ZARGON

OIL & GAS LTD.

# Corporate Presentation

November 21, 2018

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# Forward Looking-Advisory

Forward-Looking Statements - This presentation offers our assessment of Zargon's future plans and operations as at November 21, 2018, and contains forward-looking statements. Such statements are generally identified by the use of words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "plan", "intend", "believe" and similar expressions (including the negatives thereof). In particular, this presentation contains forward-looking information as to: the benefits of the proposal and the impact of the proposal on the Company; Zargon's common share interests assuming the completion of the proposal; Zargon's ability to implement its plans relating to the proposal; anticipated dates and information relating to the Debentureholder meeting and the closing of the proposal; Zargon's corporate strategy and business plans; Zargon's oil exploration project inventory and development plans; future commodity prices; Zargon's expectation for uses of funds from financing; Zargon's capital expenditure program and the allocation and the sources of funding thereof; Zargon's cash flow model and the assumptions contained therein and the results there from; 2018 and beyond production and other guidance and the assumptions contained therein, estimated tax pools; Zargon's reserve estimates; Zargon's hedging policies; Zargon's drilling; development and exploitation plans and projects and the results there from and Zargon's ASP project plans 2018 and beyond; strategic alternatives review process; the source of funding for our 2018 and beyond capital program including ASP; capital expenditures; costs and the results therefrom. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including such as 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 are available on our website. Forward-looking statements are provided to allow investors to have a greater understanding of our business.

You are cautioned that the assumptions, 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; our ability to obtain financing on acceptable terms; and our ability to add production and reserves through our development and acquisition activities used in the preparation of such information, 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 contained in this presentation 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.

Barrels of Oil Equivalent - Natural gas is converted to a barrel of oil equivalent (“Boe”) using six thousand cubic feet of 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.

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation. Estimated reserve values disclosed in this presentation do not represent fair market value. Discovered Petroleum Initially-In-Place (“DPIIP”) is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of discovered petroleum initially in place includes production, reserves, and contingent resources; the remainder is unrecoverable.

The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.

# Debenture Restructuring Proposal
## (November 21, 2018)

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Recently, lower WTI oil prices and significantly expanded WTI – WCS differentials have severely reduced the field price that Zargon receives for its oil production, which has resulted in severely reduced Zargon cash flows.

The Company intends to make a proposal to Zargon's 8% Convertible Debentureholders, whereby the Debenture principal and accrued interest would be converted into Zargon common shares. The terms of the proposal are summarized below:

**Proposal**

- The outstanding $41.94 million of 8.00% convertible unsecured subordinated debentures due December 31, 2019 and all outstanding accrued and unpaid interest, will be settled in exchange for Zargon common shares. Zargon expects to hold a meeting of the Debentureholders to consider this proposal in January 2019. At this meeting, the proposed resolution must be passed by 66 2/3% of the votes cast, subject to a quorum of 25%.
- The rules of the Toronto Stock Exchange require the proposed exchange price to be at market. The proposed price of $0.10 per Zargon share represents the volume weighted average trading price ("VWAP") for the Zargon common shares on the TSX for the 5 trading days ending November 20, 2018.
- Assuming a January 10, 2019 closing date, Zargon will issue approximately 428.8 million Zargon common shares to settle the debentures, representing approximately 93.28% of the pro forma common shares outstanding.
- The proposal is subject to the approval of the Toronto Stock Exchange.

# Debenture Restructuring Proposal (Cont.)
## (November 21, 2018)

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Management and the Board of Directors of Zargon believe that the proposed debenture restructuring is in the best interests of all stakeholders, and provides a number of benefits including the following:

**Rationale**

- Zargon's overall debt will be reduced by $41.94 million; leaving a small net positive working capital of $1.16 million (as at September 30, 2018).
- Zargon's debenture interest cash payments for the 15 month period ending December 31, 2019 of approximately $4.20 million will be eliminated.
- Reduces Zargon's financial risk, in a difficult economic environment.
- Simplifies Zargon's capital structure and removes the uncertainty surrounding the settlement of the debentures at the end of 2019.
- Positions Zargon to continue with a strategic alternatives initiative that may include a corporate merger, sale or reorganization.
- Allows Debentureholders to receive full face value of the Debentures even though they are trading at a substantial discount in the market.

