

Zargon Oil & Gas Ltd. Provides 2019 Third Quarter Results

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CALGARY, Nov. 13, 2019 - [Zargon Oil & Gas Ltd.](#) ("Zargon" or the "Company") (TSX SYMBOL: ZAR).

FINANCIAL AND OPERATING HIGHLIGHTS (THREE MONTHS ENDED SEPT 30, 2019)

- Funds flow from operating activities of \$1.41 million compared to \$2.17 million recorded in the prior quarter. The decrease from the prior quarter was primarily due to lower production volumes and commodity prices that were partially offset by lower general and administrative expenses.
- Third quarter 2019 production averaged 1,715 barrels of oil equivalent per day, a four percent decrease from the preceding quarter production rate of 1,790 barrels of oil equivalent per day. The reduction in production volumes from the prior quarter was primarily due to natural production declines and facility outages relating to summer electrical storms and annual facility maintenance turn-arounds. Third quarter 2019 production averaged 1,489 barrels of oil per day and 1.36 million cubic feet of natural gas per day, levels that are anticipated to be maintained through fourth quarter 2019.
- Zargon's third quarter 2019 field oil prices averaged \$59.12 per barrel, eight percent lower than the prior quarter's price of \$64.51 per barrel. The combination of lower oil prices and oil volumes resulted in an 11 percent reduction in third quarter 2019 revenues to \$8.19 million, down from \$9.17 million in the prior quarter. With relatively consistent operating costs and royalty rates, this reduction in revenue carried through to Zargon's third quarter 2019 field operating cash flow of \$2.32 million, a 28 percent decline from the prior quarter's \$3.23 million.
- Zargon remains committed to reducing corporate costs and was successful in reducing third quarter 2019 general administrative costs (inclusive of transaction, exploration and evaluation costs) through further staff adjustments and realignments to \$0.71 million, down 13 percent from \$0.82 million in second quarter 2019. After the further deduction of \$0.20 million of third quarter 2019 interest, finance and US federal tax charges, Zargon's remaining third quarter 2019 funds flow from operating activities were \$1.41 million.
- Zargon also remains committed to reducing its inactive well count in order to facilitate possible business combinations with other small producers. During the 2019 third quarter, Zargon incurred \$0.95 million of abandonment and reclamation costs, which takes Zargon's year-to-date expenditures to \$1.65 million. For 2019, Zargon is now planning to spend \$2.60 million on abandonment and reclamations that will include the abandoning of a minimum of 25 net operated and 32 net non-operated wells, which will result in a 17 percent reduction in Zargon's year end 2018 total inactive well count of 335 net wells. In Alberta, Zargon has voluntarily participated in the Alberta Energy Regulator's ("AER") Area Based Closure ("ABC") program which enables significant cost savings by encouraging large scale area based abandonment programs. For 2019 and 2020, Zargon's abandonment expenditure commitments for the ABC program are \$1.16 million and \$1.26 million, respectively.
- Zargon's third quarter 2019 capital expenditures were \$1.21 million, a \$0.42 million increase from the \$0.79 million recorded in the prior quarter which takes Zargon's year-to-date expenditures to \$2.75 million. Zargon's 2019 capital program is expected to total \$3.50 million and is primarily allocated to oil exploitation programs (waterfloods), Little Bow Polymer costs, well reactivations, and pipeline construction projects. Recent well recompletions and stimulations at the Little Bow non-ASP property have delivered good results that should stabilize Zargon's total oil volumes through the upcoming winter. Consistent with the last few years, Zargon did not drill any of its proven undeveloped locations (Taber, Bellshill Lake and North Dakota) in the quarter, as Zargon conserved its cash to retire debt and retire abandonment liabilities.

- At September 30, 2019, the Company's combined debt net of working capital was \$2.09 million, which compares with Zargon's calculated \$1.34 million of debt net of working capital in the prior quarter.

With substantial fixed operating and capital costs to maintain production and meet abandonment retirement obligations, the outlook for Zargon is extremely dependent on Zargon's field oil price, which in turn is extremely dependent on WTI prices and WTI-WCS pricing differentials. 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 Special Committee of the Board (the "Committee") continues to seek alternatives to maximize shareholder value. Macquarie Energy Canada Ltd. ("Macquarie") is currently engaged as Zargon's exclusive financial advisor to evaluate strategic alternatives available to Zargon which may include asset acquisitions, 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.

	Three Months Ended Sept 30, Nine M			
	2019	2018	Percent Change	2019
Financial Highlights				
Income and Investments (\$ millions)				
Gross petroleum and natural gas sales	8.19	10.17	(19	) 25.67
Funds flow from operating activities	1.41	1.93	(27	) 4.81
Cash flows from operating activities	0.61	0.85	(28	) 2.46
Free cash flow	(0.75	) 0.76	(199	) 0.41
Net earnings/(loss)	(0.91	) (0.64	) (42	) 23.60
Net capital expenditures	1.21	0.93	30	2.75
Abandonment and reclamation costs	0.95	0.24	296	1.65
Per Share, Basic				
Funds flow from operating activities (\$/share)	0.06	1.25	(95	) 0.22
Net earnings/(loss) (\$/share)	(0.04	) (0.41	) 90	1.07
Balance Sheet at Period End (\$ millions)				
Property and equipment (D&P)				95.43
Total assets				104.27
Working capital				2.44
Convertible debentures at maturity				–
Shareholders' equity				27.81
Weighted Average Shares Outstanding for the Period (millions) – Basic	22.99	1.54	1393	22.13
Weighted Average Shares Outstanding for the Period (millions) – Diluted	22.99	1.55	1383	22.13
Total Common Shares Outstanding at Period End (millions)				22.99

Funds flow from operating activities is an additional GAAP measure presented on the consolidated statement of cash flows, it represents cash flow from operating activities adjusted for asset retirement expenditures and changes in non-cash operating working capital.

Working capital excludes derivative assets/liabilities and short term debt.

	Three Months Ended Sept 30, Nine M			
	2019	2018	Percent Change	2019

Operating Highlights

Average Daily Production

Oil and liquids (bbl/d)	1,489	1,680	(11	) 1,534
Natural gas (mmcf/d)	1.36	1.64	(17	) 1.42
Equivalent (boe/d)	1,715	1,953	(12	) 1,771
Average Selling Price (before the impact of financial risk management contracts)				
Oil and liquids (\$/bbl)	59.12	64.83	(9	) 60.05
Natural gas (\$/mcf)	0.76	1.00	(24	) 1.35
Netback (\$/boe)				
Gross petroleum and natural gas sales	51.93	56.61	(8	) 53.11
Royalties	(7.13	) (8.57	) (17	) (6.82
Realized loss on derivatives	–	–	–	–
Operating expenses	(29.27	) (26.50	) 10	(29.40
Transportation expenses	(0.81	) (0.65	) 25	(0.70
Operating netback	14.72	20.89	(30	) 16.19
Wells Drilled, Net	–	–	–	–
Undeveloped Land at Period End (thousand net acres)				32

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 November 13, 2019, 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 our strategic alternatives process under the heading “Strategic Alternatives Process”. 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 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, 2019 and 2018 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, 2019 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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