also actively developing a number of greenfield projects. In the normal course of our business, we, and each of our businesses, regularly evaluate and pursue acquisition and development opportunities.

For a description of the businesses and operations of Veresen, see "Our Business", "Our Pipeline Business", "Our Midstream Business", "Our Power Business" and "Other Initiatives" in the AIF, which is incorporated by reference in this prospectus supplement.

## **RECENT DEVELOPMENTS**

### **Issuance of Notes**

On November 22, 2011, we completed the issue of \$150 million principal amount of senior unsecured medium term notes (the "**Notes**") under the Prospectus, a related prospectus supplement dated November 4, 2011 and a pricing supplement dated November 17, 2011. The Notes have a fixed interest rate of 4.00% per annum, payable semi-annually in arrears, and will mature on November 22, 2018. A portion of the net proceeds from the issue of the Notes was used to reduce our outstanding indebtedness.

### **The Acquisition**

On December 7, 2011, we, through a wholly owned subsidiary, entered into an agreement (the "**Acquisition Agreement**") with Encana Corporation and Encana Power and Processing ULC (together, "**Encana**" or the "**Vendor**") to acquire the Hythe/Steeprock midstream gas gathering and processing complex (the "**Acquired Business**") for aggregate consideration of \$920.0 million (including consideration payable to acquire the assets being acquired pursuant to the NEB Assets Purchase Agreement (as defined herein)). The Acquired Business is located in the Cutbank Ridge region of Alberta and British Columbia. Natural gas and natural gas liquids in the Cutbank Ridge region are produced from the Montney, Cadomin and other geological formations.

The Acquired Business includes two natural gas processing plants, the Hythe plant and the Steeprock plant, with combined functional capacity of 516 MMcf/d as well as approximately 40,000 hp of compression and 370 km of gas gathering lines. The Hythe plant processes both sour and sweet natural gas, while the Steeprock plant is a sour gas processing facility.

In connection with the completion of the acquisition of the Acquired Business (the "**Acquisition**"), we will enter into a long-term Midstream Services Agreement ("**MSA**") with Encana under which Encana will provide a competitive, long-term, take-or-pay throughput commitment averaging 370 MMcf/d, representing 72 percent of the functional capacity of the Hythe/Steeprock complex.

On December 7, 2011, concurrently with entering into the Acquisition Agreement, we and the Vendor entered into an agreement pursuant to which we agreed to acquire certain assets of the Vendor that are subject to regulation by the National Energy Board on substantially the same terms and conditions as the Acquisition Agreement for an approximate purchase price of \$7.9 million (the "**NEB Assets Purchase Agreement**"). Closing of the transactions contemplated by the NEB Assets Purchase Agreement will occur following the closing of the Acquisition once National Energy Board approval has been obtained. See "Recent Developments – The Acquisition Agreement – Assets Regulated by the National Energy Board".

The audited financial statements of the Acquired Business as at and for the years ended December 31, 2010 and 2009, the unaudited financial statements of the Acquired Business as at and for the nine months ended September 30, 2011 and our unaudited pro forma consolidated financial statements for the year ended December 31, 2010 and for the nine months ended September 30, 2011, in each case after giving effect to the Acquisition and the related financing assumptions as described in the pro forma consolidated financial statements, are included as an appendix to this prospectus supplement. See "Recent Developments – Acquisition Highlights – Selected Unaudited Pro Forma Consolidated Financial Information".

The closing of the Acquisition is subject to receipt of required regulatory and other approvals, including approvals under the *Competition Act* (Canada), and the satisfaction or waiver of certain closing conditions. As at the date hereof, all conditions precedent to the Acquisition have been satisfied and the closing of the Acquisition is expected to occur on or about February 9, 2012. See "Recent Developments – The Acquisition Agreement – Closing Conditions".

We intend to finance the purchase price for the Acquisition from the net proceeds of the Subscription Receipt Offering (as defined herein), funds drawn from our Revolving Credit Facility and funds to be advanced under the New Credit Facility. See "Recent Developments – The Acquisition Agreement" and "Recent Developments – Financing of the Acquisition".

### **Acquisition Highlights**

In our view, key investment highlights of the Acquired Business are as follows:

#### *High-Quality Assets*

- The Acquisition will establish an independent midstream business for Veresen in an area focused on the high-growth Montney zone, one of North America's most prolific, low-cost natural gas and NGL plays.
- The Acquired Business is comprised of high-quality, of-scale facilities including the Steeprock gas plant (198 MMcf/d sour), the Hythe gas plant (340 MMcf/d sweet gas, 176 MMcf/d sour gas), approximately 40,000 hp of sweet and sour gas compression and 370 km of gathering lines.
- The Acquired Business has pipeline connections to the Alliance and TransCanada pipeline systems.

#### *Contracted Cash Flow*

- The Acquired Business provides long-life energy infrastructure assets with contracted, stable, fee-for-service cash flow.
- The counterparty to the MSA has investment grade credit ratings.
- Contract-based cash flow provides limited exposure to commodity price fluctuations.

### *Strong Financial Performance/Impact*

- Minimum average annual committed gathering and processing fees over the first five years of over \$72 million, net of operating and maintenance costs, with potential for additional fees from non-committed or third party volumes.
- The Acquisition will be immediately accretive to distributable cash per Common Share, with accretion increasing over time.
- With the Acquisition, we estimate our Canadian tax horizon will be extended to approximately 2019.

### *High Growth Potential*

- Cutbank Ridge is one of Encana's key resource plays with more than 1.1 million acres of land and in excess of 500 MMcf/d of production.
- Total recoverable natural gas in proximity to the Hythe/Steepprock complex, including Encana and third party gas, has been estimated by GLJ to be in excess of 26 tcf of best estimate contingent resources.
- Based on GLJ's assessment of best estimate of contingent resources, we believe regional gas production could increase by approximately 2 Bcf/d over the next 20 years, providing significant midstream infrastructure expansion opportunities for Veresen.

### *Integration of the Acquired Business*

Upon completion of the Acquisition, we will become the operator of the two interconnected gas processing plants following a transition period between Encana and us. We expect to retain all operational employees at the processing plants. Encana will be the contract operator of the compression and gas gathering system that we will acquire. This will allow Encana to coordinate its drilling program and natural gas production in the area with requisite development of the Hythe/Steepprock gathering system.

### *Selected Unaudited Pro Forma Consolidated Financial Information*

The following tables set forth our selected pro forma consolidated financial information (i) for the year ended December 31, 2010 and (ii) for the nine months ended September 30, 2011, in each case after giving effect to the Acquisition and the related financing assumptions as described in the pro forma consolidated financial statements, which are included in this prospectus supplement. The selected pro forma consolidated financial information for the year ended December 31, 2010 has been derived from and should be read in conjunction with (a) our audited consolidated financial statements as at and for the year ended December 31, 2010, which are incorporated by reference in this prospectus supplement, (b) the audited financial statements of the Acquired Business as at and for the year ended December 31, 2010, which are included in this prospectus supplement, and (c) our unaudited pro forma consolidated financial statements for the year ended December 31, 2010 giving effect to the Acquisition and the related financing assumptions as described in the pro forma consolidated financial statements, which are included in this prospectus supplement. The selected pro forma consolidated financial information as at and for the nine months ended September 30, 2011 has been derived from and should be read in conjunction with (i) our unaudited consolidated financial statements as at and for the nine months ended September 30, 2011 prepared in accordance with Canadian GAAP as set out in Part V of the CICA Handbook, which are incorporated by reference in this prospectus supplement, (ii) the unaudited financial statements of the Acquired Business as at and for the nine months ended September 30, 2011 prepared in accordance with IFRS with no material differences from Canadian GAAP, which are included in this prospectus supplement, and (iii) our unaudited pro forma consolidated financial statements as at and for the nine months ended September 30, 2011 giving effect to the Acquisition and the related financing assumptions as described in the pro forma consolidated financial statements prepared in accordance with Canadian GAAP, which are included in this prospectus supplement. The pro forma consolidated financial information set forth below and the unaudited pro forma consolidated financial statements of Veresen included in this prospectus supplement are not necessarily indicative of results of operations that would have occurred in the year ended December 31, 2010 or the nine months ended September 30, 2011 had the Acquisition, including the transactions contemplated by the NEB Assets Purchase Agreement, been effective January 1, 2010, or of the results of operations expected in 2011 and future years.

	<b>Year ended December 31, 2010</b>		
	<b>Veresen</b>	<b>Acquired Business<sup>(2)</sup></b>	<b>Pro Forma Consolidated</b>
Revenue .....	694,422,000	\$153,239,000	\$803,303,000
Operating expenses .....	210,673,000	44,279,000	252,741,000
Net Income attributable to holders of Common Shares .....	79,741,000	62,471,000	93,164,000
Net income per Common Share <sup>(1)</sup> .....	0.55	N/A	0.55

**Notes:**

- (1) Veresen net income per Common Share is based on 144,346,148 outstanding Common Shares, being the weighted average number of Common Shares outstanding for the year ended December 31, 2010. For purposes of calculating pro forma consolidated net income per Common Share, the number of Common Shares has been adjusted for the 24,725,000 Common Shares issuable on exercise of the Subscription Receipts (as defined herein) issued pursuant to the Subscription Receipt Offering (as defined herein).
- (2) The financial results of the Acquired Business for the year ended December 31, 2010 do not reflect the effect of the new contracts to be entered into with Encana in connection with the completion of the Acquisition. See "Recent Developments – The Acquisition".

	<b>Nine months ended September 30, 2011</b>		
	<b>Veresen</b>	<b>Acquired Business<sup>(2)</sup></b>	<b>Pro Forma Consolidated</b>
Revenue .....	\$571,763,000	\$123,373,000	\$656,542,000
Operating expenses .....	197,116,000	33,007,000	228,397,000
Net Income attributable to holders of Common Shares .....	39,102,000	53,481,000	52,276,000
Net income per Common Share <sup>(1)</sup> .....	0.24	N/A	0.29

**Notes:**

- (1) Veresen net income per Common Share is based on 161,497,665 outstanding Common Shares, being the weighted average number of Common Shares outstanding for the nine months ended September 30, 2011. For purposes of calculating pro forma consolidated net income per Common Share, the number of Common Shares has been adjusted for the 24,725,000 Common Shares issuable on exercise of the Subscription Receipts issued pursuant to the Subscription Receipt Offering.
- (2) The financial results of the Acquired Business for the nine months ended September 30, 2011 do not reflect the effect of the new contracts to be entered into with Encana in connection with the completion of the Acquisition. See "Recent Developments – The Acquisition".

**The Acquisition Agreement**

On December 7, 2011, we entered into the Acquisition Agreement with the Vendor, pursuant to which, subject to the terms and conditions set forth in the Acquisition Agreement, we agreed to purchase the Acquired Business for an approximate purchase price of \$912.1 million (the "**Purchase Price**") (excluding consideration payable to acquire the assets being acquired pursuant to the NEB Assets Purchase Agreement).

Upon execution of the Acquisition Agreement, we paid a \$50 million dollar deposit to the Vendor towards the Purchase Price, which is refundable in certain scenarios. The remainder of the Purchase Price is payable to the Vendor at closing of the Acquisition.

*Representations and Warranties*

Under the Acquisition Agreement, the Vendor and Veresen have made various customary representations and warranties. The Vendor's representations and warranties relate to, among other things, organization and status, title, authority to enter into the Acquisition Agreement and no conflict, consents and approvals, absence of notification of defaults under constating documents or material agreements, absence of certain material changes or events since the date of execution of the Acquisition Agreement, obligations to third parties of the Acquired Business, rights of first refusal, employment matters, compliance with laws, possession of permits, legal or regulatory proceedings, material

contracts, books and records, environmental matters, tax matters, sufficiency and good working order of the assets of the Acquired Business (the "Assets"). Our representations and warranties relate to, among other things, organization and status, authority to enter into the Acquisition Agreement and no conflict, consents and approvals, availability of funds, legal proceedings, brokerage or finder's fees.

### *Covenants*

The Acquisition Agreement contains customary negative and affirmative covenants on the part of the parties to the Acquisition Agreement, including, without limitation, that the Vendor will maintain the Assets in accordance with operating standards prevalent in Western Canada and the Vendor shall use reasonable efforts to preserve the Assets and maintain any insurance policies with respect to the Assets until closing of the Acquisition. In addition, we have agreed with the Vendor to use our reasonable efforts to obtain all material authorizations to make all necessary filings with the relevant government authorities as required under the Acquisition Agreement.