# Q3 2018 Results

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**Q3 2018 Production Results**

**Zargon's Q3 2018 Production Results:**

- Q3 production volumes of 1,953 boe/d were comprised of 1,679 bbl/d of oil & liquids (seven percent lower than Q2) and 1.64 mmcf/d (12 percent lower than Q2).
- Oil production declines were hampered by funding restrictions that resulted in the suspension of discretionary oil capital programs and the deferral of routine well maintenance workovers.
- Gas production declines were due to the shut-in of uneconomic natural gas properties.

**Q3 2018 Financial Results**

**Zargon's Q3 2018 Financial Results:**

- Q3 field oil prices of $66.17/bbl were one percent higher than Q2 levels. Q3 WTI – WCS differentials averaged $22.27 US/bbl.
- Field cash flow was $3.75 million; Corporate funds flow were $1.94 million
- Q3 operating costs declined by 7% to $4.88 million.
- Net Working Capital – Positive $1.16 million (Sept. 30 - unaudited)

**Q4 2018 Outlook**

**Zargon's outlook for Q4 2018 has deteriorated due to record high WTI-WCS differentials:**

- WTI – WCS differentials have "blown out" to record highs that have exceeded $40 US/bbl in November 2018. Zargon's resulting Alberta field price has dropped to less $30 Cdn./bbl
- Assuming these very low Alberta field prices, Zargon is not able to generate positive corporate funds flows, after the allowance for g&a and interest costs.
- In November, Zargon obtained a $3.5 million US term debt financing secured by the North Dakota assets that are not directly impacted by the record high WTI-WCS differentials.

# Zargon Key Investment Highlights

Zargon is a Alberta and North Dakota medium gravity oil gas producer with exceptional torque to oil prices, in addition to offering development oil exploitation opportunities through development horizontal wells and a long term Southern Alberta tertiary recovery project.

| | |
|---|---|
| **Oil Exploitation Focus** | • Zargon is an oil-weighted company focused on the exploitation of mature oil properties.<br>• Following 2012-16 divestment programs, Zargon's remaining operated oil reservoirs continue to be characterized by significant oil-in-place, low recovery factors and low oil production declines.<br>• Over its history, Zargon has raised $210 million of equity capital and paid out $367 million in dividends and distributions. |
| **Low Decline Oil Production** | • Zargon's a historically low corporate oil decline of less than 10% per year has been enabled by reservoir pressure support from natural aquifers, waterfloods and tertiary floods. Recent funding restrictions have resulted in production losses due to deferred workovers and delayed discretionary capital programs. |
| **Oil Exploitation Opportunities** | • Zargon's properties provide waterflood optimization opportunities plus exploitation drilling opportunities that enable improved reservoir recovery factors in existing pools.<br>• The 2017 year-end McDaniel reserve report books 13 P+P exploitation locations with average per well parameters of 63 Mbbl oil reserves, 49 bbl/d initial rate and $0.93 MM all-in costs. |
| **Control of Properties & Key Infrastructure** | • Very high working interest and operatorship across core operating areas, batteries and facilities.<br>• Majority of batteries and facilities have been upgraded in the last five years.<br>• An actively managed abandonment and reclamation program. Zargon's Alberta LMR is 1.21 (November 2018). |
| **Little Bow ASP Project** | • At higher oil prices, the existing ASP infrastructure can be utilized to resume AS injections in high-graded areas and for multiple other ASP phases and Polymer only projects seeking a 10 percent incremental oil recovery on over 80 million barrels of working interest oil-in-place. |
| **Other Corporate Attributes** | • Zargon holds ~$200 million of high quality tax pools (Sept. 30, 2018), includes $156 million of non-capital losses.<br>• Zargon has retained a TSX listing, plus strong operating, accounting, land and finance capabilities, and can readily manage additional assets with minimal additional costs. |

# Key Considerations

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**Exceptional Torque to Oil Prices**

- Zargon's long-life oil reserves provide investors exceptional torque to oil prices:
  - Financial – Zargon's balance sheet remains over-levered where small changes in the underlying corporate value result in large inferred changes in share price.
  - Operational – Zargon's production tends to be from mature low-decline, low-rate wells with relatively higher operating costs. Small changes in oil prices have a significant impact on cash flows.
  - Exploitation – The economics of Zargon's ASP exploitation project and the North Dakota, Taber and Bellshill Lake undeveloped oil locations are also very sensitive to the field oil prices that Zargon receives.

