

# Zargon Oil & Gas Ltd. Provides 2017 Third Quarter Results and Provides First Half 2018 Guidance and Capital Budget

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CALGARY, Alberta, Nov. 13, 2017 (GLOBE NEWSWIRE) -- Zargon Oil & Gas Ltd. ("Zargon" or the "Company") (TSX:ZAR) (TSX:ZAR.DB.A).

## *FINANCIAL AND OPERATING HIGHLIGHTS (THREE MONTHS ENDED SEPTEMBER 30, 2017)*

- Third quarter 2017 production averaged 2,628 barrels of oil equivalent per day, a five percent increase from the preceding quarter rate of 2,500 barrels of oil equivalent per day.
- Third quarter 2017 funds flow from operating activities of \$1.76 million increased 54 percent from the \$1.14 million recorded in the prior quarter.
- Third quarter 2017 operating (including transportation) costs of \$20.17 per barrel of oil equivalent per day were ten percent less than the preceding quarter's costs of \$22.49 per barrel of oil equivalent per day.
- Third quarter 2017 general and administrative costs of \$3.68 per barrel of oil equivalent per day were 25 percent less than the preceding quarter's costs of \$4.89 per barrel of oil equivalent per day.
- Third quarter 2017 capital expenditures were \$1.77 million and were primarily allocated to oil exploitation costs relating to facility, waterflood implementation and well reactivation expenditures. These third quarter expenditures included \$0.61 million of expenditures related to the Little Bow ASP project (\$0.08 million exploitation and \$0.53 million chemical costs). No wells were drilled in the quarter.
- For the remainder of 2017, Zargon is budgeting \$1.89 million of capital expenditures that is anticipated to completely offset the impact of Zargon's base production decline rate of less than 10 percent per year. The capital program will be focused on the Little Bow non-ASP waterflood modifications and reactivations, Truro, North Dakota waterflood modifications, Bellshill Lake pumping oil well optimizations and Little Bow ASP project polymer costs. For further information regarding the potential and economics of these projects, please refer to our updated corporate presentation, which is available at [www.zargon.ca](http://www.zargon.ca).
- Third quarter 2017 abandonment and reclamation costs totaled \$0.55 million. For the remainder of 2017, Zargon is budgeting \$0.55 million of abandonment and reclamation expenditures.
- Zargon has initiated its 2018 hedging program and has entered into West Texas Intermediate ("WTI") hedges to fix the price on 1,000 barrels per day of oil production at an average price of \$70.15 Canadian for the first quarter of 2018 and a WTI hedge to fix the price on 500 barrels per day of oil production at a price of \$71.00 Canadian for the second quarter of 2018.

## 2017 Production Guidance

In a December 12, 2016 capital budget press release, Zargon provided 2017 annual guidance levels of 2,500 barrels of oil equivalent per day. Zargon's year to date and third quarter 2017 production volumes have averaged 2,569 and 2,628 barrels of oil equivalent per day, respectively. Fourth quarter 2017 production volumes are expected to average 2,550 barrels of oil equivalent per day.

The 2017 production guidance levels have been consistently exceeded by virtue of a \$8.30 million (projected) 2017 capital program focused on waterflood implementation and optimizations plus well reactivations / recompletions.

## H1 2018 Capital Budget

Zargon's Board of Directors has approved a first half 2018 capital budget of \$3.70 million. This budget is projected to deliver first half 2018 guidance levels of 2,600 barrels of oil equivalent per day (79 per cent oil and liquids), and is expected to be fully financed out of first half 2018 corporate funds flow at oil prices of \$68.50 (Cdn.) per barrel (WTI) or better. Excluding hedges, Zargon estimates that its 2018 full year corporate funds flow will increase approximately \$0.66 million for every \$1 (Cdn.) per barrel (WTI) increase in oil price.

