



**NOTICE OF EXTRAORDINARY MEETING OF DEBENTUREHOLDERS
TO BE HELD ON JANUARY 10, 2019**

INFORMATION CIRCULAR AND PROXY STATEMENT

with respect to a

**MEETING OF HOLDERS OF 8.00% CONVERTIBLE UNSECURED SUBORDINATED
DEBENTURES OF ZARGON OIL & GAS LTD. DUE DECEMBER 31, 2019**

**The Board of Directors of Zargon Oil & Gas Ltd. UNANIMOUSLY recommends
that Debentureholders vote "FOR" the Extraordinary Resolution as set forth in this
Information Circular and Proxy Statement.**

December 1, 2018

These materials are important and require your immediate attention. They require debentureholders of Zargon Oil & Gas Ltd. to make important decisions. If you are in doubt as to how to make such decisions please contact your financial, legal, tax or other professional advisors.



LETTER TO DEBENTUREHOLDERS

December 1, 2018

Dear Debentureholders:

You are invited to attend an extraordinary meeting (the "**Meeting**") of the holders (the "**Debentureholders**") of 8.00% convertible unsecured subordinated debentures of Zargon Oil & Gas Ltd. ("**Zargon**" or the "**Company**") due December 31, 2019 (the "**Debentures**") to be held at 3:00 p.m. (Calgary time) on January 10, 2019 at the offices of Burnet, Duckworth & Palmer LLP located at Suite 2400, 525 – 8th Avenue SW Calgary, Alberta T2P 1G1.

At the Meeting, Debentureholders will be asked to consider, and, if deemed advisable, approve an extraordinary resolution (the "**Extraordinary Resolution**") pursuant to which all of the Debentures will be settled and all claims of the Debentureholders thereunder will be extinguished in exchange for common shares ("**Common Shares**") in the capital of Zargon, including the payment, in the form of Common Shares, of the accrued and unpaid interest owing on the Debentures from and including September 30, 2018 to but not including the effective date (the "**Effective Date**") of the completion of the transaction, in each case on the basis of a price of \$0.10 per Common Share (the "**Exchange Transaction**").

Pursuant to the Exchange Transaction, Zargon will issue approximately 428.9 million Common Shares representing approximately 93.28% of the pro forma Common Shares outstanding on the Effective Date which is expected to be on or about January 11, 2019.

The accompanying Notice of Meeting ("**Notice of Meeting**") and Information Circular and Proxy Statement ("**Circular**") contain a detailed description of the Exchange Transaction and set forth the actions to be taken by you at the Meeting. You should carefully consider all of the information in the Notice of Meeting and Circular and consult your financial, legal or other professional advisors if you require assistance. **The accompanying Circular contains important information about the Exchange Transaction and we ask that all holders of the Debentures take the time to vote their Debentures using the enclosed form of proxy or voting instruction form.** Please follow the instructions provided on the enclosed form of proxy or other voting instruction form, or by your broker, dealer, bank, trust company or other nominee to ensure your vote is counted at the Meeting.

Your vote is important regardless of how many Debentures you own, and we urge you to vote even if you are not able to attend the Meeting. To be effective, the Extraordinary Resolution must be approved by not less than 66 2/3% of the votes validly cast by the holders of the Debentures present in person or represented by proxy at the Meeting.

Zargon's board of directors (the "**Zargon Board**") has unanimously determined that the Exchange Transaction is in the best interests of the Company, that the Exchange Transaction is fair to Debentureholders, and recommends that Debentureholders vote in favour of the Extraordinary Resolution approving the Exchange Transaction. The determination of the Zargon Board is based on various factors described more fully in the accompanying Circular.

What are the terms of the Exchange Transaction?

If the Exchange Transaction is approved by the Debentureholders, the Company will issue Common Shares in payment of the entire principal amount of the Debentures (\$41.94 million) and the accrued and unpaid interest owing on the Debentures from and including September 30, 2018 to but not including the Effective

Date, in each case on the basis of a price of \$0.10 per Common Share. Assuming a January 11, 2019 Effective Date, Zargon will issue approximately 428.9 million Common Shares pursuant to the Exchange Transaction, representing approximately 93.28% of the pro forma Common Shares outstanding on the Effective Date. Debentureholders will receive approximately 10,000 Common Shares for every \$1,000 in principal amount of Debentures held and 1,000 Common Shares for every \$100 of accrued and unpaid interest.

Why are we proceeding with the Exchange Transaction?

