TSX Symbol: ZAR - Zargon Oil & Gas Ltd. Provides 2020 Second Quarter Results

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CALGARY, Aug. 13, 2020 - Zargon Oil & Gas Ltd. ("Zargon" or the "Company") (TSX:ZAR) has released its 2020 second quarter financial results. Highlights from the second quarter ended Jun. 30, 2020 are provided below:

FINANCIAL AND OPERATING HIGHLIGHTS (THREE MONTHS ENDED JUNE 30, 2020)

- The Company may be required to seek formal creditor protection in the very near term. There is material uncertainty surrounding the Company's ability to continue as a going concern that creates significant doubt as to the ability of the Company to meet its obligations as they come due. Therefore, the Company may be unable to realize it assets and discharge its liabilities in the normal course of business.
- On April 2, 2020, <u>Zargon Oil & Gas Ltd.</u> (“Zargon” or the “Company”) announced that it had entered into an agreement to settle its \$3.05 million (USD) term debt through the sale of its US subsidiaries for nominal proceeds and the release of the Company from its obligations under the loan agreement. The gain from the sale was \$3.42 million.
- Funds flow from operating activities was a negative \$1.88 million, compared to a negative \$1.24 million recorded in the prior quarter. The decrease from the prior quarter was primarily due to lower production volumes and lower commodity prices.
- Second quarter 2020 production averaged 504 barrels of oil equivalent per day (382 barrels of oil per day and 0.74 million cubic feet of natural gas per day), a 70 percent decrease from the preceding quarter production rate of 1,706 barrels of oil equivalent per day. The reduction in production volumes from the prior quarter was primarily due to the sale of Willison Basin USA property and the shut in of Alberta operated properties in April, 2020 when Zargon shut in all producing Alberta operated properties as realized field oil prices declined to levels significantly below the variable costs of production. In July 2020, Zargon reactivated two Little Bow producers with a combined production of 120 barrels of oil equivalent per day. The timing of the reactivation of Zargon's remaining Alberta properties will depend on Zargon's ability to source, through refinancing and restructuring initiatives, sufficient working capital to fund the property restart operations including funding for electricity and other services.
- Second quarter 2020 field oil prices averaged \$8.16 per barrel, 77 percent lower than the prior quarter price of \$35.31 per barrel. The combination of lower oil prices and oil volumes resulted in a 92 percent reduction in second quarter 2020 revenues to \$0.40 million, down from \$4.89 million in the prior quarter. The corresponding second quarter 2020 field operating cash flow of a negative \$1.57 million, which compares with the prior quarter's a negative \$0.39 million.
- Second quarter 2020 field operating netbacks defined as sales (excluding hedges) less royalties and operating/transportation costs were a negative \$34.14 per barrel of oil equivalent a significant decrease from the prior quarter field operating netback of a negative \$2.52 per barrel of oil equivalent.
- Second quarter 2020 capital expenditures were \$0.20 million, compared to the \$0.45 million recorded in the prior quarter. During the 2020 second quarter, Zargon's capital program was primarily allocated to mineral and surface lease rentals. Consistent with the last few years, Zargon did not drill any of its proven undeveloped locations (Taber and Bellshill Lake) in the quarter.
- At June 30, 2020, the Company's combined debt net of working capital was \$3.85 million, which
 compared to \$4.89 million reported in the prior quarter. The improvement in net debt resulted from the
 settlement of the debt through the sale of its US subsidiaries.

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 Zargon's second quarter 2020 financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. These statements have not been reviewed by the Company's auditors.

	Three Months Ended June 30, 2020					
2020		2	2019	-	Percent Change	
Financial Highlights						
Income and Investments (\$ millions)						
Gross petroleum and natural gas sales	0.40	,	9.17	((96)
Funds flow from operating activities	(1.88) 2	2.17	((187)
Cash flows from operating activities	(1.08) 2	2.79	((139)
Free cash flow	(2.32) (0.91	((355)
Net earnings/(loss)	0.73	((0.57) :	228	
Net capital expenditures	0.20	(0.79	((75)
Abandonment and reclamation costs	0.24	(0.47	((48)
Per Share, Basic						
Funds flow from operating activities (\$/share)	(0.08) (0.09	((189)
Free Cash Flow	(0.05) (0.12	((142)
Net earnings/(loss) (\$/share)	0.03	((0.02) :	250	
Balance Sheet at Period End (\$ millions)						
Property and equipment (D&P)						
Total assets						
Working capital						
Convertible debentures at maturity						
Shareholders' equity						
Weighted Average Shares Outstanding for the Period (millions) – Basic	22.99	2	22.99	ć	–	
Weighted Average Shares Outstanding for the Period (millions) – Diluted Total Common Shares Outstanding at Period End (millions)	22.99	2	22.99	ć	– ;	

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 term debt. The debt was settled through the sale of its US subsidiaries on April 1, 2020.

	Three Months Ended June 30, 2020			
	2020	2019	Percent Change	
Operating Highlights				
Average Daily Production				
Oil and liquids (bbl/d)	382	1,539	(75	
Natural gas (mmcf/d)	0.74	1.51	(51	
Equivalent (boe/d)	504	1,790	(72	
Average Selling Price (before the impact of financial risk management contracts)				
Oil and liquids (\$/bbl)	8.16	64.51	(87	
Natural gas (\$/mcf)	1.67	1.04	61	
Netback (\$/boe)				
Gross petroleum and natural gas sales	8.61	56.33	(85	
Royalties	(1.04) (7.73) (87	
Other income	2.62	–	100	
Operating expenses	(40.66) (28.12) 45	

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Transportation expenses	(1.05) (0.66) 59
Operating netback	(31.52) 19.82	(259
Wells Drilled, Net	& #8211;	& #8211;	& #8211;

Undeveloped Land at Period End (thousand net acres)

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 13, 2020, 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", "may", "mill", "project", "should", "plan", "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.

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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, 2020 and 2019 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 ("mcfe") 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 six months ended June 30, 2020 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 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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