### *Indemnification*

Pursuant to the Acquisition Agreement, the parties thereto are liable to each other for all losses and liabilities sustained as a result of or in connection with the breach of the respective representations and warranties except to the extent that any such losses or liabilities are reimbursed by insurance maintained by either of the Vendor or us, are caused by the gross negligence or willful misconduct of either of the parties or is a breach of any party's obligation under the Acquisition Agreement. The Vendor has no liability in connection with any of our losses until the aggregate of such claims exceeds \$10 million and, upon the aggregate of such claims exceeding \$10 million, the Vendor shall be required to indemnify us in respect of only the amount of such losses that are in excess of \$5 million. The total amount of the liabilities and indemnities of the Vendor under the Acquisition Agreement, including any claims for our losses, shall not exceed 100% of the Purchase Price.

### *Closing Conditions*

The Acquisition Agreement provides that the obligations of Veresen and the Vendor to complete the Acquisition are subject to the fulfillment of a number of conditions, each of which may be waived by such party, including the following:

- (a) Accuracy of Representations and Warranties: The representations and warranties of the other party under the Acquisition Agreement are true and correct as of the date of the Acquisition Agreement and as of the closing date of the Acquisition.
- (b) Performance Covenants: Each party has performed and complied with its material covenants and agreements under the Acquisition Agreement in all material respects.
- (c) Clearances: The necessary approvals under the *Competition Act* (Canada) in respect of the Acquisition shall have been obtained.
- (d) Legal Proceedings: No claim shall be pending before any government body which would seek to refrain or prohibit the transactions contemplated by the Acquisition Agreement or would obtain material damages from either party in connection with the transactions contemplated by the Acquisition Agreement which could reasonably be expected to have a material adverse effect on either party or the value of the Assets.

### *Termination*

The Acquisition Agreement may be terminated by Veresen or the Vendor at any time prior to closing:

- (a) by mutual written consent;

- (b) if the representations and warranties of the other party under the Acquisition Agreement were not true and correct either as of the date of the Acquisition Agreement or as of the closing date of the Acquisition; or
- (c) if the other party has not performed in all material respects the material covenants and agreements required to be performed by it prior to closing of the Acquisition.

#### *Midstream Services Agreement*

Pursuant to the terms of the Acquisition Agreement, we (through the subsidiary that will own the Acquired Business) will enter into the MSA with Encana at the closing of the Acquisition. The MSA provides for a long-term take-or-pay throughput commitment averaging 370 MMcf/d, representing 72 percent of the functional capacity of the Hythe/Steepprock complex. Contracted commitment in 2012 will be 374 MMcf/d, with capacity allocated to the various units comprising the Acquired Business on an annual basis. The MSA provides for minimum average annual committed gathering and processing fees over the first five years of over \$72 million and \$82 million over the full term of the MSA, net of operating and maintenance costs, with potential for additional fees from non-committed or third party volumes.

The MSA grants Encana a right of first offer on any contracts to provide service to any third parties for excess capacity. Veresen is also restricted from entering into arrangements with other producers in respect of expansions of the facilities of the Acquired Business on terms more favourable than those provided to Encana, and Encana has a right of first offer on any arrangement to provide firm services to a third party in respect of an expansion.

We have guaranteed to the Vendor the obligations of our subsidiary under the MSA.

#### *Assets Regulated by the National Energy Board*

On December 7, 2011, concurrently with entering into the Acquisition Agreement, we and the Vendor entered into the NEB Assets Purchase Agreement pursuant to which we agreed to acquire certain assets of the Vendor that are subject to regulation by the National Energy Board on substantially the same terms and conditions as the Acquisition Agreement for an approximate purchase price of \$7.9 million. Closing of the transactions contemplated by the NEB Assets Purchase Agreement is subject to customary closing conditions and approval of the National Energy Board. The closing of the transactions contemplated by the Acquisition Agreement are not conditional on closing of the transactions contemplated by the NEB Assets Purchase Agreement.

#### **Financing of the Acquisition**

For purposes of financing the Acquisition, we entered into a bridge credit agreement on February 3, 2012 with certain Canadian chartered banks which provides for senior unsecured financing comprised of a non-revolving term loan in an amount up to \$250 million (the "**New Credit Facility**").

We also intend to draw funds under our existing revolving credit facility (the "**Revolving Credit Facility**") in order to finance the Acquisition. The Revolving Credit Facility has a four year term, which may, from time to time, be extended for further one-year periods, subject to lender consent. The maximum principal amount available under this facility is \$550 million, which can be used for general purposes, including funding acquisitions and making permitted distributions. The terms and conditions of the Revolving Credit Facility include covenants customary for bank credit facilities of this nature including, among other things, meeting specified financial covenants on an ongoing basis. As at December 31, 2011, our indebtedness under the Revolving Credit Facility was \$67 million (excluding letters of credit) of which \$50 million was used to pay the deposit to Encana towards the purchase price for the Acquisition. The deposit is refundable in certain circumstances.

Advances under the New Credit Facility and the Revolving Credit Facility and equity raised under our Premium Dividend<sup>TM</sup> and Dividend Reinvestment Plan (the "**DRIP**"), together with the net proceeds from the Subscription Receipt Offering, are anticipated to be used to fund the purchase price of the Acquisition.

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<sup>TM</sup> Trademark of Canaccord Genuity Corp.

The New Credit Facility ranks *pari passu* with our senior unsecured obligations, including our Revolving Credit Facility, and has a one year term. Subject to the satisfaction of certain conditions precedent customary for a financing of this type, funds will be available by way of a single draw on closing of the Acquisition; any undrawn amounts under the New Credit Facility will be cancelled at such time.

We have the option to borrow under the New Credit Facility using a Canadian prime rate or a bankers' acceptance rate. The margins above Canadian prime rate and bankers' acceptance rate, as applicable, for New Credit Facility advances will be based on our then applicable ratings from Standard & Poor's Financial Services LLC and DBRS Limited. Customary fees are payable by us in respect of the New Credit Facility.

Prepayments are permitted at our option at any time and are required upon the occurrence of certain events, in each case without premium or penalty. In particular, subject to certain exceptions, the net proceeds of any debt issuance will be applied to amounts outstanding under the New Credit Facility until repaid.

The New Credit Facility is in substantially the same form as our Revolving Credit Facility, and contains representations and warranties, affirmative and negative covenants (including requirements to meet certain financial ratios on an ongoing basis) and events of default that are customary for bank credit facilities of this nature.

### **Subscription Receipt Offering**

On December 16, 2011, we completed a bought deal offering of 24,725,000 subscription receipts ("**Subscription Receipts**") at a price of \$14.10 per Subscription Receipt for gross proceeds of approximately \$349 million (the "**Subscription Receipt Offering**") under the Prospectus and a related prospectus supplement dated December 9, 2011. This included the full exercise of the underwriters' over-allotment option, which was exercised concurrently with closing of the Subscription Receipt Offering.

Each Subscription Receipt entitles the holder to automatically receive one Common Share plus an amount equal to the dividends we declare on the Common Shares for record dates which occur from December 16, 2011 to the date the Common Shares associated with the Subscription Receipts are issued. The issuance date will be concurrent with the closing of the Acquisition. The gross proceeds from the sale of the Subscription Receipts are being held by an escrow agent pending, among other items, receipt of all regulatory and government approvals required to finalize the Acquisition, and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition. As at the date hereof, all regulatory and government approvals required to finalize the Acquisition and all conditions precedent to closing of the Acquisition have been satisfied and the Acquisition is scheduled to close on or about February 9, 2012.

### **Acquisition of Interests in East Windsor and EnPower**

On February 3, 2012, we purchased the 25% interest held by a partner in each of the East Windsor Cogeneration and EnPower power facilities, located in Windsor, Ontario and central British Columbia, respectively. The purchase increases our interest in each of these facilities to 100%. The purchase price paid for these interests was approximately \$67 million, including the assumption of approximately \$45 million of debt associated with the facilities.

## **CONSOLIDATED CAPITALIZATION**

The following table sets forth the unaudited consolidated capitalization of Veresen as at September 30, 2011, and the unaudited pro forma consolidated capitalization of Veresen as at September 30, 2011 after giving effect to: (i) the Offering and the use of proceeds therefrom (assuming the Underwriters' Option is not exercised), (ii) the Subscription Receipt Offering, (iii) the issue of the Notes and associated repayment of outstanding borrowings under the Revolving Credit Facility, and (iv) the completion of the Acquisition, including the transactions contemplated by the NEB Assets Purchase Agreement, and related advances under the Revolving Credit Facility and the New Credit Facility. The financial information set out below should be read in conjunction with the unaudited consolidated financial statements of Veresen as at and for the nine months ended September 30, 2011 incorporated by reference

in this prospectus supplement and the unaudited pro forma financial statements of Veresen included in this prospectus supplement and, in each case, the notes thereto.

All references in the following table to "Veresen" refer to Veresen Inc. and its consolidated subsidiary corporations and partnerships, not including its jointly held businesses in which Veresen holds an interest of 50% or less, which include: (i) Alliance Pipeline Limited Partnership and Alliance Pipeline L.P. (collectively, "**Alliance**"); (ii) Aux Sable Canada LP, Aux Sable Liquid Products LP, Aux Sable Extraction LP, Aux Sable Midstream LLC, Alliance Canada Marketing L.P., Sable NGL Canada LP and Sable NGL Services LP (collectively, "**Aux Sable**"); (iii) NRGreen Power Limited Partnership ("**NRGreen**"); and (iv) York Energy Centre L.P., York Energy Centre Inc. and YEC Properties Inc. (collectively, "**York Energy**").

	<u>Outstanding as at September 30, 2011</u>	<u>Outstanding as at September 30, 2011 after giving effect to the Offering and the use of proceeds therefrom, the Subscription Receipt Offering, the issue of the Notes and associated repayment of outstanding borrowings under the Revolving Credit Facility and completion of the Acquisition and related advances under the Revolving Credit Facility and the New Credit Facility</u>
<b>Veresen and its direct and indirect wholly-owned and majority-controlled subsidiary corporations and partnerships</b>		
Veresen Inc.		
Revolving Credit Facility <sup>(1)</sup> .....	\$ 165,139,000	\$ 207,836,000
New Credit Facility <sup>(2)</sup> .....	--	250,000,000
5.60% Senior unsecured notes, Series 1 due 2014 <sup>(3)</sup> .....	199,093,000	199,093,000
5.75% Debentures, Series C due 2017 <sup>(4)</sup> .....	82,843,000	82,843,000
4.00% Medium term notes, Series 1 due 2018 <sup>(5)</sup> .....	--	150,000,000
Common Shares <sup>(6)(7)(8)</sup> .....	1,362,425,000	1,700,930,000
Preferred Shares <sup>(6)</sup> .....	--	146,625,000
Alberta Ethane Gathering System L.P.		
5.565% Senior notes due 2020 <sup>(9)</sup> .....	94,962,000	94,962,000
Clowhom Power L.P.		
Term loan due 2016 <sup>(10)</sup> .....	53,140,000	53,140,000
Furry Creek Power Ltd.		
Term loan due 2024 <sup>(11)</sup> .....	11,705,000	11,705,000
East Windsor Cogeneration LP		
6.234% Senior bonds due 2029 <sup>(12)</sup> .....	165,484,000	165,484,000
EnPower Green Energy Generation Limited Partnership		
6.65% Term loan due 2018 <sup>(13)</sup> .....	22,206,000	22,206,000
<b>Veresen's proportionate share of the long-term debt of its jointly held businesses <sup>(14)</sup></b>		
Alliance <sup>(15)</sup> .....	1,015,906,000	1,015,906,000
Aux Sable .....	27,663,000	27,663,000

	<b>Outstanding as at September 30, 2011</b>	<b>Outstanding as at September 30, 2011 after giving effect to the Offering and the use of proceeds therefrom, the Subscription Receipt Offering, the issue of the Notes and associated repayment of outstanding borrowings under the Revolving Credit Facility and completion of the Acquisition and related advances under the Revolving Credit Facility and the New Credit Facility</b>
York Energy Construction facility <sup>(16)</sup> .....	102,498,000	102,498,000
NRGreen Credit facility .....	21,988,000	21,988,000
<b>Consolidated indebtedness</b> .....	1,962,627,000	2,405,324,000
<b>Consolidated shareholders' equity attributable to Common Shares and Preferred Shares</b> <sup>(17)</sup> .....	835,067,000	1,318,509,000
<b>Consolidated capitalization</b> .....	2,812,869,000	3,739,008,000