**Other Attributes**

- Zargon's base oil production has historically been about 10% per year, provided that funds are available to fund routine well maintenance workovers.
- Based on the McDaniel 2017 year end reserve report, Zargon's proved developed producing net asset value was $1.40 per share.
- Zargon has 10 "drill ready" undeveloped locations at higher oil prices and if capital is available.
- Zargon brings $156 million of valuable non-capital tax losses and a TSX listing.

**Strategic Process and Going Concern**

- Zargon's Board and management recognize that Zargon is a suboptimal size to operate as a public oil and gas company. Consequently, Zargon will continue to explore strategic alternatives that include mergers, sales and/or restructuring options, that will ultimately allow Zargon to continue as a part of a larger better capitalized entity.
- Recent "blown out" WTI-WCS differentials have reduced Zargon's current Alberta field price to less than $30 Cdn./bbl., a level which is insufficient to provide positive corporate funds flow. As we cannot confidently predict when these abnormally high differentials will subside, Zargon's Board and management have added a "going concern" note to our Q3 2018 financial statements.

# Alberta Exploitation Core Areas

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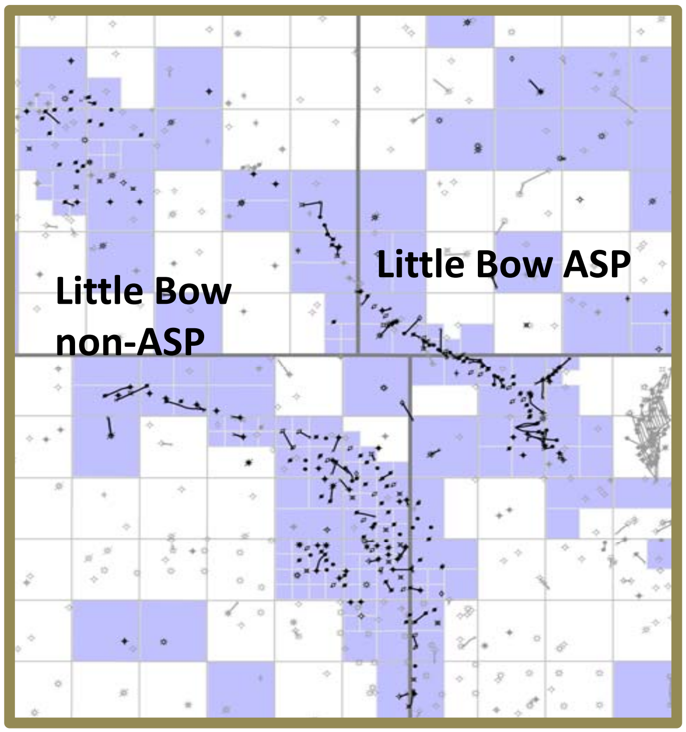
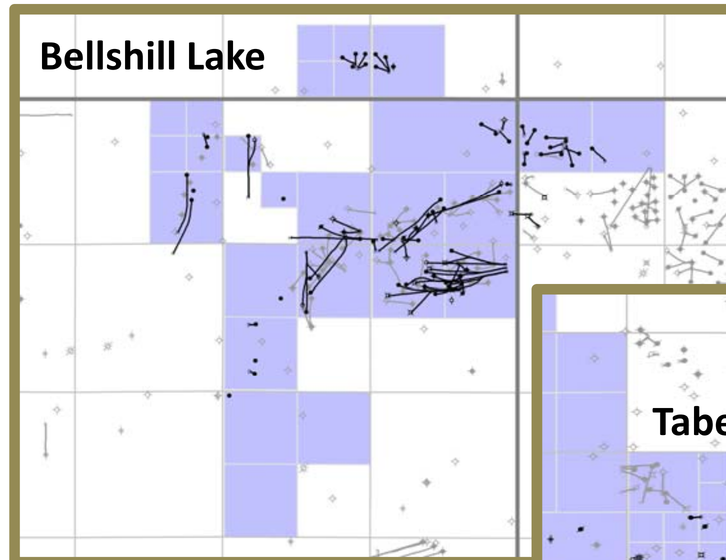
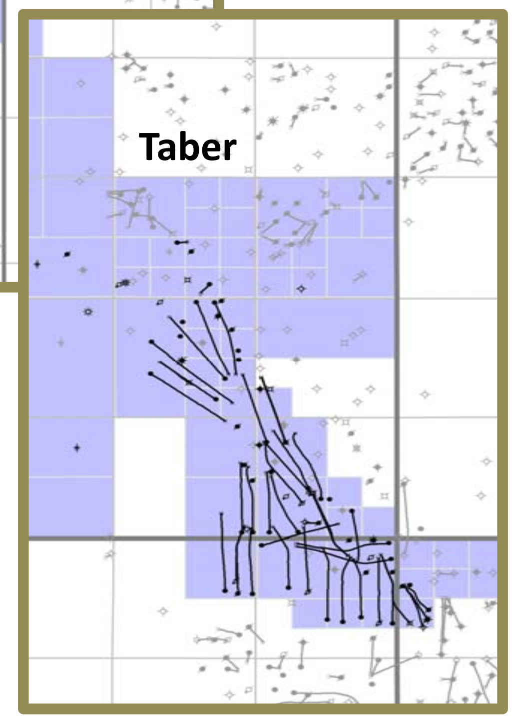
- For 2017 and Q1 2018, annual oil production declines of about 10 percent were offset by oil exploitation projects (waterfloods, reactivations, and facility modifications).
- Subsequent to Q1 2018, a shortage of corporate funds has caused the deferral of minor oil exploitation projects and routine well workovers, which has resulted in reduced production volumes.