Similar to 2017, the first half 2018 capital budget will be directed to Little Bow non-ASP waterflood modifications and reactivations, North Dakota waterflood modifications, Bellshill Lake pumping oil well optimizations and Little Bow ASP project polymer costs. For further information regarding the potential and economics of these projects, please refer to our updated corporate presentation, which is available at [www.zargon.ca](http://www.zargon.ca).

## Strategic Alternatives Process Update

In 2015 Zargon formed a Special Board Committee (the "Committee") to examine alternatives available to maximize shareholder value. Macquarie Capital Markets Canada Ltd. ("Macquarie") is currently engaged as Zargon's exclusive financial advisor. The Committee oversaw \$92.04 million of property sales in 2016 and this year's partial repayment and amendment of Zargon's convertible debentures. The Company continues to evaluate strategic alternatives available to Zargon which may include a sale of the Company or a portion of the Company's assets, a restructuring of the Company's current capital structure, the addition of capital to further develop the potential of the assets, a merger, a farm-in or joint venture, or other such options as may be determined by the Board of Directors to be in the best interests of the Company and its stakeholders.

| 2017  | Three Months Ended<br>September 30, |          |        | Percent<br>Change | Nine Months<br>September |        |
|---|-------------------------------------|----------|--------|-------------------|--------------------------|--------|
|   | 2016                                |          |        |                   | 2017                     | 2016   |
| <b>Financial Highlights</b>   |                                     |          |        |                   |                          |        |
| Income and Investments (\$ millions)  |                                     |          |        |                   |                          |        |
| Gross petroleum and natural gas sales   | 9.28                                | 12.33    | (25 )  | 28.37             | 30.37                    | (10 )  |
| Funds flow from/(used in) operating activities                                | 1.76                                | (0.51 )  | 445    | 4.40              | 2.19                     | 100    |
| Cash flows from operating activities  | 0.25                                | 3.19     | (92 )  | 2.19              | 6.41                     | (66 )  |
| Net earnings/(loss)   | (3.51 )                             | 11.73    | (130 ) | (5.76 )           | (2.19 )                  | (262 ) |
| Field capital and administrative asset expenditures                           | 1.77                                | 1.76     | 1      | 6.24              | 5.41                     | 15     |
| Net property acquisitions/(dispositions)                                      | &ndash;                             | (92.05 ) | 100    | 0.17              | (9.17 )                  | (95 )  |
| Net capital expenditures/(dispositions)                                       | 1.77                                | (90.29 ) | 102    | 6.41              | (8.40 )                  | (23 )  |
| <b>Per Share, Basic</b>   |                                     |          |        |                   |                          |        |
| Funds flow from/(used in) operating activities (\$/share)                     | 0.06                                | (0.02 )  | 400    | 0.14              | 0.00                     | 100    |
| Net earnings/(loss) (\$/share)  | (0.11 )                             | 0.38     | (129 ) | (0.19 )           | (0.00 )                  | 100    |
| <b>Balance Sheet at Period End (\$ millions)</b>                              |                                     |          |        |                   |                          |        |
| Property and equipment (D&P)  |                                     |          |        |                   | 131.46                   | 131.46 |
| Exploration and evaluation assets (E&E)                                       |                                     |          |        |                   | 1.99                     | 1.99   |
| Total assets  |                                     |          |        |                   | 144.76                   | 144.76 |
| Net debt  |                                     |          |        |                   | 36.70                    | 36.70  |
| Convertible debentures at maturity  |                                     |          |        |                   | 41.94                    | 41.94  |
| Shareholders' equity  |                                     |          |        |                   | 26.19                    | 26.19  |
| Weighted Average Shares Outstanding for the Period (millions) &ndash; Basic   | 30.75                               | 30.50    | 1      | 30.71             | 30.71                    | 100    |
| Weighted Average Shares Outstanding for the Period (millions) &ndash; Diluted | 30.75                               | 33.83    | (9 )   | 30.71             | 30.71                    | 100    |
| Total Common Shares Outstanding at Period End (millions)                      |                                     |          |        |                   | 30.75                    | 30.75  |