**Notes:**

- (1) See "Recent Developments – Financing of the Acquisition" for a description of the Revolving Credit Facility. Outstanding borrowings under the Revolving Credit Facility were \$167.0 million at September 30, 2011. Approximately \$149.0 million of the proceeds from the issue of the Notes was used to repay outstanding borrowings under the Revolving Credit Facility after September 30, 2011. We are also party to a club revolving credit agreement dated February 28, 2011 which provides for a \$45.0 million revolving credit facility (the "**Club Credit Facility**"). Excluding letters of credit, there are no amounts currently outstanding under the Club Credit Facility.
- (2) See "Recent Developments – Financing of the Acquisition" for a description of the New Credit Facility.
- (3) Our 5.60% senior unsecured notes, Series 1 due 2014 (the "**Senior Notes**") bear interest at the rate of 5.60% per annum, pay interest semi-annually in arrears on January 28 and July 28 of each year and mature on July 28, 2014. The Senior Notes are direct senior unsecured obligations of Veresen and rank equally with all other unsecured indebtedness of Veresen that is not subordinated which includes, among other things, the indebtedness under the Revolving Credit Facility, the New Credit Facility and the Notes.
- (4) Our 5.75% convertible unsecured subordinated debentures, Series C due July 31, 2017 ("**Series C Debentures**") pay interest semi-annually in arrears on January 31 and July 31 each year and mature on July 31, 2017. The Series C Debentures are direct unsecured obligations of Veresen and are subordinated to all senior indebtedness of Veresen which includes, among other things, the indebtedness of Veresen under the Revolving Credit Facility, the New Credit Facility, the Senior Notes and the Notes. The Series C Debentures rank equally with all other unsecured and subordinated indebtedness of Veresen. Each Series C Debenture is convertible into Common Shares at the option of the holder at any time prior to maturity. The Series C Debentures are not redeemable on or before July 31, 2013. After July 31, 2013 and on or prior to July 31, 2015, the Series C Debentures may be redeemed in whole or in part, from time to time at the option of Veresen, at a price equal to their principal amount plus accrued and unpaid interest, if any, thereon net of any applicable withholding taxes provided that the current market price of the Common Shares is not less than 125% of the conversion price. Subsequent to July 31, 2015, the Series C Debentures may be redeemed in whole or in part, from time to time at the option of Veresen, at a price equal to the principal amount thereof plus accrued and unpaid interest, if any, thereon net of any applicable withholding taxes.
- (5) The Notes bear interest at the rate of 4.00% per annum, pay interest semi-annually in arrears on May 22 and November 22 of each year and mature on November 22, 2018. The Notes are direct senior unsecured obligations of Veresen and rank equally with all other unsecured indebtedness of Veresen that is not subordinated which includes, among other things, the indebtedness under the Revolving Credit Facility, the New Credit Facility and the Senior Notes.
- (6) We are authorized to issue an unlimited number of Common Shares and preferred shares ("**Preferred Shares**"), issuable in series, limited in number to an amount equal to not more than one-half of the Common Shares issued and

- outstanding at the time of issuance of such Preferred Shares. As at the date hereof, there are 167,374,522 Common Share and no Preferred Shares outstanding. Assuming that the same number of Common Shares are outstanding as of the date Common Shares are issued in exchange for the Subscription Receipts as were outstanding on September 30, 2011, upon the completion of the Acquisition, an aggregate of 192,124,522 Common Shares will be issued and outstanding. Upon completion of the Offering (assuming that the Underwriters' Option is not exercised), there will be 6,000,000 Series A Preferred Shares outstanding.
- (7) Our DRIP enables shareholders who are eligible to participate in the DRIP in accordance with its terms to direct, under the dividend reinvestment component of the DRIP, that the cash dividends they are entitled to receive on their Common Shares be reinvested in additional Common Shares issued from treasury at a 5% discount to the average market price, as defined in the DRIP, on the applicable dividend payment date or elect, under the Premium Dividend™ component of the DRIP, to have these additional Common Shares delivered to the designated plan broker in exchange for a premium cash payment equal to 102% of the cash dividend that such shareholders would otherwise have received on the applicable dividend payment date. As at September 30, 2011, an aggregate of 2,905,229 Common Shares were reserved for issuance under the DRIP. During the nine months ended September 30, 2011, we issued 7,094,771 Common Shares pursuant to the DRIP. For the purposes of the disclosure in the above table, it has been assumed that the 762,398 Common Shares, 294,374 Common Shares, 297,583 Common Shares and 772,125 Common Shares issued under the DRIP on October 21, 2011, November 23, 2011, December 23, 2011 and January 23, 2012, respectively, were issued on September 30, 2011. See "Prior Sales".
  - (8) We are party to a shareholder rights plan agreement dated January 1, 2011 (the "**Rights Plan**"). Pursuant to the Rights Plan, one right has been issued with each Common Share then outstanding and one right will be issued with each Common Share subsequently issued. The rights will remain attached to the Common Shares and will not be exercisable or separable unless one or more certain specified events occur. See "Description of Capital Structure" in the AIF.
  - (9) On May 4, 2005, Alberta Ethane Gathering System L.P. ("**AEGS L.P.**"), an indirect subsidiary partnership of Veresen, issued 15-year senior unsecured notes (the "**AEGS Notes**") on a private placement basis to institutional investors in Canada in the aggregate principal amount of \$110.0 million. The AEGS Notes bear interest at the rate of 5.565% per annum and mature on May 4, 2020. Blended payments of principal and interest in the aggregate amount of approximately \$4.1 million are payable semi-annually on May 4 and November 4 in each year, with a final blended payment of principal and interest of approximately \$66.4 million payable on May 4, 2020. The AEGS Notes are direct unsecured obligations of AEGS L.P. and rank *pari passu* with all other unsecured and unsubordinated indebtedness of AEGS L.P.
  - (10) On February 22, 2011, Clowhom Power L.P., an indirect subsidiary partnership of Veresen, entered into a credit agreement with a Canadian chartered bank, comprised of a \$55.0 million, five-year term loan and a \$2.0 million, 364-day operating facility. The term loan bears interest at floating rates plus a margin and is repayable in monthly blended installments of principal and interest based on a 20-year amortization schedule. At the end of the five-year term the remaining principal balance outstanding is due and payable.
  - (11) In February of 2011, we acquired 99% of the shares of Furry Creek Power Ltd. which is party to a loan agreement with a finance company entered into on April 1, 2005 providing for a term loan maturing June 1, 2024 which is repayable in equal monthly blended payments of principal and interest at a fixed interest rate of 7.2947% per annum.
  - (12) On November 2, 2007, East Windsor Cogeneration LP ("**East Windsor**") issued \$179.0 million Series 1 Senior Bonds bearing interest at a rate of 6.283% per annum and maturing September 27, 2029. The principal amount is repayable quarterly commencing on December 27, 2009. The proceeds were used to fund the construction of the 86 MW East Windsor Cogeneration facility. See "Recent Developments – Acquisition of Interests in East Windsor and EnPower".
  - (13) On October 23, 2009, EnPower Green Energy Generation Limited Partnership ("**EnPower**") entered into a \$24.6 million term loan agreement with an institutional finance company. The term loan bears interest at a rate of 6.65% per annum and is repayable in equal monthly installments based on a 20-year amortization schedule. At the end of the term on November 15, 2018 the remaining principal balance outstanding is due and payable. See "Recent Developments – Acquisition of Interests in East Windsor and EnPower".
  - (14) These amounts reflect Veresen's proportionate share of the corresponding amounts contained in the financial statements of its jointly held businesses and fair value adjustments recorded in connection with its purchases of additional interests in these entities.
  - (15) On December 16, 2009, Alliance Pipeline Limited Partnership ("**Alliance Canada**") issued senior unsecured notes in the aggregate principal amount of \$120.0 million pursuant to a public offering under Alliance Canada's short form base shelf prospectus and a prospectus supplement, each dated December 9, 2009. Veresen's proportionate share of this aggregate principal amount is \$60.0 million. The senior notes bear interest at the rate of 4.928% per annum, payable semi-annually in arrears on June 16 and December 16 of each year commencing on June 16, 2010 and mature on December 16, 2019. The notes are non-amortizing with the principal due and payable upon maturity. The net proceeds from the offering were primarily used to repay outstanding indebtedness under Alliance Canada's Canadian bank credit facility and for general corporate purposes.
  - (16) In August 2010, York Energy Centre L.P. entered into a syndicated credit agreement to fund the construction of the York Energy Centre, a 400 MW gas-fired generation facility located in the York region of Ontario. The credit agreement consists of a \$270.2 million (100%) construction facility and a seven-year \$60.0 million (100%) letter of

credit facility. Amounts drawn on the construction facility bear interest at floating rates plus applicable margin. Upon achieving commercial operations, the construction facility converts to a five-year non-recourse term loan, and a five-year \$3.0 million (100%) revolving working capital facility becomes available. Principal repayments commence at the end of the second quarter following conversion of the construction facility to the term facility and are repayable quarterly.

- (17) Excluded from this table are cumulative dividends of (\$1,195.8) million, which includes \$13.8 million in dividends paid on each of October 21, 2011, November 23, 2011 and \$13.9 million of dividends paid on each of December 23, 2011 and January 23, 2012, at September 30, 2011. Consolidated shareholders' equity as set forth in this table is equal to the book value of Common Shares and Preferred Shares as set forth in this table, plus cumulative net income, less cumulative other comprehensive loss, less cumulative dividends.
- (18) For the purposes of this table, U.S. dollar amounts have been converted to Canadian dollars using an exchange rate of Cdn. \$1.0389 = U.S. \$1.00 at September 30, 2011.

## MARKET FOR SECURITIES

Our Common Shares are listed and posted for trading on the TSX under the symbol VSN, our Subscription Receipts are listed and posted for trading on the TSX under the Symbol VSN.R and our Series C Debentures are listed and posted for trading on the TSX under the symbol VSN.DB.C.

### Common Shares

For the twelve month period preceding the date of this prospectus supplement, the following table sets forth the high and low sale prices and the trading volumes for the Common Shares on a monthly basis as reported by the TSX:

	Price Range		Volume
	High (\$)	Low (\$)	
<b>2011</b>			
February.....	13.15	12.64	4,813,168
March.....	14.04	12.80	5,862,386
April.....	14.00	13.15	3,739,939
May.....	14.67	13.29	4,898,453
June.....	14.80	13.11	5,240,786
July.....	14.25	13.77	4,598,016
August.....	14.00	11.50	7,888,308
September.....	15.00	13.23	8,482,346
October.....	14.91	13.74	6,800,697
November.....	14.79	14.16	5,396,385
December.....	15.53	14.25	6,833,416
<b>2012</b>			
January.....	15.83	14.57	8,473,204
February 1 to 6.....	15.34	15.07	1,341,984

### Subscription Receipts

The following table sets forth the high and low sale prices and the trading volumes for the Subscription Receipts on a monthly basis as reported by the TSX commencing on December 16, 2011, being the date the Subscription Receipts commenced trading on the TSX:

	Price Range		Volume
	High (\$)	Low (\$)	
<b>2011</b>			
December 16 to 31.....	15.14	14.10	2,299,915
<b>2012</b>			
January.....	15.70	14.55	2,640,912
February 1 to 6.....	15.45	15.10	361,925

## Series C Debentures

For the twelve month period preceding the date of this prospectus supplement, the following table sets forth the high and low sale prices and the trading volumes (based on par value) for our Series C Debentures on a monthly basis as reported by the TSX:

	Price Range		Volume (\$)
	High (\$)	Low (\$)	
<b>2011</b>			
February.....	105.59	104.00	1,185,000
March.....	106.00	104.25	787,000
April.....	105.75	104.50	1,404,000
May.....	106.50	104.50	854,000
June.....	108.00	104.50	1,023,000
July.....	107.00	104.70	511,500
August.....	106.04	103.00	1,604,000
September.....	105.50	103.00	1,194,000
October.....	107.49	101.50	1,390,000
November.....	108.00	105.50	1,195,000
December.....	110.00	106.00	1,064,000
<b>2012</b>			
January.....	110.00	107.25	1,241,000
February 1 to 6.....	109.41	108.35	156,000

## EARNINGS COVERAGE

The following consolidated earnings coverage ratios of Veresen are calculated for the twelve-month period ended December 31, 2010 based on audited financial information and for the twelve month period ended September 30, 2011 based on unaudited financial information and giving effect to the issue of the Notes, the issue of the Series A Preferred Shares pursuant to this Offering (assuming the Underwriters' Option is not exercised) and the use of proceeds therefrom as described under "Use of Proceeds". The earnings coverage ratios set out below do not purport to be indicative of earnings coverage ratios for any future period.