In accordance with their terms, the Company currently has the option to settle all or a portion of the outstanding principal amount of the Debentures at maturity through the issuance of Common Shares by giving notice of such intent to Debentureholders not more than 60 and not less than 40 days prior to the maturity date at a price equal to 95% of the Current Market Price (as defined in the Circular) on the maturity date. The Debentures mature on December 31, 2019. The Company intends to settle the Debentures in Common Shares upon their maturity if the Exchange Transaction is not approved. Zargon may also elect to pay the interest payments due to Debentureholders up to but not including December 31, 2019 by issuing Common Shares.

The Zargon Board has determined that the Exchange Transaction is in the best interests of the Company and its stakeholders given, among other considerations, that it will reduce Zargon's overall debt and interest burden, simplify its capital structure, provide for a more orderly issuance of Common Shares to Debentureholders relative to the alternatives and improves Zargon's financial liquidity.

For additional details about the Exchange Transaction, see "*The Exchange Transaction*" in the Circular.

Advantages of the Exchange Transaction

Management and the Zargon Board believe that the Exchange Transaction is in the best interests of all stakeholders, and provides a number of benefits including the following:

- reduces Zargon's overall debt by \$41.94 million;
- reduces Zargon's pro forma debenture interest burden by approximately \$4.20 million for the 15 month period ending December 31, 2019, resulting in increased cash flow available to actively invest in low risk oil exploitation capital projects and enhance the Company's net asset value;
- reduces the financial risk for the Company in a difficult economic environment;
- simplifies the capital structure of the Company;
- removes the uncertainty surrounding the settlement of the Debentures at the end of 2019;
- positions the Company to attract future capital, retain staff and ultimately create more investor interest in the Company;
- positions the Company 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; and
- provides certainty with respect to the dilution resulting from the conversion of the Debentures into Common Shares.

Although the Alberta government's recently announced mandatory production curtailment and rail transportation plans is a much needed short term solution, it will not significantly improve the options available to Zargon to address the upcoming maturity of the Debentures.

For a more detailed description of the events leading up to the Exchange Transaction and the Zargon Board's reasons for recommending the Exchange Transaction, please read the sections entitled "*Background to the Exchange Transaction*" and "*Reasons for the Exchange Transaction*" in the Circular.

Why vote?

It is very important that you vote no matter how many Debentures you own.

The quorum requirements of the debenture indenture governing the Debentures will be satisfied by the presence in person or by proxy of Debentureholders representing at least 25% of the principal amount of Debentures outstanding on the date of the Meeting. If a quorum is not present within 30 minutes from the time fixed for holding the Meeting, the Meeting may be adjourned to such date being not less than 14 and not more than 60 days later, and to such place and time as may be appointed by the chairman of the Meeting. Not less than 10 days notice shall be given of the time and place of such adjourned Meeting. At the adjourned Meeting, the Debentureholders present in person or by proxy shall form a quorum and may transact the business for which the Meeting was originally convened, even if they hold less than 25% of the outstanding principal amount of Debentures. The holders of the Debentures will receive one vote for each \$1,000 principal amount held.

How do you vote?

All of the Debentures are held in book-entry form through the facilities of CDS & Co. (the registration name for the Canadian Depository for Securities Limited). Accordingly, in order for a beneficial holder of Debentures to have its Debentures voted at the Meeting, the beneficial holder must complete and sign the applicable instrument of proxy or other voting instruction form provided by such holder's investment dealer, broker, other nominee or intermediary and return such instrument of proxy or other voting instruction form in accordance with the instructions provided therein well in advance of the Meeting. Failure to do so will result in your Debentures not being voted at the Meeting. To be valid, any proxies must be received by Computershare Trust Company of Canada by not later than forty-eight (48) hours (exclusive of Saturdays, Sundays and statutory holidays in the Province of Alberta) prior to the time of the Meeting or any postponement or adjournment thereof. See "*General Proxy and Debentureholder Meeting Matters – Advice to Beneficial Debentureholders*" in the Circular.

Stock Exchange Listing

The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Common Shares to be issued as a result of the Exchange Transaction. Listing will be subject to Zargon fulfilling all the listing requirements of the TSX. Zargon will apply to have the Debentures delisted following the completion of the Exchange Transaction. The Common Shares will continue to trade on the TSX under the symbol "ZAR".

Recommendation of the Zargon Board

The Zargon Board, after receiving advice from legal counsel and upon the recommendation of the the special committee of certain independent members of the Zargon Board, unanimously: (i) determined that the Exchange Transaction is in the best interests of the Company; (ii) determined that the Exchange Transaction is fair to Debentureholders; and (iii) recommends that the Debentureholders vote in favour of the Extraordinary Resolution.

