

# Zargon Oil & Gas Ltd. Provides 2018 First Quarter Results and Provides Second Half 2018 Guidance

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CALGARY, Alberta, May 14, 2018 (GLOBE NEWSWIRE) -- Zargon Oil & Gas Ltd. ("Zargon" or the "Company").

## FINANCIAL AND OPERATING HIGHLIGHTS (THREE MONTHS ENDED MARCH 31, 2018)

- Funds flow from operating activities of a negative \$0.30 million compare to the positive \$1.59 million recorded in the prior quarter, and the positive \$1.50 million reported in first quarter of 2017. The reduction in funds flow is primarily due to Zargon's first quarter 2018 realized hedging losses of \$0.85 million and higher one-time operating and transportation costs.
- First quarter 2018 production averaged 2,427 barrels of oil equivalent per day essentially unchanged from 2,416 barrels of oil equivalent per day in the prior quarter and a six percent decrease from the 2017 first quarter rate of 2,579 barrels of oil equivalent per day.
- First quarter 2018 capital expenditures totaled \$1.50 million, a \$0.95 million decrease from the \$2.45 million recorded in the prior quarter. The cash constrained reduced program was primarily allocated to reactivations and waterflood optimizations. No wells were drilled in the quarter.
- First quarter 2018 abandonment and reclamation costs totaled \$0.61 million, a \$0.26 million decrease from the \$0.87 million recorded in the prior quarter.

## Discussion

Zargon's first quarter results reflected the following challenges:

- WTI oil hedge losses: For the first half of 2018, Zargon has hedged 1,000 barrels of oil per day at an average WTI oil price of \$70.33 Canadian dollar per barrel. WTI oil prices averaged \$79.51 Canadian dollar per barrel in the first quarter and are currently exceeding \$88 Canadian dollar per barrel. Although Zargon's first quarter realized hedge loss was \$0.85 million, we did not receive an offsetting benefit in our field prices received due to the large increase in WTI-WCS differentials.
- WTI-WCS differentials: Zargon's realized field prices for our Alberta properties tracks closely (small premium) to the posted WCS prices. For the 2018 first quarter, the WTI-WCS differential averaged \$30.76 Canadian dollar per barrel, almost double the actual 2017 WTI-WCS differential of \$15.57 Canadian dollar per barrel. This field price reduction was not protected by our WTI hedges and resulted in a significant decrease in field revenues. Although April 2018 differentials have remained elevated, the May 2018 differentials have improved dramatically and have returned to the \$21.50 Canadian dollar per barrel level.
- Operating Costs: The first quarter operating costs were elevated due to a combination of workover expenditures (non-capitalized) on a set of challenging reactivations, higher electricity costs and cold weather related operational costs. Looking forward, we expect to return to our historical operating costs for the remainder of the year.
- Natural gas economics and shut-ins: This summer's Alberta natural gas pricing outlook remains challenging, and we have proactively shut-in our uneconomic natural gas properties. For the 2018 second half, we are now forecasting an average natural gas rate of 1.91 million cubic feet per day.
- Capital programs: With the sharp reduction in first quarter cash flows, we have deferred spending on our discretionary oil exploitation capital programs until the third quarter of this year, when our WTI oil hedges will have expired and the current forward curve for WTI prices and WTI-WCS differentials are predicting a 26 percent improvement in our average field price from first quarter levels. These capital deferrals are having an impact on our oil production and for the 2018 second half, we are now forecasting an average oil and liquids rate of 1,830 barrels of oil per day.

Fortunately, the outlook for Zargon is improving dramatically with the recent ramp up in WTI oil prices, the June 30 expiry of our "out of the money" hedges, the May 2018 improvement of the WTI-WCS

differentials, the return to base level operating costs for the remainder of the year and the resumption of our oil exploitation capital programs in the second half of this year. For further information regarding Zargon's properties, opportunities and outlook, please refer to our updated corporate presentation, which is available at [www.zargon.ca](http://www.zargon.ca).