	Twelve Months Ended December 31, 2010	Twelve Months Ended September 30, 2011
Earnings coverage <sup>(1)</sup> .....	2.00	1.73

### Note:

- (1) Earnings coverage is equal to net earnings plus non-controlling interest, income taxes and interest expense, divided by interest expense and Preferred Share dividends grossed up to a before tax equivalent at a rate of 25%.

Veresen's dividend requirements on the Preferred Shares, giving effect to the issue of the Series A Preferred Shares to be distributed pursuant to the Offering (assuming the Underwriters' Option is not exercised) and adjusted to a before tax equivalent using an effective income tax rate of 25%, amounted to approximately \$8.8 million for each of the 12 month periods ended December 31, 2010 and September 30, 2011, respectively. Veresen's interest requirements, after giving effect to the issue of Notes, for the 12 month period ended December 31, 2010 and for the twelve month period ended September 30, 2011 amounted to approximately \$103.5 million and \$115.3 million, respectively. Veresen's earnings before interest and income tax for the 12 month period ended December 31, 2010 and for the 12 month period ended September 30, 2011 were approximately \$224.2 million and \$215.3 million, respectively, which is 2.00 times and 1.73 times our aggregate Preferred Share dividend requirements and interest requirements for these periods, respectively.

The earnings coverage ratio has been calculated excluding the carrying charges of \$6.9 million for debt securities reflected as current liabilities in Veresen's consolidated balance sheet as at December 31, 2010 or which matured during the twelve month period ended December 31, 2010 and \$3.5 million for debt securities reflected as current liabilities in Veresen's consolidated balance sheet as at September 30, 2011 or which matured during the twelve

month period ended September 30, 2011. If such debt obligations had been classified in their entirety as long-term debt for purposes of calculating the earnings coverage ratio, the carrying charges for such debt obligations would have been reflected in the calculation of the earnings coverage ratio for the twelve month period ended December 31, 2010 and the twelve month period ended September 30, 2011 and would have resulted in earnings coverage ratios of 1.88 and 1.69, respectively.

### **PRIOR SALES**

We have not sold or issued any Common Shares or securities convertible into Common Shares since the date of the Prospectus other than:

- (a) an aggregate of 3,741,865 Common Shares issued pursuant to our DRIP at a weighted average issue price of \$13.45 per Common Share for aggregate consideration of approximately \$50.3 million;
- (b) an aggregate of 342 Common Shares were issued on the conversion of our outstanding Series C Debentures; and
- (c) an aggregate of 24,725,000 Subscription Receipts at a price of \$14.10 per Subscription Receipt issued pursuant to the Subscription Receipt Offering.

For additional information regarding previously issued Class A Units and Common Shares and securities convertible into Common Shares, see "Prior Sales" in the Prospectus.

### **DESCRIPTION OF SHARES**

In this section, "we", "us", "our", "Veresen" or "the Corporation" refers only to Veresen Inc. and not any of our subsidiary corporations or partnerships or jointly held businesses. The following is a description of the terms of the Common Shares and our Preferred Shares. This summary does not purport to be complete and is subject to, and qualified by, reference to the terms of our articles, a copy of which has been filed with the securities commission or similar regulatory authority in each of the provinces of Canada and is available electronically at [www.sedar.com](http://www.sedar.com).

#### **General**

We are entitled to issue an unlimited number of Common Shares and a number of Preferred Shares, issuable in series, to be limited to an amount equal to not more than one-half of the number of Common Shares issued and outstanding at the time of issuance of such Preferred Shares.

#### **Common Shares**

Each Common Share entitles the holder to one vote at all meetings of our shareholders ("**Shareholders**"), except meetings at which only holders of a specified class of shares are entitled to vote. Subject to the prior rights and privileges attaching to any other class of shares of Veresen, Shareholders have the right to receive any dividend declared by our Board of Directors on the Common Shares and the right to receive the remaining property and assets of Veresen upon dissolution.

#### **Preferred Shares**

The Preferred Shares may at any time and from time to time be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be determined by our Board of Directors, provided that the number of Preferred Shares of all series shall be limited in number to an amount equal to not more than one-half of the Common Shares issued and outstanding at the time of issuance of such Preferred Shares. Subject to the provisions of the ABCA, our Board of Directors may fix from time to time, before the issue thereof, the designation, rights, privileges, restrictions and conditions attaching to each series of the Preferred Shares. The Series A Preferred Shares and the Series B Preferred Shares will be series of Preferred Shares. See "Details of the Offering".

## USE OF PROCEEDS

The net proceeds from the Offering, after deducting the fee payable to the Underwriters' estimated expenses of the Offering and assuming the Underwriters' Option is not exercised, are expected to be \$145.2 million. The net proceeds of the Offering will be used to reduce indebtedness, partially fund capital expenditures and for other general corporate purposes.

The net proceeds of the Offering will be used to reduce our outstanding indebtedness under the Revolving Credit Facility. As at the Closing Date, assuming closing of the Acquisition has occurred, amounts outstanding under the Revolving Credit Facility will have been used to partially finance the purchase price for the Acquisition and finance capital expenditures relating to our Dasque-Middle 20 MW run-of-river project located in British Columbia and our Grand Valley 20 MW wind project in Ontario.

## DETAILS OF THE OFFERING

The following is a summary of the principal rights, privileges, restrictions and conditions attaching to the Series A Preferred Shares and the Series B Preferred Shares. We will furnish on request a copy of the text of the provisions attaching to the Preferred Shares as a class and the Series A Preferred Shares and the Series B Preferred Shares, each as a series and such provisions will also be available on SEDAR at [www.sedar.com](http://www.sedar.com). In this section, "we", "us", "our", "Veresen" or "the Corporation" refers only to Veresen Inc. and not any of our subsidiary corporations or partnerships or jointly held businesses.

### Definition of Terms

The following definitions are relevant to the Series A Preferred Shares and the Series B Preferred Shares.

**"Annual Fixed Dividend Rate"** means, for any Subsequent Fixed Rate Period, the annual rate of interest (expressed as a percentage rounded to the nearest one hundred thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the Government of Canada Yield on the applicable Fixed Rate Calculation Date and 2.92%.

**"Bloomberg Screen GCAN5YR Page"** means the display designated as page "GCAN5YR<INDEX>" on the Bloomberg Financial L.P. service or its successor service (or such other page as may replace the GCAN5YR<INDEX> page on that service or its successor service) for purposes of displaying Government of Canada bond yields.

**"Business Day"** means a day on which banks are generally open for business in both Calgary, Alberta and Toronto, Ontario.

**"Dividend Payment Date"** means the last day of March, June, September and December in each year, or if such date is not a Business Day, the next succeeding Business Day, commencing June 30, 2012.

**"Fixed Rate Calculation Date"** means, for any Subsequent Fixed Rate Period, the 30th day prior to the first day of such Subsequent Fixed Rate Period.

**"Floating Quarterly Dividend Rate"** means, for any Quarterly Floating Rate Period, the annual rate of interest (expressed as a percentage rounded to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the T-Bill Rate on the applicable Floating Rate Calculation Date and 2.92%.

**"Floating Rate Calculation Date"** means, for any Quarterly Floating Rate Period, the 30th day prior to the first day of such Quarterly Floating Rate Period.

**"Government of Canada Yield"** on any date means the yield to maturity on such date (assuming semi-annual compounding) of a Canadian dollar denominated non-callable Government of Canada bond with a term to maturity of five years as quoted as of 10:00 a.m. (Toronto time) on such date and that appears on the Bloomberg Screen GCAN5YR Page on such date; provided that if such rate does not appear on the Bloomberg Screen GCAN5YR

Page on such date, then the Government of Canada Yield shall mean the arithmetic average of the yields quoted to Veresen by two registered Canadian investment dealers selected by Veresen as being the annual yield to maturity on such date, compounded semi-annually, that a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on such date with a term to maturity of five years.

**"Initial Fixed Rate Period"** means the period from and including the date of issue of the Series A Preferred Shares to, but excluding, September 30, 2017.

**"Quarterly Commencement Date"** means the last day of March, June, September and December in each year, commencing September 30, 2017.

**"Quarterly Floating Rate Period"** means the period from and including a Quarterly Commencement Date to, but excluding, the next succeeding Quarterly Commencement Date.

**"Series A Conversion Date"** means September 30, 2017, and September 30 in every fifth year thereafter.

**"Series B Conversion Date"** means September 30, 2022, and September 30 in every fifth year thereafter.

**"Subsequent Fixed Rate Period"** means, for the initial Subsequent Fixed Rate Period, the period from and including September 30, 2017 to, but excluding, September 30, 2022, and for each succeeding Subsequent Fixed Rate Period means the period from and including the day immediately following the last day of the immediately preceding Subsequent Fixed Rate Period to, but excluding, September 30 in the fifth year thereafter.

**"T-Bill Rate"** means, for any Quarterly Floating Rate Period, the average yield expressed as an annual rate on three month Government of Canada treasury bills using the three-month average results, as reported by the Bank of Canada, for the most recent treasury bills auction preceding the applicable Floating Rate Calculation Date, as posted on the Bloomberg page "CA3MAY<INDEX>" (or such other page as may replace the CA3MAY<INDEX> page on that service or its successor service for purposes of displaying Government of Canada treasury bills yields).

#### **Certain Provisions of the Series A Preferred Shares**

##### *Issue Price*

The Series A Preferred Shares will have an issue price of \$25.00 per share.

##### *Dividends on Series A Preferred Shares*

During the Initial Fixed Rate Period, the holders of the Series A Preferred Shares will be entitled to receive and we will pay, as and when declared by the Board of Directors, out of the moneys of Veresen properly applicable to the payment of dividends, fixed cumulative preferential cash dividends at an annual rate of \$1.10 per share, payable quarterly on each Dividend Payment Date in each year, less any tax required to be deducted or withheld by Veresen. The first dividend, if declared, will be payable on June 30, 2012, and, notwithstanding the foregoing, will be in the amount per share determined by multiplying \$1.10 by the number of days in the period from and including the anticipated date of issue of the Series A Preferred Shares of February 14, 2012 to, but excluding, June 30, 2012, and dividing that product by 366, being the amount of \$0.4117 per Series A Preferred Share, less any tax required to be deducted or withheld by Veresen.

During each Subsequent Fixed Rate Period, the holders of the Series A Preferred Shares will be entitled to receive and we will pay, as and when declared by the Board of Directors, out of the moneys of Veresen properly applicable to the payment of dividends, fixed cumulative preferential cash dividends, payable quarterly on each Dividend Payment Date, in the amount per share determined by multiplying one-quarter of the Annual Fixed Dividend Rate for such Subsequent Fixed Rate Period by \$25.00, less any tax required to be deducted or withheld by Veresen.

On each Fixed Rate Calculation Date, we will determine the Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period. We will, on each Fixed Rate Calculation Date, give written notice of the Annual

Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period to the registered holders of the then outstanding Series A Preferred Shares.

#### *Redemption of Series A Preferred Shares*

The Series A Preferred Shares will not be redeemable prior to September 30, 2017. Subject to the provisions described under "Restrictions on Payments and Reductions of Capital", on September 30, 2017, and on September 30 in every fifth year thereafter, we may, at our option, redeem all or any part of the Series A Preferred Shares by the payment of an amount in cash for each share to be redeemed equal to \$25.00 plus all accrued and unpaid dividends thereon to, but excluding, the date fixed for redemption, less any tax required to be deducted or withheld by Veresen. Should any such date not be a Business Day, the redemption date will be the next succeeding Business Day.

Notice of any redemption of Series A Preferred Shares will be given by Veresen not more than 60 days and not less than 30 days prior to the date fixed for redemption. If less than all of the outstanding Series A Preferred Shares are at any time to be redeemed, the shares so to be redeemed will be selected by lot in such manner as the Board of Directors or the transfer agent, if any, appointed by Veresen in respect of such shares shall decide, or, if the Board of Directors so decides, such shares may be redeemed *pro rata* (disregarding fractions).

If Veresen gives notice to the holders of the Series A Preferred Shares of the redemption of all of the Series A Preferred Shares, the right of a holder of Series A Preferred Shares to convert such Series A Preferred Shares shall terminate and we will not be required to give notice to the registered holders of the Series A Preferred Shares of an Annual Fixed Dividend Rate, a Floating Quarterly Dividend Rate or the conversion right of holders of Series A Preferred Shares.