Excluding the Little Bow ASP project, the Alberta core areas are mature operated oil properties, with low decline rates and waterflood and pressure supported exploitation opportunities. Taber and Bellshill Lake also provide undeveloped oil exploitation locations.

# North Dakota Properties

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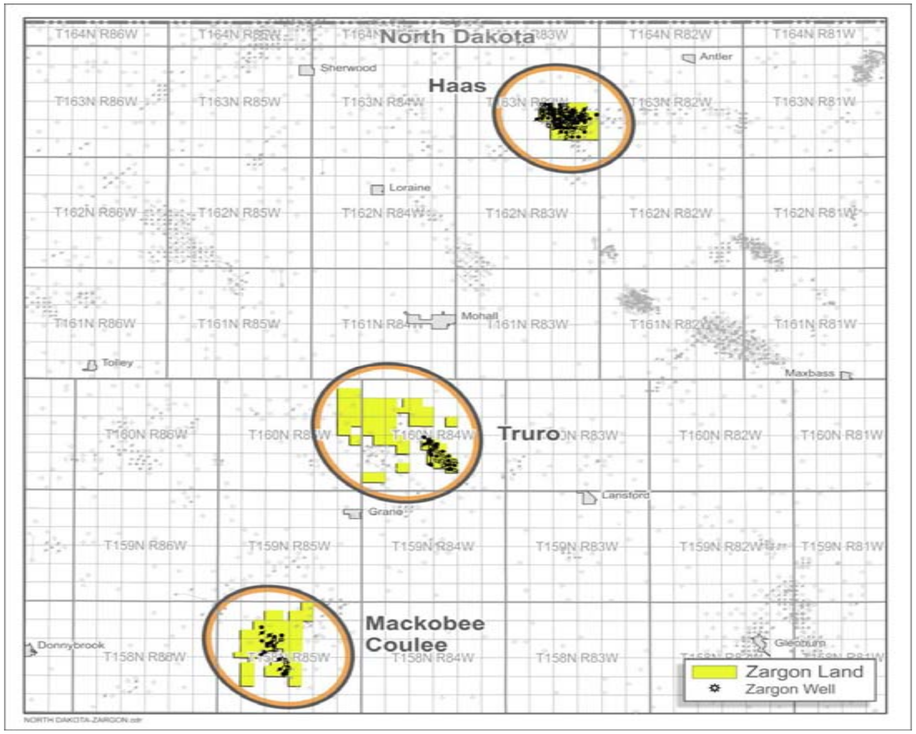
- Long life conventional oil properties, average of 27 API gravity oil
  - Stable production, large OOIP, more than 15 MMbbl oil produced.
  - Infrastructure and water disposal in place.
  - Infill drilling potential at each property (very low drilling density).
  - Oil price is based LSB stream, a significant premium to WCS crude.
- Established waterflood and unitized production
  - Ongoing waterflood modifications and reactivations are increasing production.
  - Two “drill ready” locations ready for funding (Truro and Mackobee Frobisher)
- North Dakota Williston Basin geology is very analogous to the offsetting Southeast Sask. geology. Yet, compared to Sask., there has been limited development.