Information Circular and Proxy Statement

The accompanying Circular provides a detailed description of the Exchange Transaction. Please give this material your careful consideration. If you require assistance, you should consult your financial, legal, income tax or other professional advisors.

We encourage you to read the materials in the accompanying Circular carefully. Your vote is important. Whether or not you attend the Meeting, please take the time to vote your Debentures in accordance with the instructions contained in the accompanying Circular.

Conditions to the Exchange Transaction Becoming Effective

The conditions to the Exchange Transaction becoming effective include, among others, the receipt of the requisite approval of the Extraordinary Resolution; and that all required stakeholder or regulatory approvals, consents, waivers and filings shall have been obtained or made, as applicable. See "*The Exchange Transaction – Conditions to the Exchange Transaction Becoming Effective*".

Certain Canadian Federal Income Tax Considerations

This Circular contains a general summary of the principal Canadian federal income tax considerations relevant to resident and non-resident Debentureholders and which relate to the Exchange Transaction. The summary is not exhaustive of all Canadian federal income tax considerations and no representation is made with respect to the Canadian federal income or other tax implications to any particular Debentureholder. Accordingly, Debentureholders should consult their own tax advisors for advice with respect to the Canadian and other tax consequences to them of the Exchange Transaction having regard to their own particular circumstances. See "*Certain Canadian Federal Income Tax Considerations*".

In evaluating whether to approve the Extraordinary Resolution, Debentureholders should carefully consider the risk factors concerning the implementation and non-implementation of the Exchange Transaction. See "*Risk Factors*".

Yours very truly,

(Signed) "*Craig H. Hansen*"
President and Chief Executive Officer
Zargon Oil & Gas Ltd.

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Appendix A – Debentureholders' Resolution

ZARGON OIL & GAS LTD.

NOTICE OF EXTRAORDINARY MEETING OF DEBENTUREHOLDERS

NOTICE IS HEREBY GIVEN that an extraordinary meeting (the "**Meeting**") of holders (the "**Debentureholders**") of 8.00% convertible unsecured subordinated debentures of Zargon due December 31, 2019 (the "**Debentures**") shall be held at 3:00 p.m. (Calgary time) on January 10, 2019 at the offices of Burnet, Duckworth & Palmer LLP located at Suite 2400, 525 – 8th Avenue SW Calgary, Alberta T2P 1G1.

The Meeting shall be held for the following purposes:

1. for Debentureholders to consider, and if deemed advisable, pass, with or without variation, an extraordinary resolution, substantially in the form set forth in Appendix A to the accompanying information circular and proxy statement of Zargon (the "**Circular**"), pursuant to which all of the Debentures will be settled and all claims of the Debentureholders thereunder will be extinguished in exchange for common shares ("**Common Shares**") in the capital of Zargon, including the payment, in the form of Common Shares, of the accrued and unpaid interest owing on the Debentures from and including September 30, 2018 to but not including the effective date of the transaction, in each case on the basis of a price of \$0.10 per Common Share (the "**Exchange Transaction**"); and
2. to transact such other business, including amendments to the foregoing, as may properly be brought before the Meeting or any adjournment or postponement thereof.

The Board of Directors of Zargon has set the close of business on November 28, 2018 (the "**Record Date**") as the Record Date for determining Debentureholders who are entitled to receive notice of the Meeting. Only Debentureholders whose names have been entered in the register of holders of Debentures on the close of business on the Record Date will be entitled to receive notice of and to vote at the Meeting.

The quorum requirements of the debenture indenture governing the Debentures will be satisfied by the presence in person or by proxy of Debentureholders representing at least 25% of the principal amount of Debentures outstanding on the date of the Meeting. If a quorum is not present within 30 minutes from the time fixed for holding the Meeting, the Meeting may be adjourned to such date being not less than 14 and not more than 60 days later, and to such place and time as may be appointed by the chairman of the Meeting. Not less than 10 days notice shall be given of the time and place of such adjourned Meeting. At the adjourned Meeting, the Debentureholders present in person or by proxy shall form a quorum and may transact the business for which the Meeting was originally convened, even if they hold less than 25% of the outstanding principal amount of Debentures. The holders of the Debentures will receive one vote for each \$1,000 principal amount held.

All of the Debentures are held in book-entry form through the facilities of CDS & Co. (the registration name for the Canadian Depository for Securities Limited). Accordingly, in order for a beneficial holder of Debentures to have its Debentures voted at the Meeting, the beneficial holder must complete and sign the applicable instrument of proxy or other voting instruction form provided by such holder's investment dealer, broker, other nominee or intermediary and return such instrument of proxy or other voting instruction form in accordance with the instructions provided therein well in advance of the Meeting. Failure to do so will result in your Debentures not being voted at the Meeting. To be valid, any proxies must be received by Computershare Trust Company of Canada by not later than forty-eight (48) hours (exclusive of Saturdays, Sundays and statutory holidays in the Province of Alberta) prior to the time of the Meeting or any postponement or adjournment thereof. See "*General Proxy and Debentureholder Meeting Matters – Advice to Beneficial Debentureholders*" in the Circular.