#### *Conversion of Series A Preferred Shares into the Series B Preferred Shares*

The Series A Preferred Shares will not be convertible prior to September 30, 2017. Holders of Series A Preferred Shares will have the right to elect to convert on each Series A Conversion Date, subject to restrictions on conversion described below, all or any of their Series A Preferred Shares into the Series B Preferred Shares on the basis of one Series B Preferred Share for each Series A Preferred Share. Notice of a holder's intention to convert Series A Preferred Shares must be received by the transfer agent and registrar for the Series A Preferred Shares at its principal office in Toronto or Calgary not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series A Conversion Date. Once received by the transfer agent and registrar on behalf of Veresen the election of a holder to convert is irrevocable.

We will, not more than 60 days and not less than 30 days prior to the applicable Series A Conversion Date, give notice to the then registered holders of the Series A Preferred Shares of the conversion right. On the 30th day prior to each Series A Conversion Date, we will give notice to the then registered holders of the Series A Preferred Shares of the Annual Fixed Dividend Rate for the Series A Preferred Shares for the next succeeding Subsequent Fixed Rate Period and the Floating Quarterly Dividend Rate for the Series B Preferred Shares for the next succeeding Quarterly Floating Rate Period.

Holders of Series A Preferred Shares shall not be entitled to convert their shares into Series B Preferred Shares if we determine that there would remain outstanding on a Series A Conversion Date less than 1,000,000 Series B Preferred Shares, after having taken into account all Series A Preferred Shares tendered for conversion into Series B Preferred Shares and all Series B Preferred Shares tendered for conversion into Series A Preferred Shares. Furthermore, if we determine that there would remain outstanding on a Series A Conversion Date less than 1,000,000 Series A Preferred Shares, after having taken into account all Series A Preferred Shares tendered for conversion into Series B Preferred Shares and all Series B Preferred Shares tendered for conversion into Series A Preferred Shares, then all of the remaining outstanding Series A Preferred Shares shall be converted automatically into Series B Preferred Shares on the basis of one Series B Preferred Share for each Series A Preferred Share on the applicable Series A Conversion Date.

We reserve the right not to deliver Series B Preferred Shares to any person that we or our transfer agent has reason to believe is a person whose address is in, or that we or our transfer agent has reason to believe is a resident of, any jurisdiction outside Canada if such delivery would require us to take any action to comply with the securities laws of such jurisdiction.

The Series A Preferred Shares and the Series B Preferred Shares are series of shares in the same class. The conversion right entitles holders to elect periodically which of the two series they wish to hold and does not entitle holders to receive a different class or type of securities. Other than the different dividend rights and redemption rights attached thereto, the Series A Preferred Shares and the Series B Preferred Shares are identical in all material respects.

#### *Purchase for Cancellation*

Subject to the provisions described under "Restrictions on Payments and Reductions of Capital", we may from time to time purchase for cancellation all or any part of the Series A Preferred Shares at any price by tender to all holders of Series A Preferred Shares or through the facilities of any stock exchange on which the Series A Preferred Shares are listed, or in any other manner, provided that in the case of a purchase in any other manner the price for such Series A Preferred Shares so purchased for cancellation shall not exceed the highest price offered for a board lot of Series A Preferred Shares on any stock exchange on which such shares are listed on the date of purchase for cancellation, plus costs of purchase.

#### *Rights on Liquidation*

In the event of the liquidation, dissolution or winding-up of Veresen, whether voluntary or involuntary, or any other distribution of assets of Veresen among our shareholders for the purpose of winding up our affairs, the holders of the Series A Preferred Shares will be entitled to receive \$25.00 per Series A Preferred Share plus all accrued and unpaid dividends thereon (less any tax required to be deducted or withheld by Veresen) before any amount will be paid or any property or assets of Veresen will be distributed to the holders of any shares ranking junior to the Series A Preferred Shares. After payment to the holders of the Series A Preferred Shares of the amount so payable to them, they will not, as such, be entitled to share in any further distribution of the property or assets of Veresen.

#### *Restrictions on Payments and Reductions of Capital*

So long as any Series A Preferred Shares are outstanding, we will not:

- (a) call for redemption, purchase, reduce or otherwise pay off less than all the Series A Preferred Shares and all other Preferred Shares then outstanding ranking prior to or on parity with the Series A Preferred Shares with respect to payment of dividends,
- (b) declare, pay or set apart for payment any dividends (other than stock dividends in shares of Veresen ranking junior to the Series A Preferred Shares) on the Common Shares or any other shares of Veresen ranking junior to the Series A Preferred Shares with respect to payment of dividends, or
- (c) call for redemption, purchase, reduce or otherwise pay off any shares of Veresen ranking junior to the Series A Preferred Shares with respect to repayment of capital or with respect to payment of dividends,

unless all dividends up to and including the dividends payable on the last preceding dividend payment dates on the Series A Preferred Shares and on all other Preferred Shares then outstanding ranking prior to or on parity with the Series A Preferred Shares with respect to payment of dividends will have been declared and paid or set apart for payment at the date of any such action.

#### *Voting Rights*

The holders of the Series A Preferred Shares are not entitled to any voting rights or to receive notice of or to attend shareholders' meetings unless dividends on the Series A Preferred Shares are in arrears to the extent of eight

quarterly dividends, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any moneys of Veresen properly applicable to the payment of the dividends. Until all arrears of dividends have been paid, holders of Series A Preferred Shares will be entitled to receive notice of and to attend all shareholders' meetings (other than separate meetings of holders of another class or series of shares) at which directors are to be elected and to one vote in respect of each Series A Preferred Share held with respect to resolutions to elect directors.

#### *Tax Election*

The Series A Preferred Shares will be "taxable preferred shares" as defined in the *Income Tax Act* (Canada) (the "**Tax Act**") for purposes of the tax under Part IV.1 of the Tax Act applicable to certain corporate holders of the Series A Preferred Shares. The terms of the Series A Preferred Shares require Veresen to make the necessary election under Part VI.1 of the Tax Act so that such corporate holders will not be subject to the tax under Part IV.1 of the Tax Act on dividends received (or deemed to be received) on the Series A Preferred Shares. See "Canadian Federal Income Tax Considerations — Dividends".

#### *Business Day*

If any day on which any dividend on the Series A Preferred Shares is payable by Veresen or on or by which any other action is required to be taken by Veresen is not a Business Day, then such dividend will be payable and such other action may be taken on or by the next succeeding day that is a Business Day.

### **Certain Provisions of the Series B Preferred Shares**

#### *Issue Price*

The Series B Preferred Shares will be issuable only upon conversion of Series A Preferred Shares and will have an ascribed issue price of \$25.00 per share.

#### *Dividends on the Series B Preferred Shares*

During each Quarterly Floating Rate Period, the holders of the Series B Preferred Shares will be entitled to receive and we will pay, as and when declared by the Board of Directors, out of the moneys of Veresen properly applicable to the payment of dividends, cumulative preferential cash dividends, payable on each Dividend Payment Date, in the amount per share determined by multiplying the Floating Quarterly Dividend Rate for such Quarterly Floating Rate Period by \$25.00 and multiplying that product by a fraction, the numerator of which is the actual number of days in such Quarterly Floating Rate Period and the denominator of which is 365 or 366, depending upon the actual number of days in the applicable year, less any tax required to be deducted or withheld by Veresen.

On each Floating Rate Calculation Date, we will determine the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period. We will, on each Floating Rate Calculation Date, give written notice of the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period to the registered holders of the then outstanding Series B Preferred Shares.

#### *Redemption of the Series B Preferred Shares*

Subject to the provisions described under "Restrictions on Payments and Reductions of Capital", we may redeem all or any part of the Series B Preferred Shares by the payment of an amount in cash for each share to be redeemed equal to (i) \$25.00 in the case of redemptions on any Series B Conversion Date, or (ii) \$25.50 in the case of redemptions on any date after September 30, 2017 that is not a Series B Conversion Date, in each case plus all accrued and unpaid dividends thereon to, but excluding, the date fixed for redemption, less any tax required to be deducted or withheld by Veresen. Should any such date not be a Business Day, the redemption date will be the next succeeding Business Day.

Notice of any redemption of the Series B Preferred Shares will be given by Veresen not more than 60 days and not less than 30 days prior to the date fixed for redemption. If less than all of the outstanding Series B Preferred Shares are at any time to be redeemed, the shares so to be redeemed will be selected by lot in such manner as the Board of Directors or the transfer agent, if any, appointed by Veresen in respect of such shares shall decide, or, if the Board of Directors so decides, such shares may be redeemed *pro rata* (disregarding fractions).

If we give notice to the holders of the Series B Preferred Shares of the redemption of all of the Series B Preferred Shares, the right of a holder of Series B Preferred Shares to convert such Series B Preferred Shares shall terminate and we will not be required to give notice to the registered holders of the Series B Preferred Shares of an Annual Fixed Dividend Rate, a Floating Quarterly Dividend Rate or the conversion right of holders of Series B Preferred Shares.

#### *Conversion of the Series B Preferred Shares into Series A Preferred Shares*

The Series B Preferred Shares will not be convertible prior to September 30, 2022. Holders of the Series B Preferred Shares will have the right to convert on each Series B Conversion Date, subject to restrictions on conversion described below, all or any of their Series B Preferred Shares into Series A Preferred Shares on the basis of one Series A Preferred Share for each Series B Preferred Share. Notice of a holder's intention to convert the Series B Preferred Shares must be received by the transfer agent and registrar for the Series B Preferred Shares at its principal office in Toronto or Calgary not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series B Conversion Date. Once received by the transfer agent and registrar on behalf of us, the election of a holder to convert is irrevocable.

We will, not more than 60 days and not less than 30 days prior to the applicable Series B Conversion Date, give notice to the then registered holders of the Series B Preferred Shares of the conversion right. On the 30th day prior to each Series B Conversion Date, we will give notice to the then registered holders of the Series B Preferred Shares of the Annual Fixed Dividend Rate for the Series A Preferred Shares for the next succeeding Subsequent Fixed Rate Period and the Floating Quarterly Dividend Rate for the Series B Preferred Shares for the next succeeding Quarterly Floating Rate Period.

Holders of Series B Preferred Shares shall not be entitled to convert their shares into Series A Preferred Shares if we determine that there would remain outstanding on a Series B Conversion Date less than 1,000,000 Series A Preferred Shares, after having taken into account all Series A Preferred Shares tendered for conversion into Series B Preferred Shares and all Series B Preferred Shares tendered for conversion into Series A Preferred Shares. Furthermore, if we determine that there would remain outstanding on a Series B Conversion Date less than 1,000,000 Series B Preferred Shares, after having taken into account all Series A Preferred Shares tendered for conversion into Series B Preferred Shares and all Series B Preferred Shares tendered for conversion into Series A Preferred Shares, then all of the remaining outstanding Series B Preferred Shares shall be converted automatically into Series A Preferred Shares on the basis of one Series A Preferred Share for each Series B Preferred Share on the applicable Series B Conversion Date.

We reserve the right not to deliver Series A Preferred Shares to any person that we or our transfer agent has reason to believe is a person whose address is in, or that we or our transfer agent has reason to believe is a resident of, any jurisdiction outside Canada if such delivery would require us to take any action to comply with the securities laws of such jurisdiction.

The Series A Preferred Shares and the Series B Preferred Shares are series of shares in the same class. The conversion right entitles holders to elect periodically which of the two series they wish to hold and does not entitle holders to receive a different class or type of securities. Other than the different dividend rights and redemption rights attached thereto, the Series A Preferred Shares and the Series B Preferred Shares are identical in all material respects.

### *Purchase for Cancellation*

Subject to the provisions described under "Restrictions on Payments and Reductions of Capital", we may from time to time purchase for cancellation all or any part of the Series B Preferred Shares at any price by tender to all holders of Series B Preferred Shares or through the facilities of any stock exchange on which the Series B Preferred Shares are listed, or in any other manner, provided that in the case of a purchase in any other manner the price for such Series B Preferred Shares so purchased for cancellation shall not exceed the highest price offered for a board lot of Series B Preferred Shares on any stock exchange on which such shares are listed on the date of purchase for cancellation, plus costs of purchase.