### Strategic Alternatives Process Update

Zargon's Board of Directors recognizes that Zargon is a suboptimal size to operate as a public oil and gas Company in Canada, and continues to explore alternatives to allow Zargon to continue as part of a larger better, capitalized entity. The Board also recognizes, that Zargon's long-life, low-decline oil exploitation assets have significant upside potential in a period of prolonged higher oil prices. In addition to this option value to higher oil prices, Zargon brings a TSX listing and more than \$150 million of non-capital losses that could have significant value in a more favourable Canadian energy investment climate.

In an effort to realize these unrecognized values, Zargon has previously initiated a strategic alternatives process and continues to seek outcomes that will maximize the value for the Company and its stakeholders.

	Three Months Ended March 31,		
	2018	2017	Percent Change
<b>Financial Highlights</b>			
<b>Income and Investments (\$ millions)</b>			
Gross petroleum and natural gas sales	9.71	9.69	&ndash;
Funds flow from/(used in) operating activities	(0.30 )	1.50	(120 )
Cash flows from operating activities	0.80	2.52	(68 )
Net loss	(4.33 )	(0.54 )	(702 )
Field capital and administrative asset expenditures	1.91	2.38	(20 )
Net property acquisitions/(dispositions)	(0.41 )	0.13	(415 )
Net capital expenditures	1.50	2.51	(40 )
<b>Per Share, Basic</b>			
Funds flow from/(used in) operating activities (\$/share)	(0.01 )	0.05	(120 )
Net loss (\$/share)	(0.14 )	(0.02 )	(600 )
<b>Balance Sheet at Period End (\$ millions)</b>			
Property and equipment (D&P)	126.89	136.09	(7 )
Exploration and evaluation assets (E&E)	1.79	2.30	(22 )
Total assets	136.83	153.75	(11 )
Net debt	40.79	35.09	16
Convertible debentures at maturity	41.94	41.94	&ndash;
Shareholders' equity	19.16	31.59	(39 )
Weighted Average Shares Outstanding for the Period (millions) &ndash; Basic	30.84	30.67	1
Weighted Average Shares Outstanding for the Period (millions) &ndash; Diluted	30.84	30.81	&ndash;
Total Common Shares Outstanding at Period End (millions)	30.86	30.72	&ndash;

*Funds flow from operating activities is an additional GAAP term that represents net earnings/loss except for non-cash items.*

*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.*

	Three Months Ended March 31,		
	2018	2017	Percent Change

## Operating Highlights

## Average Daily Production

Oil and liquids (bbl/d)	1,949	2,016	(3
Natural gas (mmcf/d)	2.87	3.38	(15
Equivalent (boe/d)	2,427	2,579	(6
Average Selling Price (before the impact of financial risk management contracts)			
Oil and liquids (\$/bbl)	52.48	49.30	6
Natural gas (\$/mcf)	1.98	2.45	(19
Netback (\$/boe)			
Gross petroleum and natural gas sales	44.47	41.74	7
Royalties	(5.88	) (4.29	) 37
Realized gain/(loss) on derivatives	(3.89	) 0.13	(3092
Operating expenses	(26.97	) (21.86	) 23
Transportation expenses	(0.55	) (0.15	) 267
Operating netback	7.18	15.57	(54
Wells Drilled, Net	&ndash;	&ndash;	&ndash;
Undeveloped Land at Period End (thousand net acres)	33	40	(18

*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&rsquo;s future plans and operations as at May 14, 2018, 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 for our 2018 WTI-WCS differential under the heading &ldquo;Discussion&rdquo;, our remaining 2018 operating costs under the heading &ldquo;Discussion&rdquo;, our 2018 second half natural gas production under the heading &ldquo;Discussion&rdquo;, our 2018 capital budget under the heading &ldquo;Discussion&rdquo;, our 2018 second half oil and liquids production under the heading &ldquo;Discussion&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 months ended March 31, 2018 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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