The Circular provides additional information relating to matters to be dealt with at the Meeting and is deemed to form part of this Notice.

DATED at Calgary, Alberta, this 1st day of December, 2018.

**BY ORDER OF THE BOARD OF DIRECTORS
OF ZARGON OIL & GAS LTD.**

(Signed) "*Craig H. Hansen*"
President and Chief Executive Officer

GLOSSARY OF TERMS

Unless the context otherwise requires, when used in this Circular the following terms shall have the meanings set forth below. Terms and abbreviations used in the Appendix to this Circular are defined separately therein.

"**ABCA**" means the *Business Corporations Act*, R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**Beneficial Debentureholder**" means Debentureholders who do not hold their Debentures in their own name;

"**CDS**" means CDS & Co. (the registration name for the Canadian Depository for Securities Limited);

"**Circular**" means this information circular and proxy statement of Zargon, together with all appendices hereto to be mailed or otherwise distributed by Zargon to the Debentureholders;

"**Closing**" means the completion of the Exchange Transaction;

"**Closing Date**" or "**Effective Date**" means the date of the Closing, which is expected to be on or about January 11, 2019;

"**Common Share**" means a common share in the capital of Zargon;

"**Current Market Price**" means the volume weighted average trading price of the Common Shares for the 20 consecutive Trading Days ending on the fifth Trading Day preceding such date as may be selected by the Zargon Board and approved by the Trustee;

"**Debentureholders**" means the holders of Debentures;

"**Debentures**" means the 8.00% convertible unsecured subordinated debentures of Zargon due December 31, 2019;

"**Effective Time**" means the time the Exchange Transaction is completed on the Closing Date;

"**Exchange Shares**" means the approximately 428.9 million Common Shares to be issued to Debentureholders on the Effective Date in connection with the Exchange Transaction;

"**Exchange Transaction**" means the transaction pursuant to which all of the Debentures will be settled and all claims of the Debentureholders thereunder will be extinguished in exchange for Common Shares, including the payment, in the form of Common Shares, of the accrued and unpaid interest owing on the Debentures from and including September 30, 2018 to but not including the Effective Date, in each case on the basis of a price of \$0.10 per Common Share;

"**Extraordinary Resolution**" means the extraordinary resolution in respect of the Exchange Transaction to be considered and voted upon by the Debentureholders at the Meeting, substantially in the form set forth in Appendix A to this Circular;

"**Governmental Authority**" means any government, regulatory authority, governmental department, agency, commission, bureau, official, minister, Crown corporation, court, body, board, tribunal or dispute settlement panel or other law, rule or regulation-making organization or entity: (a) having or purporting to have jurisdiction on behalf of any nation, province, territory or state or any other geographic or political subdivision of any of them; or (b) exercising, or entitled or purporting to exercise any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power;

"Indenture" means the Original Indenture, as amended by the Supplemental Indenture;

"Law" or **"Laws"** means applicable laws (including common law or civil law), statutes, by-laws, rules, regulations, orders, ordinances, codes, treaties, policies, notices, directions, decrees, judgments, awards or other requirements in each case of any Governmental Authority or self-regulated authority, including the TSX;

"Meeting" means the extraordinary meeting of Debentureholders to be held on January 10, 2019 to consider the Extraordinary Resolution and related matters, and any adjournment(s) or postponement(s) thereof;

"Notice of Meeting" means the Notice of Extraordinary Meeting of Debentureholders included in this Circular;

"Original Indenture" means the convertible debenture indenture dated as of May 1, 2012 between Zargon and Valiant Trust Company providing for the creation and issuance of the Debentures;

"Record Date" means the record date for the Meeting, being November 28, 2018;

"SEC" means the United States Securities and Exchange Commission;

"Securities Act" means the *Securities Act*, R.S.A. 2000, c. S-4, as amended;

"Securities Laws" means the Securities Act, all other applicable Canadian securities laws and all rules and regulations and published policies thereunder;

"SEDAR" means the System for Electronic Document Analysis and Retrieval;

"Shareholders" means holders of Common Shares;

"Special Committee" means the special committee of the Zargon Board consisting of directors, Kyle D. Kitagawa (Chair), Jim Peplinski, Ron Wigham, and Geoffrey C. Merritt;