*Funds flow from operating activities is an additional GAAP term that represents net earnings/loss except for*

*non-cash items. As at March 31, 2017, it has been restated and no longer includes asset retirement expenditures.*

*Net debt is a non-GAAP measure that represents bank debt (if any) plus the convertible debenture of \$41.94 million or \$57.50 million (prior to March 31, 2017) and any working capital excluding unrealized derivative assets/liabilities.*

| 2017  | Three Months Ended<br>September 30, |         | Percent<br>Change | Nine Months<br>September 30,<br>2017 |
|---|-------------------------------------|---------|-------------------|--------------------------------------|
| <b>Operating Highlights</b>   |                                     |         |                   |                                      |
| <b>Average Daily Production</b>   |                                     |         |                   |                                      |
| Oil and liquids (bbl/d)   | 2,037                               | 2,915   | (30)              | 1,991                                |
| Natural gas (mmcf/d)  | 3.55                                | 3.39    | 5                 | 3.47                                 |
| Equivalent (boe/d)  | 2,628                               | 3,480   | (24)              | 2,569                                |
| <b>Average Selling Price (before the impact of financial risk management contracts)</b> |                                     |         |                   |                                      |
| Oil and liquids (\$/bbl)  | 47.17                               | 43.41   | 9                 | 48.50                                |
| Natural gas (\$/mcf)  | 1.34                                | 2.20    | (39)              | 2.11                                 |
| <b>Netback (\$/boe)</b>   |                                     |         |                   |                                      |
| Gross petroleum and natural gas sales   | 38.36                               | 38.50   | &ndash;           | 40.45                                |
| Royalties   | (4.69)                              | (4.60)  | 2                 | (4.62)                               |
| Realized gain/(loss) on derivatives   | 0.95                                | (0.13)  | 831               | 0.33                                 |
| Operating expenses  | (19.65)                             | (17.79) | 10                | (21.02)                              |
| Transportation expenses   | (0.52)                              | (0.54)  | (4)               | (0.51)                               |
| Operating netback   | 14.45                               | 15.44   | (6)               | 14.63                                |
| Wells Drilled, Net  | &ndash;                             | &ndash; | &ndash;           | &ndash;                              |
| Undeveloped Land at Period End (thousand net acres)                                     |                                     |         |                   | 36                                   |

*The calculation of barrels of oil equivalent (&ldquo;boe&rdquo;) is based on the conversion ratio that six thousand cubic feet of natural gas is equivalent to one barrel of oil.*

## Forward-Looking Statements

This press release offers our assessment of Zargon's future plans and operations as at November 13, 2017, and contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "anticipate&rdquo;, &ldquo;continue&rdquo;, &ldquo;estimate&rdquo;, &ldquo;expect&rdquo;, &ldquo;forecast&rdquo;, &ldquo;may&rdquo;, &ldquo;will&rdquo;, &ldquo;project&rdquo;, &ldquo;should&rdquo;, &ldquo;plan&rdquo;, &ldquo;intend&rdquo;, &ldquo;believe&rdquo; and similar expressions (including the negatives thereof) are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this news release contains forward-looking information and statements pertaining to the following: guidance as to our 2017 capital budget and abandonment and reclamation costs under the heading &ldquo;Financial & Operating Highlights&rdquo;, our 2017 production under the heading &ldquo;2017 Production Guidance&rdquo;; our first half 2018 capital budget, production volumes and funds flow under the heading &ldquo;H1 2018 Capital Budget&rdquo;; and our strategic alternatives process under the heading &ldquo;Strategic Alternatives Process Update&rdquo;. In addition, all statements relating to reserves, including ASP reserves, in this press release are deemed to be forward-looking as they involve an implied assessment, based on certain assumptions and estimates, that the reserves described, can be properly produced in the future.