### *Rights on Liquidation*

In the event of the liquidation, dissolution or winding-up of Veresen, whether voluntary or involuntary, or any other distribution of assets of Veresen among our shareholders for the purpose of winding up our affairs, the holders of the Series B Preferred Shares will be entitled to receive \$25.00 per Series B Preferred Share plus all accrued and unpaid dividends thereon (less any tax required to be deducted or withheld by Veresen) before any amount will be paid or any property or assets of Veresen will be distributed to the holders of shares ranking junior to the Series B Preferred Shares. After payment to the holders of the Series B Preferred Shares of the amount so payable to them, they will not, as such, be entitled to share in any further distribution of the property, or assets of Veresen.

### *Restrictions on Payments and Reductions of Capital*

So long as any Series B Preferred Shares are outstanding, we will not:

- (a) call for redemption, purchase, reduce or otherwise pay off less than all the Series B Preferred Shares and all other Preferred Shares then outstanding ranking prior to or on parity with the Series B Preferred Shares with respect to payment of dividends,
- (b) declare, pay or set apart for payment any dividends (other than stock dividends in shares of Veresen ranking junior to the Series B Preferred Shares) on the Common Shares or any other shares of Veresen ranking junior to the Series B Preferred Shares with respect to payment of dividends, or
- (c) call for redemption, purchase, reduce or otherwise pay for any shares of Veresen ranking junior to the Series B Preferred Shares with respect to repayment of capital or with respect to payment of dividends,

unless all dividends up to and including the dividends payable on the last preceding dividend payment dates on the Series B Preferred Shares and on all other Preferred Shares then outstanding ranking prior to or on parity with the Series B Preferred Shares with respect to payment of dividends will have been declared and paid or set apart for payment at the date of any such action.

### *Voting Rights*

The holders of the Series B Preferred Shares are not entitled to any voting rights or to receive notice of or to attend shareholders' meetings unless dividends on the Series B Preferred Shares are in arrears to the extent of eight quarterly dividends, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any moneys of Veresen properly applicable to the payment of the dividends. Until all arrears of dividends have been paid, holders of the Series B Preferred Shares will be entitled to receive notice of and to attend all shareholders' meetings (other than separate meetings of holders of another class or series of shares) at which directors are to be elected and to one vote in respect of each Series B Preferred Share held with respect to resolutions to elect directors.

### *Tax Election*

The Series B Preferred Shares will be "taxable preferred shares" as defined in the Tax Act for purposes of the tax under Part IV.1 of the Tax Act applicable to certain corporate holders of the Series B Preferred Shares. The terms of

the Series B Preferred Shares require Veresen to make the necessary election under Part VI.1 of the Tax Act so that such corporate holders will not be subject to the tax under Part IV.1 of the Tax Act on dividends received (or deemed to be received) on the Series B Preferred Shares. See "Canadian Federal Income Tax Considerations — Dividends".

### *Business Day*

If any day on which any dividend on the Series B Preferred Shares is payable by Veresen or on or by which any other action is required to be taken by Veresen is not a Business Day, then such dividend will be payable and such other action may be taken on or by the next succeeding day that is a Business Day.

## **RATINGS**

The Series A Preferred Shares have been rated Pfd-3(high) by DBRS Limited ("**DBRS**") and P-3(High) by Standard & Poor's, a division of The McGraw Hill Companies, Inc. ("**S&P**") (DBRS and S&P are each a "**Rating Agency**"). Ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. The Rating Agencies' ratings for preferred shares range from a high of Pfd-1 to a low of D for DBRS and from a high of P-1 to a low of D for S&P.

A Pfd-3 rating by DBRS is the third highest of six categories granted by DBRS. According to the DBRS rating system, securities rated Pfd-3 are of adequate credit quality. While protection of dividends and principal is still considered acceptable, the issuing entity is more susceptible to adverse changes in financial and economic conditions, and there may be other adverse conditions present which detract from debt protection. "high" or "low" grades are used to indicate the relative standing within a rating category. The absence of either a "high" or "low" designation indicates the rating is in the middle of the category. Our ratings with DBRS are "Under Review with Developing Implications". A rating that is "Under Review with Developing Implications" acts as a signal indicating that the outstanding rating is subject to the completion of certain events or that such rating may no longer be appropriate. We have been advised by DBRS that, upon the successful completion of the Offering, DBRS expects to remove our ratings from "Under Review with Developing Implications" and confirm them with a stable trend.

A P-3 rating by S&P is the third highest of eight categories granted by S&P. According to the S&P rating system, while securities rated P-3 are regarded as having significant speculative characteristics, they are less vulnerable to non-payment than other speculative issues. However, such securities face major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. The ratings from P-1 to P-5 may be modified by "High" and "Low" grades which indicate relative standing within the major rating categories.

The ratings accorded to the Series A Preferred Shares by the Rating Agencies are not recommendations to purchase, hold or sell such shares inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a Rating Agency in the future if, in its judgment, circumstances so warrant. The lowering of any rating of the Series A Preferred Shares may negatively affect the quoted market price, if any, of such shares.

## **DEPOSITORY SERVICES**

The Series A Preferred Shares and the Series B Preferred Shares will be issued in "book entry only" form and must be purchased or transferred through a participant in the CDS depository service ("**CDS Participant**"). We will cause a global certificate or certificates representing any newly issued Series A Preferred Shares or the Series B Preferred Shares to be delivered to, and registered in the name of, CDS or its nominee. All rights of holders of Series A Preferred Shares or the Series B Preferred Shares must be exercised through, and all payments or other property to which such holder of Series A Preferred Shares or the Series B Preferred Shares, as the case may be, is entitled, will be made or delivered by, CDS or the CDS Participant through which the holder of Series A Preferred Shares or the Series B Preferred Shares holds such shares. Each person who acquires Series A Preferred Shares or the Series B Preferred Shares will receive only a customer confirmation of purchase from the registered dealer from

or through which the Series A Preferred Shares or the Series B Preferred Shares are acquired in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book entry accounts for its CDS Participants having interests in the Series A Preferred Shares or the Series B Preferred Shares.

The ability of a beneficial owner of Series A Preferred Shares or the Series B Preferred Shares to pledge such shares or otherwise take action with respect to such owner's interest in such shares (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

Neither we nor the Underwriters will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Series A Preferred Shares or the Series B Preferred Shares held by CDS or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Series A Preferred Shares or the Series B Preferred Shares; or (c) any advice or representation made by or with respect to CDS and those contained in this prospectus supplement and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its CDS Participants. The rules governing CDS provide that it acts as the agent and depository for the CDS Participants. As a result, CDS Participants must look solely to CDS and persons, other than CDS Participants, having an interest in the Series A Preferred Shares or the Series B Preferred Shares must look solely to CDS Participants for payments made by or on behalf of us to CDS in respect of the Series A Preferred Shares or the Series B Preferred Shares.

If (i) required by applicable law, (ii) the book entry only system ceases to exist, (iii) CDS advises us that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Series A Preferred Shares or the Series B Preferred Shares and we are unable to locate a qualified successor, or (iv) we, at our option, decide to terminate the book entry only system, then certificates representing the Series A Preferred Shares and the Series B Preferred Shares, as applicable, will be made available.

## **PLAN OF DISTRIBUTION**

Pursuant to an underwriting agreement dated February 7, 2012 (the "**Underwriting Agreement**") between Veresen and the Underwriters, we have agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on the Closing Date, 6,000,000 Series A Preferred Shares offered hereby at the Offering Price of \$25.00 per Series A Preferred Share, subject to compliance with all the necessary legal requirements and to the conditions contained in the Underwriting Agreement. The Offering Price and other terms of the Offering were determined by negotiation between the Underwriters and us.

The Underwriting Agreement provides that, in consideration of the services of the Underwriters in connection with the Offering, we will pay the Underwriters a fee of \$0.25 per Series A Preferred Share issued and sold by us to certain institutions, and \$0.75 per Series A Preferred Share for all other Series A Preferred Shares issued and sold by us as part of the Offering, for an aggregate fee payable by us of \$4.5 million, assuming that no Series A Preferred Shares are sold to such institutions. The Underwriters' fee is payable on the Closing Date.

We have granted the Underwriters the Underwriters' Option to purchase up to an aggregate of 2,000,000 additional Series A Preferred Shares exercisable at any time prior to 6:30 a.m. (Calgary time) on the date that is two business days prior to the Closing Date. To the extent that the Underwriters' Option is exercised, the additional Series A Preferred Shares to be issued pursuant to the exercise of the Underwriters' Option will be purchased by the Underwriters at a price of \$25.00 per share. This prospectus supplement qualifies the distribution of the Series A Preferred Shares issuable upon exercise of the Underwriters' Option.

Veresen has agreed that, subject to certain exceptions, it shall not issue or agree to issue any Preferred Shares or other securities convertible into, or exchangeable for, Preferred Shares prior to 90 days after the Closing Date without the prior consent of Scotia Capital Inc. and TD Securities Inc. on behalf of the Underwriters, which consent shall not be unreasonably withheld.

Pursuant to policy statements of certain securities regulators, the Underwriters may not, throughout the period of distribution, bid for or purchase Series A Preferred Shares. The policy statements allow certain exceptions to the foregoing prohibitions. The Underwriters may only avail themselves of such exceptions on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Series A Preferred Shares. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules of the Investment Industry Regulatory Organization of Canada, relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Pursuant to the first mentioned exception. If, following the closing of the Offering, the market price of the Series A Preferred Shares is below the Offering Price, the short position created by the over-allocation position in Series A Preferred Shares may be filled through purchases in the market, creating upward pressure on the price of the Series A Preferred Shares. Such transactions, if commenced, may be discontinued at any time.

The Underwriters propose to offer the Series A Preferred Shares initially at the Offering Price specified above. After a reasonable effort has been made to sell all of the Series A Preferred Shares at the price specified, the Underwriters may subsequently reduce the selling price to investors from time to time in order to sell any of the Series A Preferred Shares remaining unsold. Any such reduction will not affect the proceeds received by us.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint and may be terminated at their discretion in certain circumstances, including upon the occurrence of certain stated events. If an Underwriter fails to purchase the Series A Preferred Shares which it has agreed to purchase, the other Underwriters may, but are not obligated to, purchase such Series A Preferred Shares, provided that, if the aggregate number of Series A Preferred Shares not purchased is less than or equal to 9% of the aggregate number of Series A Preferred Shares agreed to be purchased by the Underwriters, then each of the other Underwriters is obligated to purchase severally the Series A Preferred Shares not taken up, on a pro rata basis or as they may otherwise agree as between themselves. If the aggregate number of Series A Preferred Shares not purchased is greater than 9% of the aggregate number of Series A Preferred Shares agreed to be purchased by the Underwriters, then each of the other Underwriters shall be relieved of its obligations to purchase its respective percentage of the Series A Preferred Shares, subject to the terms and conditions of the Underwriting Agreement. The Underwriters are, however, obligated to take up and pay for all of the Series A Preferred Shares if any are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by Veresen against certain liabilities, including liabilities for misrepresentation in this prospectus supplement and the Prospectus.

**There is no market through which the Series A Preferred Shares may be sold and purchasers may not be able to resell Series A Preferred Shares purchased under this prospectus supplement.** The TSX has conditionally approved the listing of the Series A Preferred Shares and the Series B Preferred Shares. Listing will be subject to us fulfilling all of the listing requirements of the TSX on or before May 7, 2012.

We and, if applicable, our agents or underwriters, reserve the right to reject any offer to purchase Series A Preferred Shares in whole or in part. We also reserve the right to withdraw, cancel or modify the offering of Series A Preferred Shares hereunder without notice.

#### **RELATIONSHIP AMONG THE CORPORATION AND CERTAIN UNDERWRITERS**

Scotia Capital Inc., TD Securities Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., National Bank Financial Inc. and HSBC Securities (Canada) Inc. are affiliates of Canadian chartered banks that have extended the New Credit Facility to Veresen in connection with financing the Acquisition. In addition, Scotia Capital Inc., TD Securities Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., National Bank Financial Inc. and HSBC Securities (Canada) Inc. are indirect wholly-owned subsidiaries of Canadian chartered banks that are lenders under our Revolving Credit Facility. Consequently, we may be considered to be a connected issuer of such Underwriters for the purposes of applicable securities legislation.

See "Recent Developments – Financing of the Acquisition" for a description of the material terms of the Revolving Credit Facility and the New Credit Facility.

As of the date of this prospectus supplement, we are in compliance with the terms of the Revolving Credit Facility and the New Credit Facility. Since the indebtedness under the Revolving Credit Facility was incurred, our consolidated financial position has not changed materially. None of the lenders have waived any breach of the Revolving Credit Facility or the New Credit Facility since their respective execution.