"Supplemental Indenture" means the first supplemental indenture to the Original Indenture dated as of February 14, 2017 between Zargon and the Trustee;

"Tax Act" means the *Income Tax Act* (Canada) R.S.C. 1985, c. 1 (5th Supp.) as amended, including the regulations promulgated thereunder;

"Trading Day" means any day on which the TSX is open for trading or quotation;

"Trustee" means Computershare Trust Company of Canada (as successor to the business of Valiant Trust Company), in its capacity as trustee under the Indenture;

"TSX" means the Toronto Stock Exchange;

"U.S. Securities Act" means the United States Securities Act of 1933, as amended;

"Zargon" or the **"Company"** means Zargon Oil & Gas Ltd., a corporation existing under the ABCA; and

"Zargon Board" means the board of directors of Zargon as it may be comprised from time to time.

INFORMATION CIRCULAR AND PROXY STATEMENT

General

This Circular is furnished in connection with the solicitation of proxies by and on behalf of the management of Zargon for use at the Meeting. Other than as set forth herein, no person has been authorized to give any information or make any representation in connection with the Exchange Transaction or any other matters to be considered at the Meeting other than those contained in this Circular and, if given or made, any such information or representation must not be relied upon as having been authorized.

Information contained in this Circular is given as of December 1, 2018 unless otherwise specifically stated. Information contained in the documents incorporated by reference is given as at the respective dates stated therein. You are urged to carefully read the full text of the Circular. The delivery of this Circular does not under any circumstances, imply or represent that there has been no change in the information set forth herein since the date of this Circular. Debentureholders should not construe the contents of this Circular as legal, tax or financial advice and should consult with their own professional advisors in considering the relevant legal, tax, financial or other matters contained in this Circular.

All capitalized terms used in this Circular but not otherwise defined herein have the meanings set forth under "*Glossary of Terms*".

Information for U.S. Debentureholders

The issuance of the Exchange Shares to Debentureholders in exchange for their Debentures pursuant to the Exchange Transaction have not been and will not be registered under the U.S. Securities Act, and such securities will be issued in reliance upon an exemption from the registration requirements of the U.S. Securities Act.

Debentureholders should be aware that the acquisition of the Exchange Shares pursuant to the Exchange Transaction described herein may have tax consequences both in the United States and in Canada. See "*Certain Canadian Federal Income Tax Considerations*". The United States tax consequences for Debentureholders who are resident in, or citizens of, the United States or otherwise subject to United States taxation are not described in the Circular. Such Debentureholders are advised to consult their tax advisors regarding the United States and other tax consequences to them of the transactions to be effected in connection with the Exchange Transaction, in light of their particular situation, as well as any tax consequences that may arise under the laws of any other relevant foreign, state, local or other taxing jurisdiction.

THE SECURITIES ISSUABLE PURSUANT TO THE EXCHANGE TRANSACTION HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR THE SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES, NOR HAS THE SECURITIES EXCHANGE COMMISSION OR ANY SUCH STATE REGULATORY AUTHORITY PASSED ON THE ADEQUACY OR ACCURACY OF THIS CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

Cautionary Statement Regarding Forward-Looking Statements

This Circular and the documents incorporated by reference herein contain forward-looking statements that are based on the beliefs of management and reflect our current expectations. When used in this Circular, the words "estimate", "project", "believe", "anticipate", "intend", "expect", "plan", "predict", "may", "should", "will", the negatives of these words or other variations thereof and comparable terminology are intended to identify forward-looking statements.

In particular, this Circular contains forward-looking statements pertaining to:

- the anticipated benefits of the Exchange Transaction;
- the impact of the Exchange Transaction on the Company;
- activities, events or developments that Zargon expects or anticipates will or may occur in the future, including Zargon's assessment of its financial viability;
- statements with respect to the Exchange Transaction, including but not limited to, the effects of completion thereof and the timing of the completion of the Exchange Transaction;
- the number of Common Shares outstanding following completion of the Exchange Transaction and the pro forma interest of the Debentureholders;
- the listing of the Exchange Shares issued under the Exchange Transaction and the delisting of the Debentures;
- the anticipated Canadian federal tax treatment of the Exchange Transaction for Debentureholders;
- the impact of WTI-WCS differentials on Zargon's projected cash flows;
- the extent to which current economic conditions will deteriorate;
- the impact of the Alberta government's recently announced mandatory production curtailment and rail transportation plans;
- the intention of Mr. Craig Hansen, President and Chief Executive Officer of Zargon, to vote his Debentures in favour of the Extraordinary Resolution;
- the expected Effective Date of the Exchange Transaction;
- the satisfaction of conditions for listing the Exchange Shares on the TSX;
- the ability of Zargon to continue as a going concern; and
- Zargon's plans if the Exchange Transaction is not approved and the impact on Zargon and its stakeholders.