| | Q2 2018 Production *(boe/d)* | OOIP *(MMbbl)* | Recovery to Date *(%)* | Decline *(%)* | Gross Undeveloped Locations *McDaniel* | *Additional* |
|---|---|---|---|---|---|---|
| Haas | 200 | 51 | 23% | 4% | 1 | 5+ |
| Mackobee Coulee | 83 | 17 | 12% | 11% | 3 | 7 |
| Truro | 127 | 30 | 4% | 7% | 1 | 2 |
| **Total** | **410** | **98** | **15%** | **6%** | **5** | **14+** |

# Little Bow ASP

## EOR in a mature Southern Alberta Waterflood

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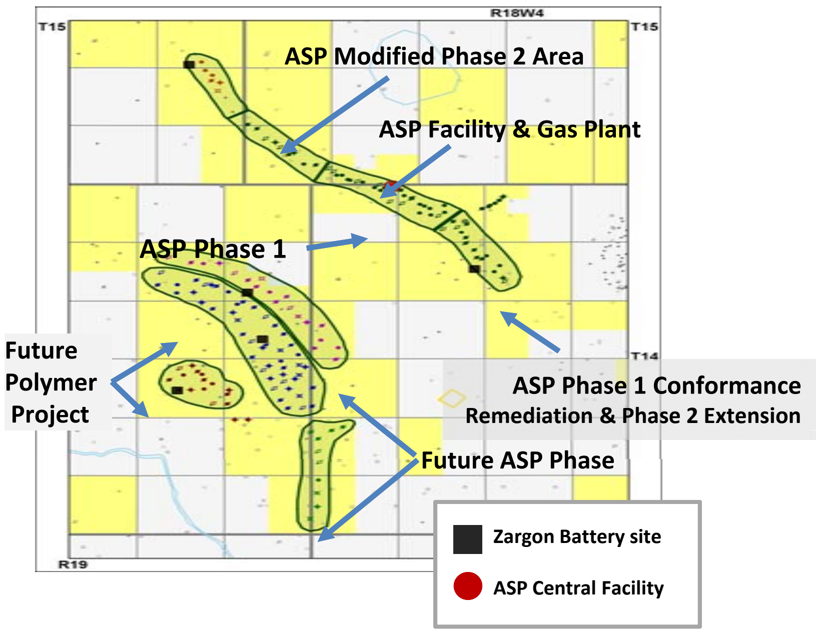



**1) ASP Injection**

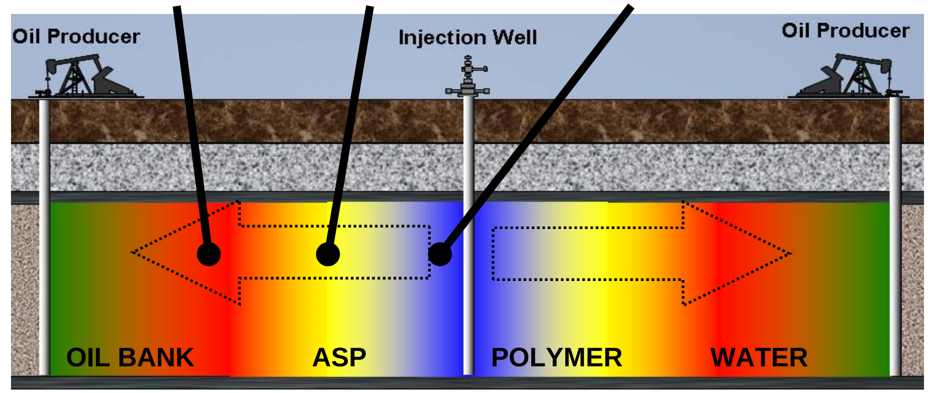
A blend of Alkali, Surfactant & Polymer mobilizes trapped oil

**2) Polymer "Push"**

Polymer displaces mobilized oil to producing wells

**3) Terminal Waterflood**

Return to waterflood to complete oil displacement




Zargon constructed an Alkaline Surfactant Polymer ("ASP") facility at Little Bow, Alberta, which enables the injection of dilute chemicals in a water solution to flush out undrained oil in existing reservoirs.