The decision to distribute the Series A Preferred Shares hereunder and the determination of the terms of the Offering were made through negotiation between the Underwriters and us. No lender had any involvement in such decision or determination. A part or all of the proceeds of the Offering will be used to repay amounts outstanding under the Revolving Credit Facility. See "Use of Proceeds".

### ELIGIBILITY FOR INVESTMENT

In the opinion of Bennett Jones LLP, counsel to the Corporation, and Blake, Cassels & Graydon LLP, counsel to the Underwriters (collectively, "**Counsel**"), subject to the provisions of any particular plan and provided that the Series A Preferred Shares and the Series B Preferred Shares are listed on a prescribed stock exchange, the Series A Preferred Shares and the Series B Preferred Shares, if issued on the date hereof, generally would be qualified investments under the Tax Act and the regulations thereunder (the "**Regulations**") for a trust governed by a registered retirement savings plan (a "**RRSP**"), a registered retirement income fund (a "**RRIF**"), a registered education savings plan, a registered disability savings plan, a deferred profit sharing plan, or a tax-free savings account (a "**TFSA**").

However, the holder or annuitant of a RRSP, RRIF or TFSA which holds Series A Preferred Shares or Series B Preferred Shares will be subject to a penalty tax in respect of the Series A Preferred Shares or Series B Preferred Shares, as the case may be, and other tax consequences may result if the Series A Preferred Shares or Series B Preferred Shares are a "prohibited investment" for the RRSP, RRIF or TFSA. The Series A Preferred Shares and the Series B Preferred Shares will generally be a "prohibited investment" if the holder or the annuitant of the RRSP, RRIF or TFSA, as the case may be, does not deal at arm's length with Veresen for purposes of the Tax Act or if such holder or annuitant has a "significant interest" (as defined in the Tax Act) in Veresen or a corporation, partnership or trust with which Veresen does not deal at arm's length for purposes of the Tax Act. **Prospective purchasers who intend to hold Series A Preferred Shares or Series B Preferred Shares in their TFSA, RRSP or RRIF should consult their own tax advisors regarding their particular circumstances.**

### CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Counsel, the following summary, as of the date hereof, describes the principal Canadian federal income tax considerations generally applicable under the provisions of the Tax Act to a prospective purchaser of Series A Preferred Shares pursuant to the prospectus supplement and the Prospectus and to a holder of the Series B Preferred Shares who acquired such shares as a result of the conversion of the Series A Preferred Shares (a "**Holder**") who, at all relevant times, for the purposes of the Tax Act, is (or is deemed to be) resident in Canada, deals at arm's length with and is not affiliated with Veresen and holds the Series A Preferred Shares or will hold the Series B Preferred Shares, as applicable, as capital property. Generally, the Series A Preferred Shares or the Series B Preferred Shares will be considered to be capital property to a Holder provided the Holder does not hold the shares in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of a trade. Certain Holders who might not otherwise be considered to hold their Series A Preferred Shares or Series B Preferred Shares as capital property may, in certain circumstances, be entitled to have such shares and every other "Canadian security", as defined in the Tax Act, owned by the Holder in the taxation year of the election and in all subsequent taxation years, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Holders who will not hold their Series A Preferred Shares or Series B Preferred Shares, as applicable, as capital property should consult their own tax advisers with respect to their own particular circumstances. This summary assumes that the Series A Preferred Shares and the Series B Preferred Shares will be listed on a designated stock exchange within the meaning of the Tax Act (which currently includes the TSX) at all relevant times.

This summary is not applicable to: (i) a Holder that is a "financial institution", as defined in the Tax Act for the purpose of the "mark-to-market" property rules; (ii) a Holder an interest in which would be a "tax shelter investment", as defined in the Tax Act; (iii) a Holder that is a "specified financial institution" as defined in the Tax

Act; (iv) a Holder which has made a "functional currency" election under the Tax Act to determine its Canadian tax results in a currency other than Canadian currency; or (v) a Holder that is exempt from tax under the Tax Act. Any such Holder should consult its own tax advisors with respect to an investment in the Series A Preferred Shares or the Series B Preferred Shares.

This summary is based upon the current provisions of the Tax Act and the Regulations, all specific proposals to amend the Tax Act and the regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposals**"), existing case law and Counsels' understanding of the current administrative and assessing practices and policies of the Canada Revenue Agency published in writing prior to the date hereof. This summary assumes that the Proposals will be enacted in the form proposed, however, no assurance can be given that the Proposals will be enacted in their current form, or at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposals, does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action, nor does it take into account any provincial, territorial or foreign income tax legislation or considerations.

**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 Holder of Series A Preferred Shares or Series B Preferred Shares. No representations are made with respect to the income tax consequences to any particular Holder. Consequently, prospective Holders should consult their own tax advisors with respect to their particular circumstances for advice with respect to the tax consequences to them of acquiring, holding and disposing of the Series A Preferred Shares or Series B Preferred Shares, including the application and effect of the income and other tax laws of any country, province, state or local tax authority.**

#### **Dividends**

Dividends (including deemed dividends) received (or deemed to be received) on the Series A Preferred Shares or the Series B Preferred Shares, as the case may be, by an individual (other than certain trusts) will be included in the individual's income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations. Individuals are entitled to an enhanced gross-up and dividend tax credit in respect of "eligible dividends" received from taxable Canadian corporations, such as Veresen, if such dividends have been designated as eligible dividends by Veresen at or before the time of payment. By notice in writing on Veresen's website, Veresen has designated that all dividends paid on its common shares will be "eligible dividends" within the meaning of the Tax Act. This designation on the website states that the designation will apply until a notification of a change is posted on the website. Management of Veresen anticipates that it will designate the dividends paid to holders of the Series A Preferred Shares and the Series B Preferred Shares as eligible dividends.

Dividends received by a Holder who is an individual (other than certain trusts) may give rise to a liability for alternative minimum tax under the Tax Act.

Dividends (including deemed dividends) received on the Series A Preferred Shares or the Series B Preferred Shares, as the case may be, by a Holder which is a corporation will be included in computing the Holder's income and will generally be deductible in computing the Holder's taxable income. A "private corporation", as defined in the Tax Act, or any other corporation controlled (whether by reason of a beneficial interest in one or more trusts or otherwise) by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), will generally be liable to pay a 33 1/3% refundable tax under Part IV of the Tax Act on dividends received (or deemed to be received) on the Series A Preferred Shares or the Series B Preferred Shares, as the case may be, to the extent such dividends are deductible in computing its taxable income.

The Series A Preferred Shares and the Series B Preferred Shares will be "taxable preferred shares" as defined in the Tax Act. The terms of the Series A Preferred Shares and the Series B Preferred Shares require Veresen to make the necessary election under Part VI.1 of the Tax Act so that corporate Holders will not be subject to tax under Part IV.1 of the Tax Act on dividends received (or deemed to be received) on the Series A Preferred Shares or the Series B Preferred Shares.

## **Dispositions**

A Holder who disposes of or is deemed to dispose of Series A Preferred Shares or the Series B Preferred Shares (including on a redemption but not on a conversion) will generally realize a capital gain (or sustain a capital loss) to the extent that the Holder's proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to the Holder. The amount of any deemed dividend arising on the redemption, acquisition or cancellation by Veresen of Series A Preferred Shares or Series B Preferred Shares, as the case may be, will generally not be included in computing the Holder's proceeds of disposition for purposes of computing the capital gain (or capital loss) arising on the disposition of such Series A Preferred Shares or Series B Preferred Shares, as the case may be. See "Redemption" below. If the Holder is a corporation, any capital loss arising on a disposition of a Series A Preferred Share or a Series B Preferred Share, as the case may be, may, in certain circumstances, be reduced by the amount of any dividends, including deemed dividends, which have been received (or deemed to be received) on the Series A Preferred Share or the Series B Preferred Share or any share which was converted into such share. Analogous rules apply to a partnership or trust of which a corporation, partnership or trust is a member or beneficiary.

Generally, one-half of any capital gain realized in a taxation year will be included in computing the Holder's income in that taxation year as a taxable capital gain and, generally, one-half of any capital loss realized in a taxation year (an "allowable capital loss") must be deducted from the Holder's taxable capital gains realized by the Holder in the same taxation year, in accordance with the rules contained in the Tax Act. Allowable capital losses in excess of taxable capital gains realized by a Holder in a particular taxation year 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 by the Holder in such taxation years, subject to and in accordance with the rules contained in the Tax Act. Capital gains realized by an individual may give rise to a liability for alternative minimum tax under the Tax Act. Taxable capital gains of a "Canadian-controlled private corporation", as defined in the Tax Act, may be subject to an additional refundable tax at a rate of 6⅔%.

## **Redemption**

If Veresen redeems Series A Preferred Shares or the Series B Preferred Shares, or otherwise acquires or cancels Series A Preferred Shares or Series B Preferred Shares (other than by a purchase by Veresen of the shares in the open market in the manner in which shares are normally purchased by any member of the public in the open market), the Holder will be deemed to have received a dividend equal to the amount, if any, paid by Veresen in excess of the paid-up capital (as determined for purposes of the Tax Act) of such shares at such time. Generally, the difference between the amount paid by Veresen and the amount of the deemed dividend will be treated as proceeds of disposition for purposes of computing the capital gain or capital loss arising on the disposition of such shares. See "Dispositions" above. In the case of a corporate holder, it is possible that in certain circumstances all or part of any such deemed dividend may be treated as proceeds of disposition and not as a dividend.

## **Conversion**

The conversion of the Series A Preferred Shares into Series B Preferred Shares and the conversion of Series B Preferred Shares into Series A Preferred Shares will not give rise to a disposition of property for purposes of the Tax Act and, accordingly, will not give rise to a capital gain or capital loss. The cost to a Holder of the Series B Preferred Shares or Series A Preferred Shares, as the case may be, received on a conversion will, subject to the cost base averaging rules contained in the Tax Act for identical properties, be deemed to be equal to the Holder's adjusted cost base of the converted Series A Preferred Shares or Series B Preferred Shares, as the case may be, immediately before the conversion.

## **RISK FACTORS**

An investment in the Series A Preferred Shares and Series B Preferred Shares is subject to various risks including those risks inherent to the industries in which we operate. Before deciding whether to invest in any Series A Preferred Shares or Series B Preferred Shares, prospective purchasers should consider carefully the risk factors contained in and incorporated by reference in, as applicable, the Prospectus and this prospectus supplement.

Discussions of certain risks affecting us in connection with our businesses are provided in our annual disclosure documents filed with the various securities regulatory authorities which are incorporated by reference in the Prospectus.

### **Risks Relating to the Acquired Business**

The risk factors set forth in the 2010 MD&A under the heading "Risks – Market Pricing Risks" and "Risks – Common Business Risks" relating to our business and operations apply equally in respect of the Acquired Business.

### **Closing of the Acquisition**

The closing of the Offering will occur before the closing of the Acquisition. The closing of the Acquisition is subject to receipt of required competition and other regulatory approvals and the satisfaction of certain closing conditions. See "Recent Developments – The Acquisition Agreement – Closing Conditions". We intend to consummate the Acquisition as soon as practicable after obtaining the required competition and other regulatory approvals and satisfying the required closing conditions.

### **Potential Undisclosed Liabilities Associated with the Acquisition**

In connection with the Acquisition, there may be liabilities that we failed to discover or were unable to quantify in our due diligence which we conducted prior to the execution of the Acquisition Agreement and we may not be indemnified for some or all of these liabilities. The discovery or quantification of any material liabilities could have a material adverse effect on our business, financial condition or future prospects. In addition, the Acquisition Agreement limits the amount for which we are indemnified. See "Recent Developments – The Acquisition Agreement – Indemnification".

### **Realization of Acquisition Benefits**

As described in "Recent Developments – The Acquisition", we believe that the Acquisition will provide benefits to us. However, there is a risk that some or all of the expected benefits of the Acquisition may fail to materialize, or may not occur within the time periods we anticipate. The realization of such benefits may be affected by a number of factors, many of which are beyond our control.

### **Availability of New Credit Facility**

Our ability to borrow under the New Credit Facility is subject to certain conditions that we must satisfy. If we are unable to satisfy those conditions and such conditions are not waived, we will not be able to borrow the necessary amounts under the New Credit Facility to fund the Acquisition. It is not a condition to our obligation to complete the Acquisition that we have the necessary sources of financing to do so. It is possible that alternative sources of financing may not be available which could result in our breach of the Acquisition Agreement or that alternative sources, if available, may be on terms that are less favourable than the terms of the New Credit Facility. See "Recent Developments – Financing of the Acquisition".