The forward-looking information and statements included in this Circular 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; the Company's ability to continue as a going concern; industry conditions; changes in the regulatory and taxation regimes; volatility of commodity prices; escalation of operating and capital costs; stock market volatility; the ability to access sufficient capital from internal and external sources; competition from other industry participants for, among other things, capital, services, acquisitions of reserves, undeveloped lands and skilled personnel and the possibility that regulatory and Debentureholder approval in respect of the Exchange Transaction will not be received in a timely manner or at all. Risks are described in more detail in our Annual Information Form and other public documents, which are 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 forward-looking statements, including, among other things: expected benefits of the Exchange Transaction; the ability of Zargon to continue as a going concern; future oil and natural gas prices; future capital expenditure levels; the availability of adequate and acceptable debt; impact of the current political and regulatory landscape on Zargon and the receipt, in a timely manner, of regulatory and Debentureholder approval in respect of the Exchange Transaction, 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 Circular 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.

Readers should also carefully consider the matters discussed under the heading "*Risk Factors*" in this Circular.

For information relating to forward-looking statements contained in the documents incorporated by reference in this Circular, see such documents.

SUMMARY

The following is a summary of certain information contained in this Circular. This summary is not intended to be complete and is qualified in its entirety by the more detailed information contained elsewhere in this Circular and the attached Appendix, all of which are important and should be reviewed carefully. Capitalized terms used in this summary without definition have the meanings ascribed to them in the Glossary of Terms or elsewhere in this Circular.

Date, Time and Place of Meeting

The Meeting will be held at 3:00 p.m. (Calgary time) on January 10, 2019 at the offices of Burnet, Duckworth & Palmer LLP located at Suite 2400, 525 – 8th Avenue SW Calgary, Alberta T2P 1G1 for the purposes set forth in the accompanying Notice of Meeting. At the Meeting, Debentureholders will consider and, if deemed advisable, approve the Extraordinary Resolution.

Only Debentureholders whose names have been entered in the registers of holders of Debentures on the close of business on the Record Date will be entitled to receive notice of and to vote at the Meeting or any adjournment thereof.

The quorum requirements of the Indenture will be satisfied by the presence in person or by proxy of Debentureholders representing at least 25% of the principal amount of Debentures outstanding on the date of the Meeting. If a quorum is not present within 30 minutes from the time fixed for holding the Meeting, the Meeting may be adjourned to such date being not less than 14 and not more than 60 days later, and to such place and time as may be appointed by the chairman of the Meeting. Not less than 10 days notice shall be given of the time and place of such Meeting. At the adjourned Meeting, the Debentureholders present in person or by proxy shall form a quorum and may transact the business for which the Meeting was originally convened, even if they hold less than 25% of the outstanding principal amount of Debentures. Debentureholders will receive one vote for each \$1,000 principal amount held.

All of the Debentures are held in book-entry form through the facilities of CDS (the registration name for the Canadian Depository for Securities Limited). Accordingly, in order for a Beneficial Debentureholder to have its Debentures voted at the Meeting, it must complete and sign the applicable instrument of proxy or other voting instruction form provided by its investment dealer, broker, other nominee or intermediary and return such instrument of proxy or other voting instruction form in accordance with the instructions provided therein well in advance of the Meeting. Failure to do so will result in your Debentures not being voted at the Meeting. To be valid, any proxies must be received by Computershare Trust Company of Canada by not later than forty-eight (48) hours (exclusive of Saturdays, Sundays and statutory holidays in the Province of Alberta) prior to the time of the Meeting or any postponement or adjournment thereof.

See "*General Proxy and Debentureholder Meeting Matters – Advice to Beneficial Debentureholders*".

Debentureholder Approval

At the Meeting, Debentureholders will be asked to approve the Extraordinary Resolution. The full text of the Extraordinary Resolution is set forth in Appendix A to this Circular and must be approved by not less than 66 2/3% of the principal amount of the Debentures held by the Debentureholders present in person or represented by proxy at the Meeting and voted upon the Extraordinary Resolution.

See "*The Exchange Transaction – Debentureholder Approval*" and "*General Proxy and Debentureholder Meeting Matters – Voting Rights and Appointment of Proxies*".

