

Zargon Oil & Gas Ltd. Provides 2018 Second Quarter Results and Provides Updated Guidance

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CALGARY, Aug. 08, 2018 - Zargon Oil & Gas Ltd. (“Zargon” or the “Company”) (TSX SYMBOLS: ZAR; ZAR.DB.A).

FINANCIAL AND OPERATING HIGHLIGHTS (THREE MONTHS ENDED JUNE 30, 2018)

- Funds flow from operating activities of \$0.58 million compared to a negative \$0.30 million recorded in the prior quarter, and the positive \$1.14 million reported in the second quarter of 2017. The increase from the prior quarter is primarily due to increased WTI prices and improved WTI-WCS differentials, offset by realized hedging losses of \$1.56 million.
- Second quarter 2018 production averaged 2,118 barrels of oil equivalent per day, a 13 percent decrease from the preceding quarter rate of 2,427 barrels of oil equivalent per day and a 15 percent decline from the second quarter 2017 production rate of 2,500 barrels of oil equivalent per day. The reduction in production volumes was primarily due to the shut-in of uneconomic natural gas properties. Second quarter oil production averaged 1,805 barrels per day, a seven percent decline from the preceding quarter rate of 1,949 barrels per day.
- Second quarter 2018 field operating netbacks defined as sales (excluding hedges) less royalties and operating/transportation costs were \$20.86 per barrel of oil equivalent an increase of 88 percent from the first quarter of 2018 field operating netback of \$11.07 per barrel of oil equivalent. The corresponding second quarter 2018 field operating cash flow was \$4.02 million, a 66 percent improvement from the prior quarter’s \$2.42 million.
- For the second quarter of 2018, field revenues (unhedged) were \$56.23 per barrel of oil equivalent per day (\$44.47 per barrel of oil equivalent per day in Q1 2018), royalties were \$8.13 per barrel of oil equivalent per day (\$5.88 per barrel of oil equivalent per day in Q1 2018) and operating (including transportation) costs were \$27.24 per barrel of oil equivalent per day (\$27.52 per barrel of oil equivalent per day in Q1 2018).
- Second quarter 2018 capital expenditures were \$1.19 million, a \$0.31 million decrease from the \$1.50 million recorded in the prior quarter. No wells were drilled in the quarter.
- Second quarter 2018 abandonment and reclamation costs totaled \$0.24 million, a \$0.37 million decrease from the \$0.61 million recorded in the prior quarter.

Discussion

The second quarter of 2018 realized many improvements over the first quarter which had reflected significant challenges:

- WTI oil hedge losses: For the second quarter of 2018, Zargon hedged 1,000 barrels of oil per day at an average WTI oil price of \$70.50 Canadian dollar per barrel. WTI oil prices averaged \$87.64 Canadian dollar per barrel in the second quarter, which created a second quarter realized hedge loss of \$1.56 million. Our hedges expired on June 30, 2018 and going forward we will be able to fully benefit from substantially improved WTI oil prices.

- **WTI-WCS differentials:** Zargon's realized field prices for our Alberta properties tracks closely (small premium) to the posted WCS prices. For the 2018 second quarter, the WTI-WCS differential averaged \$24.82 Canadian dollar per barrel, an improvement compared to the prior quarter WTI-WCS differential of \$30.76 Canadian dollar per barrel.
- **Operating Costs:** The second quarter operating costs of \$5.25 million decreased by \$0.76 million or 13 percent compared to the prior quarter. Looking forward, we expect further operating cost improvements in 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 1.60 million cubic feet per day.
- **Capital programs:** With the sharp reduction in first quarter cash flows, we deferred spending on all discretionary oil exploitation capital programs. These capital deferrals are having a significant impact on our oil production, and we are now forecasting an average oil and liquids rate of 1,750 barrels of oil per day for the second half of the year.

The outlook for Zargon has improved with the year's significant improvement in WTI oil prices, the expiry of our H1 2018 oil hedges, and the return to base level operating costs from substantially higher first quarter levels. With continued improvements, we plan to resume our oil exploitation capital programs in the fourth quarter of the 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.

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 June 30, Six Mo			
2018	2017	Percent Change	2018	
Financial Highlights				
Income and Investments (\$ millions)				
Gross petroleum and natural gas sales	10.84	9.40	15	20.55
Funds flow from operating activities	0.58	1.14	(49	) 0.27
Cash flows from/(used in) operating activities	1.98	(0.59	) 436	2.78
Net loss	(1.68	) (1.71	) 2	(6.02
Field capital and administrative asset expenditures	1.19	2.09	(43	) 3.10
Net property acquisitions/(dispositions)	–	0.04	(100	) (0.41
Net capital expenditures	1.19	2.13	(44	) 2.69
Per Share, Basic				
Funds flow from operating activities (\$/share)	0.02	0.04	(50	) 0.01
Net loss (\$/share)	(0.05	) (0.06	) 17	(0.20
Balance Sheet at Period End (\$ millions)				
Property and equipment (D&P)				125.41
Exploration and evaluation assets (E&E)				1.82
Total assets				135.80
Net debt				41.54

Convertible debentures at maturity				41.94
Shareholders' equity				17.68
Weighted Average Shares Outstanding for the Period (millions) – Basic	30.86	30.73	–	30.85
Weighted Average Shares Outstanding for the Period (millions) – Diluted	30.91	30.73	1	30.88
Total Common Shares Outstanding at Period End (millions)				30.89

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.

2018	Three Months Ended June 30, Six M			
	2017	Percent Change	2018	
Operating Highlights				
Average Daily Production				
Oil and liquids (bbl/d)	1,805	1,921 (6)	1,877	
Natural gas (mmcf/d)	1.88	3.47 (46)	2.37	
Equivalent (boe/d)	2,118	2,500 (15)	2,272	
Average Selling Price (before the impact of financial risk management contracts)				
Oil and liquids (\$/bbl)	64.94	49.10 32	58.50	
Natural gas (\$/mcf)	0.99	2.59 (62)	1.58	
Netback (\$/boe)				
Gross petroleum and natural gas sales	56.23	41.34 36	49.97	
Royalties	(8.13)	(4.89) 66	(6.94)	
Realized gain/(loss) on derivatives	(8.07)	(0.12) (6625)	(5.85)	
Operating expenses	(26.75)	(21.97) 22	(26.86)	
Transportation expenses	(0.49)	(0.52) (6)	(0.52)	
Operating netback	12.79	13.84 (8)	9.80	
Wells Drilled, Net	–	–	–	–
Undeveloped Land at Period End (thousand net acres)				33

The calculation of barrels of oil equivalent (“boe”) 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 August 8, 2018, and contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "anticipate”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “should”, “plan”, “intend”, “believe” and similar expressions (including the negatives thereof) are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this news release contains forward-looking information and statements pertaining to the following: guidance for our 2018 WTI-WCS differential under the heading “Discussion”, our remaining 2018 operating costs under the heading “Discussion”, our 2018 second half natural gas production under the heading “Discussion”, our 2018 capital budget under the heading “Discussion”, our 2018 second half oil and liquids production under the heading “Discussion”, and our strategic alternatives process under the heading “Strategic Alternatives Process Update”. 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 and on 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 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 and on www.sedar.com for the periods ended June 30, 2018 and 2017 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 mcfe 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 six months ended June 30, 2018 and the accompanying MD&A. These filings are available on www.zargon.ca and under Zargon’s SEDAR profile on 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 where you will find a current shareholder presentation, financial reports and historical news releases.

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