### **Increased Indebtedness**

If the Acquisition is completed on the terms contemplated in the Acquisition Agreement, we anticipate borrowing approximately \$620 million under our Revolving Credit Facility and New Credit Facility. Such borrowings will represent a material increase in our consolidated indebtedness. We expect to have \$2.4 billion of consolidated indebtedness as at September 30, 2011, outstanding on a pro forma basis after giving effect to the Acquisition. See "Recent Developments – Financing of the Acquisition", "Use of Proceeds" and "Consolidated Capitalization". Such additional indebtedness will increase our interest expense and debt service obligations and may have a negative effect on our results of operations. The increased indebtedness will also make our results more sensitive to increases in interest rates. There is no guarantee that we will be able to obtain additional indebtedness or other financing on terms favourable to us or at all in order to repay the principal on such indebtedness when it becomes due.

## **Market for Securities**

There is no market through which the Series A Preferred Shares or Series B Preferred Shares may be sold and purchasers of Series A Preferred Shares may not be able to resell the Series A Preferred Shares purchased under this prospectus supplement. The price offered to the public for the Series A Preferred Shares and the number of Series A Preferred Shares to be issued have been determined by negotiations between the Underwriters and us. The price paid for each Series A Preferred Share may bear no relationship to the price at which the Series A Preferred Shares will trade in the public market subsequent to this Offering. We cannot predict at what price the Series A Preferred Shares or Series B Preferred Shares will trade and there can be no assurance that an active trading market will develop for the Series A Preferred Shares or Series B Preferred Shares or, if developed, that such market will be sustained. The TSX has conditionally approved the listing of the Series A Preferred Shares and the Series B Preferred Shares. Listing will be subject to us fulfilling all of the listing requirements of the TSX on or before May 7, 2012.

## **US GAAP**

For financial years commencing on or after January 1, 2012 but before January 1, 2015 and for the interim periods therein, we are permitted, pursuant to exemptive relief granted to us by the Alberta Securities Commission, as principal regulator on behalf of the securities regulatory authorities in the other provinces of Canada (other than Ontario), and the Ontario Securities Commission, to prepare and file our consolidated financial statements in accordance with US GAAP. Information for the comparative periods presented in the aforementioned consolidated financial statements will also be prepared in accordance with US GAAP. US GAAP may require additional financial statement disclosure compared to Canadian GAAP and accounting policy differences between US GAAP and Canadian GAAP will need to be addressed. We are currently considering the impact that US GAAP will have on our future financial reporting. In addition, no assurance can be provided that the adoption of US GAAP will not adversely affect our reported financial results or our ability to satisfy certain provisions contained in our debt instruments.

## **Ratings**

The ratings applied to the Series A Preferred Shares and Series B Preferred Shares are intended to provide investors with an independent measure of credit quality of the Series A Preferred Shares and Series B Preferred Shares. The ratings are based on certain assumptions about the future performance and capital structure of Veresen that may or may not reflect our actual performance or capital structure. Changes in ratings of the Series A Preferred Shares and Series B Preferred Shares may affect the market price or value and the liquidity of the Series A Preferred Shares and Series B Preferred Shares. There is no assurance that any rating assigned to the Series A Preferred Shares and Series B Preferred Shares will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely by the relevant rating agency. See "Ratings".

## **Insolvency or Winding-Up**

The Series A Preferred Shares and the Series B Preferred Shares are equity capital of Veresen which rank equally with any other Preferred Shares that we may issue from time to time, in the event of an insolvency or winding-up of Veresen. If we become insolvent or are wound up, our assets must be used to pay liabilities and other debt before payments may be made on the Series A Preferred Shares, the Series B Preferred Shares and other Preferred Shares, if any.

## **Automatic Conversion**

An investment in the Series A Preferred Shares may become an investment in the Series B Preferred Shares without the consent of the holder in the event of an automatic conversion of the Series A Preferred Shares into the Series B Preferred Shares. Upon such automatic conversion, the dividend rate on the Series B Preferred Shares will be a floating rate that is adjusted quarterly by reference to the T-Bill Rate which may vary from time to time. In addition, holders may be prevented from converting their Series A Preferred Shares into the Series B Preferred Shares in certain circumstances. See "Details of the Offering".

In addition, once Series A Preferred Shares have been converted to the Series B Preferred Shares, an investment in the Series B Preferred Shares may revert to an investment in Series A Preferred Shares without the consent of the holder in the event of an automatic conversion of the Series B Preferred Shares into Series A Preferred Shares. Upon such automatic conversion, the dividend rate on the Series A Preferred Shares will be a fixed rate that is adjusted every five years by reference to the Government of Canada Yield which may vary from time to time. In addition, holders may be prevented from converting their Series B Preferred Shares into Series A Preferred Shares in certain circumstances. See "Details of the Offering".

### **No Fixed Maturity**

Neither the Series A Preferred Shares nor the Series B Preferred Shares have a fixed maturity date and are not redeemable at the option of the holders of Series A Preferred Shares or the Series B Preferred Shares, as applicable. The ability of a holder to liquidate its holdings of Series A Preferred Shares and the Series B Preferred Shares, as applicable, may be limited.

### **Market Price**

The market price of the Series A Preferred Shares and Series B Preferred Shares may fluctuate due to a variety of factors relative to our business, including announcements of new developments, fluctuations in our operating results, sales of the Series A Preferred Shares and Series B Preferred Shares in the marketplace, failure to meet analysts' expectations, any public announcements made in regard to the Offering, the impact of various tax laws or rates and general market conditions or the worldwide economy. In recent years, stock markets have experienced significant price fluctuations, which have been unrelated to the operating performance of the affected companies. There can be no assurance that the market price of the Series A Preferred Shares and Series B Preferred Shares will not experience significant fluctuations in the future, including fluctuations that are unrelated to our performance.

Prevailing yields on similar securities will affect the market value of the Series A Preferred Shares and Series B Preferred Shares. Assuming all other factors remain unchanged, the market value of the Series A Preferred Shares and Series B Preferred Shares would be expected to decline as prevailing yields for similar securities rise and would be expected to increase as prevailing yields for similar securities decline. Spreads over the Government of Canada Yield, T-Bill Rate and comparable benchmark rates of interest for similar securities will also affect the market value of the Series A Preferred Shares and the Series B Preferred Shares in an analogous manner.

### **Redeemable**

We may choose to redeem the Series A Preferred Shares and the Series B Preferred Shares from time to time, in accordance with our rights described under "Certain Provisions of the Series A Preferred Shares — Redemption of the Series A Preferred Shares" and "Details of the Offering — Redemption of the Series B Preferred Shares", including when prevailing interest rates are lower than yield borne by the Series A Preferred Shares and the Series B Preferred Shares. If prevailing rates are lower at the time of redemption, a purchaser would not be able to reinvest the redemption proceeds in a comparable security at an effective yield as high as the yield on the Series A Preferred Shares or the Series B Preferred Shares being redeemed. Our redemption right also may adversely impact a purchaser's ability to sell Series A Preferred Shares and Series B Preferred Shares.

### **Dividends**

The dividend rate in respect of the Series A Preferred Shares and the Series B Preferred Shares will, following the Initial Fixed Rate Period, reset every five years and quarterly, respectively. In each case, the new dividend rate is unlikely to be the same as, and may be lower than, the dividend rate for the applicable preceding dividend period.

Provisions of various trust indentures and credit arrangements to which we are a party restrict our ability to declare and pay dividends under certain circumstances and, if such restrictions apply, they may, in turn, have an impact on our ability to declare and pay dividends on the Series A Preferred Shares and Series B Preferred Shares.

Investments in the Series B Preferred Shares, given their floating interest component, entail risks not associated with investments in the Series A Preferred Shares. The resetting of the applicable rate on a Series B Preferred Share may result in a lower yield compared to fixed rate Series A Preferred Shares. The applicable rate on a Series B Preferred Share will fluctuate in accordance with fluctuations in the T-Bill Rate on which the applicable rate is based, which in turn may fluctuate and be affected by a number of interrelated factors, including economic, financial and political events over which we have no control.

Dividends on the Series A Preferred Shares and the Series B Preferred Shares are payable at the discretion of the Board of Directors.

### **INTERESTS OF EXPERTS**

Certain legal matters relating to the Offering will be passed upon by Bennett Jones LLP, on our behalf, and by Blake, Cassels & Graydon LLP, on behalf of the Underwriters. As at the date of this prospectus supplement, the partners and associates of Bennett Jones LLP, and the partners and associates of Blake, Cassels & Graydon LLP, each as a group, own, directly or indirectly, less than 1% of the outstanding Common Shares.

Our audited consolidated financial statements as at and for the years ended December 31, 2010 and 2009, together with the notes thereto, incorporated by reference into this prospectus supplement, have been audited by PricewaterhouseCoopers LLP, Chartered Accountants, as indicated in their report dated March 3, 2011 also incorporated by reference into this prospectus supplement. The carve-out financial statements for the Hythe/Steeprock assets as at and for the years ended December 31, 2010 and 2009 included in the appendix hereto have been audited by PricewaterhouseCoopers LLP, Chartered Accountants, as indicated in their report dated November 30, 2011. PricewaterhouseCoopers LLP has confirmed that it is independent in accordance with the relevant rules and related interpretation prescribed by the Institute of Chartered Accountants of Alberta.

Resource estimates included in this prospectus supplement are based upon reports prepared by GLJ. As of the date hereof, the principals of GLJ, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding Common Shares.

## AUDITORS' CONSENT

We have read the short form base shelf prospectus of Veresen Inc. (the "**Corporation**") dated August 22, 2011, as supplemented by the prospectus supplement of the Corporation dated February 7, 2012 qualifying the distribution of 6,000,000 Cumulative Redeemable Preferred Shares, Series A of the Corporation (collectively the "**Prospectus**"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned Prospectus of our report to the shareholders of the Corporation on the consolidated statements of financial position of the Corporation as at December 31, 2010 and 2009 and the consolidated statements of income and cumulative income, comprehensive income and cumulative other comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2010. Our report is dated March 3, 2011.

We also consent to the use in the above-mentioned Prospectus of our report to the Directors of Encana Corporation on the carve-out financial statements of the Hythe/Steepprock Assets, which comprise the balance sheet as at December 31, 2010 and 2009 and the statements of earnings, comprehensive income, change in owner's net investment and cash flows for each of the three years in the period ended December 31, 2010. Our report is dated November 30, 2011.

Calgary, Alberta  
February 7, 2012

(Signed) "PricewaterhouseCoopers LLP"  
Chartered Accountants

## INDEX TO FINANCIAL STATEMENTS

	<b>Page</b>
<b>Carve-out Financial Statements for the Hythe/Steeprock Assets</b>	
Auditors' Report on the carve-out financial statements as at and for the years ended December 31, 2010 and December 31, 2009 .....	F-2
Audited carve-out financial statements as at and for the years ended December 31, 2010 and December 31, 2009 .....	F-4
Unaudited carve-out financial statements as at and for the three- and nine-month periods ended September 30, 2011 .....	F-16
<b>Veresen Inc.</b>	
Unaudited pro forma balance sheet as at September 30, 2011 .....	F-41
Unaudited pro forma statement of earnings for the year ended December 31, 2010 .....	F-42
Unaudited pro forma statement of earnings for the nine-month period ended September 30, 2011 .....	F-43
Notes to unaudited pro forma financial statements .....	F-44

**CERTIFICATE OF THE UNDERWRITERS**

Date: February 7, 2012

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

**SCOTIA CAPITAL INC.**

By: (signed) "*Mark Herman*"

**TD SECURITIES INC.**

By: (signed) "*Alec W. G. Clark*"

**CIBC WORLD MARKETS INC.**

By: (signed) "*Kelsen Vallee*"

**RBC DOMINION SECURITIES INC.**

By: (signed) "*Derek Neldner*"

**BMO NESBITT BURNS INC.**

By: (signed) "*Aaron M. Engen*"

**NATIONAL BANK FINANCIAL INC.**

By: (signed) "*Iain Watson*"

**CANACCORD GENUITY CORP.**

By: (signed) "*Karl B. Staddon*"

**HSBC SECURITIES (CANADA) INC.**

By: (signed) "*Jay Lewis*"