Conditions to the Exchange Transaction Becoming Effective

In addition to the approval of the Debentureholders, the following conditions are pre-requisites to the completion of the Exchange Transaction:

- (a) all required stakeholder or regulatory approvals, consents, waivers and filings shall have been obtained or made, as applicable;
- (b) all filings under applicable Laws shall have been made and any regulatory consents or approvals that are required in connection with the Exchange Transaction shall have been obtained; and
- (c) there shall not be in effect any preliminary or final decision, order or decree by a Governmental Authority, no application shall have been made to any Governmental Authority, and no action or investigation shall have been announced, threatened or commenced by any Governmental Authority, in consequence of or in connection with the Exchange Transaction that restrains, impedes or prohibits (or if granted would reasonably be expected to restrain, impede or inhibit), the Exchange Transaction or any part thereof or requires or purports to require a variation of the Exchange Transaction.

See "*The Exchange Transaction – Conditions to the Exchange Transaction Becoming Effective*".

BACKGROUND TO THE EXCHANGE TRANSACTION

On August 13, 2015, the Zargon Board initiated a process to identify and consider strategic and financial alternatives available to the Company with the ultimate goal of maximizing Shareholder value in a manner that would recognize the Company's fundamental inherent value related to its long-life, low-decline conventional oil assets and the significant long term oil potential related to the Little Bow ASP project.

On November 11, 2015, as a result of volatile, uncertain and exceptionally low oil prices, the Company suspended its monthly dividend after the November 16, 2015 dividend payment.

In September of 2016, with the assistance of Scotia Waterous Inc. who had initiated a broad corporate marketing process on Zargon's behalf, Zargon completed the sale of its Southeast Saskatchewan assets and its Killam, Alberta assets. The realization of \$92.04 million of cash proceeds from these dispositions (after adjustments) was a partial outcome of the strategic alternatives process. The net proceeds were used to repay the bank and the Company's credit facility was terminated.

With the elimination of the credit facility, the strategic alternatives process was refocused to include, among other alternatives, a restructuring of Zargon's capital structure, the addition of capital to further develop the potential of its assets, the sale of the Company or a portion of its assets, a merger, a farm-in or joint venture, or such other options as may be determined by the Zargon Board to be in the best interests of the Company and its stakeholders. We engaged Macquarie Capital Markets Canada Ltd. as exclusive advisor related to this engagement and our strategic alternatives process.

On February 14, 2017, following an extraordinary meeting of the Debentureholders, Zargon amended the terms of the Original Indenture and the Debentures to: (i) extend the maturity date of the Debentures from June 30, 2017 to December 31, 2019; (ii) increase the interest rate of the Debentures from 6.00% per annum to 8.00% per annum effective April 1, 2017; (iii) change the interest payment dates applicable to the Debentures under the Original Indenture from June 30, and December 31 to March 31, and September 30; (iv) reduce the conversion price in effect for each Common Share to be issued upon the conversion of the Debentures from \$18.80 to \$1.25; (v) amend the redemption provisions of the Debentures to provide holders with a right (the "**Put Right**") to require Zargon to redeem up to \$19 million aggregate principal amount of Debentures (or such other amount as determined by Zargon) at a cash price determined by a "Dutch auction" process (the "**Redemption Auction**"); and (vi) amend the redemption provisions to provide that (other than in connection with the Put Right) the Debentures were not redeemable by Zargon before January 1, 2019, and for the 12 months following January 1, 2019 and to provide that the Debentures could only be redeemed by Zargon if the Current Market Price of the Common Shares exceeds 125% of the reduced conversion price.

On April 1, 2017, pursuant to the Redemption Auction, Zargon redeemed \$15.56 million aggregate principal amount of the Debentures at tender prices ranging from \$890 to \$1,000 per \$1,000 principal amount, for total cash consideration of \$14.84 million, which is equivalent to an average cost of \$954 per \$1,000 principal amount of Debentures redeemed. After giving effect to the Redemption Auction, approximately \$41.94 million aggregate principal amount of the Debentures remained outstanding. On the same day, the changes to the Debentures described above took effect and the Debentures not redeemed pursuant to the Redemption Auction commenced trading on the TSX under the new symbol "ZAR.DB.A" at the open of markets on April 3, 2017.

Following the restructuring of the Debentures, the Company continued to seek outcomes to maximize the value for the Company and its stakeholders.

On November 2, 2018, Zargon entered into a financing agreement for US\$3.50 million term debt. These funds will be utilized for low risk oil exploitation capital projects and general corporate purposes.

With the widening of WTI-WCS differentials towards the end of the 2018 third quarter, the outlook for Zargon has recently deteriorated. On November 13, 2018, the Zargon Board met and considered the impact of the dramatic increase in differentials on Zargon's projected cash flows over the next six months. The

Zargon Board concluded that the Company would not have sufficient funds to settle the Debentures with cash upon their redemption or maturity and that there was material uncertainty related to future events that may cast substantial doubt on the Company's ability to continue as a going concern.