The forward-looking information and statements included in this news release are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially

from those anticipated in such forward-looking information or statements including, without limitation: those relating to results of operations and financial condition; general economic conditions; industry conditions; changes in regulatory and taxation regimes; volatility of commodity prices; escalation of operating and capital costs; currency fluctuations; the availability of services; imprecision of reserve estimates; geological, technical, drilling and processing problems; environmental risks; weather; the lack of availability of qualified personnel or management; stock market volatility; the ability to access sufficient capital from internal and external sources; and competition from other industry participants for, among other things, capital, services, acquisitions of reserves, undeveloped lands and skilled personnel. Risks are described in more detail in our Annual Information Form, which is available on [www.zargon.ca](http://www.zargon.ca) and on [www.sedar.com](http://www.sedar.com). Forward-looking statements are provided to allow investors to have a greater understanding of our business.

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

#### Additional GAAP and Non-GAAP Financial Measures

Zargon uses the following terms for measurement within this press release that do not have a standardized prescribed meaning under Canadian generally accepted accounting principles (“GAAP”) and these measurements may not be comparable with the calculation of similar measurements of other entities.

The terms “funds flow from operating activities” and “operating netback per boe” in this press release are not recognized measures under GAAP. Management of Zargon believes that in addition to net earnings and cash flows from operating activities as defined by GAAP, these terms are useful supplemental measures to evaluate operating performance and assess leverage. Users are cautioned, however, that these measures should not be construed as an alternative to net earnings or cash flows from operating activities determined in accordance with GAAP as an indication of Zargon’s performance.

Zargon considers funds flow from operating activities to be an important measure of Zargon’s ability to generate the funds necessary to finance capital expenditures, pay dividends and repay debt. All references to funds flow from operating activities throughout this press release are based on cash provided by operating activities before the change in non-cash working capital and asset retirement expenditures since Zargon believes the timing of collection, payment or incurrence of these items involves a high degree of discretion and, as such, may not be useful for evaluating Zargon’s operating performance. Zargon’s method of calculating funds flow from operating activities may differ from that of other companies and, accordingly, may not be comparable to measures used by other companies. Funds flow from operating activities per basic share is calculated using the same weighted average basic shares outstanding as is used in calculating earnings per basic share. See Zargon’s Management’s Discussion and Analysis (“MD&A”) as filed on [www.zargon.ca](http://www.zargon.ca) and on [www.sedar.com](http://www.sedar.com) for the periods ended June 30, 2017 and 2016 for a discussion of cash flows from operating activities and funds flow from operating activities.

#### 51-101 Advisory

In conformity with National Instrument 51-101, Standards for Disclosure of Oil and Gas Activities (“NI 51-101”), natural gas volumes have been converted to barrels of oil equivalent (“boe”) using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. In certain circumstances, natural gas liquid volumes have been converted to a thousand cubic feet equivalent (“mcf”)

on the basis of one barrel of natural gas liquids to six thousand cubic feet of gas. Boes and mcfes may be misleading, particularly if used in isolation. A conversion ratio of one barrel to six thousand cubic feet of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio on a 6:1 basis may be misleading as an indication of value.

## Filings

Zargon has filed with Canadian securities regulatory authorities its unaudited financial statements for the three and nine months ended September 30, 2017 and the accompanying MD&A. These filings are available on [www.zargon.ca](http://www.zargon.ca) and under Zargon's SEDAR profile on [www.sedar.com](http://www.sedar.com).

## About Zargon

Zargon is a Calgary-based oil and natural gas company working in the Western Canadian and Williston sedimentary basins and is focused on oil exploitation projects (water floods and tertiary ASP) that profitably increase oil production and recovery factors from existing oil reservoirs.

In order to learn more about Zargon, we encourage you to visit Zargon's website at [www.zargon.ca](http://www.zargon.ca) where you will find a current shareholder presentation, financial reports and historical news releases.

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