At higher oil prices, the existing ASP infrastructure can be utilized for multiple ASP and Polymer only projects seeking a 10 percent incremental oil recovery on over 80 million barrels of working interest oil-in-place.

# Zargon Statistical Overview (Q3 18 Results)

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**Capitalization[1]**

| | |
|---|---|
| Share Price (Nov. 7, 2018) | $0.11 |
| Basic Shares Outstanding | 30.90 |
| Market Capitalization | $3.4 |
| Net Debt[2] | $40.7 |
| Option Proceeds | - |
| Entity Value | $44.1 |
| 52-Week High | $0.55 |
| 52-Week Low | $0.10 |

**Net Debt Summary[2]**

| | |
|---|---|
| Bank Debt | $nil |
| Convertible Debs ( Dec. 2019) | $41.9 |
| Working Capital | ($1.2) |
| Net Debt | $40.7 |

**Other Company Details**

| | |
|---|---|
| Employees | 12 Office<br>6 Field |
| Head Office | Calgary, Alberta, Canada |
| Primary Exchange Listing | TSE |
| Reserve Evaluators | McDaniel |

(1) All numbers in $millions except per share values

(2) Net debt calculated as convertible debentures plus net working capital as at September 30, 2018

## Zargon Production and Financial Statistics (trailing six quarters)

| Quarterly Comparisons | Q2 2017 | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 |
|---|---|---|---|---|---|---|
| Oil Prod. (bbl/d) | 1,921 | 2,037 | 1,924 | 1,949 | 1,805 | 1,679 |
| Gas Prod. (mmcf/d) | 3.47 | 3.55 | 2.95 | 2.87 | 1.88 | 1.64 |
| **Equiv. Prod. (boe/d)** | **2,500** | **2,628** | **2,416** | **2,427** | **2,118** | **1,953** |
| Revenue & Hedges ($ million) | 9.37 | 9.51 | 9.69 | 8.86 | 9.28 | 10.17 |
| Royalties ($ million) | 1.11 | 1.13 | 1.19 | 1.28 | 1.57 | 1.54 |
| Op. Costs ($ million) | 5.12 | 4.88 | 5.03 | 6.01 | 5.25 | 4.88 |
| **Property Cash Flow ($ million)** | **3.14** | **3.50** | **3.47** | **1.57** | **2.46** | **3.75** |
| | | | | | | |
| G&A Costs ($million) | 1.11 | 0.89 | 1.00 | 0.97 | 0.96 | 0.87 |
| Interest & Other ($ million) | 0.89 | 0.85 | 0.88 | 0.90 | 0.92 | 0.95 |
| **Corp. Funds Flow ($ million)** | **1.14** | **1.76** | **1.59** | **(0.30)** | **0.58** | **1.93** |
| | | | | | | |
| Capital ($ million) | 2.13 | 1.77 | 2.45 | 1.50 | 1.19 | 0.92 |
| Abd. & Reclaim ($million) | 0.55 | 0.55 | 0.87 | 0.61 | 0.24 | 0.24 |
| Impact of Hedges ($million) | (0.03) | 0.23 | (0.61) | (0.85) | (1.56) | (0.00) |

In Q3 2016, Zargon sold significant (Saskatchewan) assets in order to eliminate bank debt. For the following five quarters, production and financial results were relatively steady. Since Q1 2018, Zargon's production volumes have declined due to the impact of our restricted capital programs and the deferral of regular well maintenance, caused by our lack of funds.

# Alberta "Drill Ready" Locations

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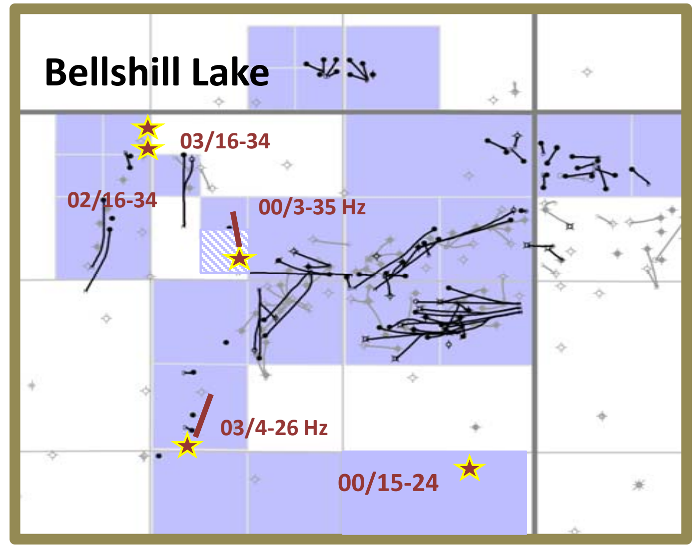
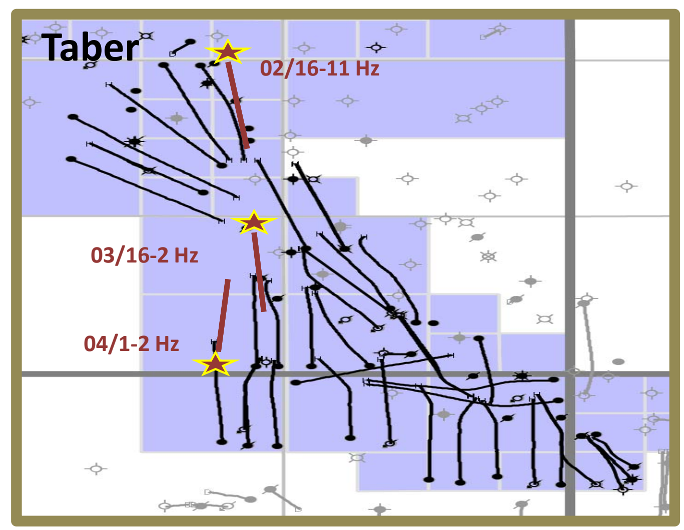
| Drill Ready Location | Target | Cost ($million) | Prob. Of Success (%) | Risked Prod (bbl/d) | Risked Reserves (mbbl) |
|---|---|---|---|---|---|
| **(02) 16-34 Vertical** | Dina attic | 0.60 | 85 | 43 | **34** |
| **(03) 16-34 Vertical** | Dina attic | 0.60 | 85 | 43 | **34** |
| **(00) 15-25 Vertical** | Dina new closure | 0.90 | 60 | 48 | **54** |
| **(03) 4-26 Horizontal** | Dina drainage | 0.95 | 75 | 38 | **56** |
| **(00) 3-35 Horizontal** | Dina drainage | 0.95 | 75 | 38 | **56** |
| **Total Bellshill Lake** | | **4.00** | | **210** | **234** |
| | | | | | |
| **(04) 1-2 Horizontal** | Sunburst drainage | 0.95 | 90 | 36 | **68** |
| **(03) 16-2 Horizontal** | Sunburst drainage | 0.95 | 90 | 36 | **68** |
| **(02) 16-11 Horizontal** | Sunburst drainage | 0.95 | 80 | 40 | **68** |
| **Total Taber** | | **2.85** | | **112** | **204** |
| **Total Alberta** | | **6.85** | | **322** | **438** |




Zargon has advanced eight of its Alberta undeveloped locations to a "drill ready" status. These locations can be drilled once funding is available. With the recent improvement in oil prices, the program's risked returns are strong.

| 2019 Field Price ($Cdn./bbl) | Time to Payout (years) | Rate of Return (percent) | Profitability Index @ PV 10% |
|---|---|---|---|
| $45 | 2.7 | 30 | 0.53 |
| $55 | 2.0 | 48 | 0.95 |
| $65 | 1.6 | 68 | 1.37 |

# Corporate Presentation

November 21, 2018

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