On November 21, 2018, the Special Committee met to evaluate the options available to the Company to address the upcoming maturity of the Debentures, including retiring the Debentures with shares or cash under the existing terms of the Debentures, refinancing the Debentures with another financing vehicle, or amending the terms of the Debentures to effect the Exchange Transaction. Zargon's legal advisors reviewed in detail the proposed Exchange Transaction and provided their advice to the Special Committee regarding the fiduciary duties of the Special Committee and the Zargon Board, specifically in the context of the proposed terms of the Exchange Transaction. The Special Committee and the Zargon Board also reviewed, among other things: (i) information concerning the business, operations, property, assets, financial conditions, operating results and the prospects of Zargon; (ii) historical information regarding the trading price and volumes of the Common Shares and the Debentures; (iii) current and prospective industry, economic and market conditions and Zargon's prospects going forward; (iv) the financial position of Zargon and its ability to fund its ongoing operations; (v) the risks associated with the Company continuing to pursue its current business strategy and the risks associated with completion and non-completion of the proposed Exchange Transaction; (vi) the specific terms of the proposed Exchange Transaction; and (vii) alternatives potentially available to the Company.

On November 21, 2018, following such deliberations, based, in part again on the advice of the Company's legal counsel, the Special Committee unanimously determined to recommend to the Zargon Board approval of the Exchange Transaction.

On November 21, 2018, after receiving advice from legal counsel and upon the recommendation of the Special Committee and after its own deliberations, the Zargon Board unanimously: (i) determined that the Exchange Transaction is in the best interests of the Company; (ii) determined that the Exchange Transaction is fair to Debentureholders; and (iii) recommends that the Debentureholders vote in favour of the Extraordinary Resolution.

REASONS FOR THE EXCHANGE TRANSACTION

Management and the Zargon Board believe that the Exchange Transaction is in the best interests of all stakeholders, and provides a number of benefits including the following:

- reduces Zargon's overall debt by \$41.94 million;
- reduces Zargon's pro forma debenture interest burden by approximately \$4.20 million for the 15 month period ending December 31, 2019, resulting in increased cash flow available to actively invest in low risk oil exploitation capital projects and enhance the Company's net asset value;
- reduces the financial risk for the Company in a difficult economic environment;
- simplifies the capital structure of the Company;
- removes the uncertainty surrounding the settlement of the Debentures at the end of 2019;
- positions the Company to attract future capital, retain staff and ultimately create more investor interest in the Company;
- positions the Company 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; and

- provides certainty with respect to the dilution resulting from the conversion of the Debentures into Common Shares.

Although the Alberta government's recently announced mandatory production curtailment and rail transportation plans is a much needed short term solution, it will not significantly improve the options available to Zargon to address the upcoming maturity of the Debentures.

In accordance with their terms, the Company currently has the option to settle all or a portion of the outstanding principal amount of the Debentures at maturity through the issuance of Common Shares by giving notice of such intent to Debentureholders not more than 60 and not less than 40 days prior to the maturity date at a price equal to 95% of the Current Market Price on the maturity date. The Debentures mature on December 31, 2019. The Company intends to settle the Debentures in Common Shares upon their maturity if the Exchange Transaction is not approved. Zargon may also elect to pay the interest payments accrued and owing to the Debentureholders up to but not including December 31, 2019 by issuing Common Shares.

The Exchange Transaction is being proposed for the benefit of both the Debentureholders and the current Shareholders, who will have the opportunity to share in a stronger entity with improved liquidity options and alternatives.

In reaching its determination, approval and recommendation in respect of the Exchange Transaction, the Zargon Board considered many factors, including the terms and conditions of the Exchange Transaction, the recommendation of the Special Committee, recent announcements by the Alberta government, various strategic factors and potential advantages and disadvantages of the Exchange Transaction. Without limiting the generality of the foregoing, the benefits, risks and other factors considered by the Zargon Board included the following:

- the redemption provisions in the Indenture, including the earliest date allowed for redemption by Zargon;
- the provisions of the Indenture allowing Zargon to settle all or a portion of the outstanding Debentures at maturity or redemption through the issuance of Common Shares by giving notice of such intent to Debentureholders;
- the significant liquidity and capital constraints faced by Zargon, its limited operating cash flow at current commodity prices and the impact of interest payments on that cash flow and the Company's ability to continue as a going concern;
- the impact of the dramatic decrease in increase in differentials on Zargon's options with respect to payment of the Debentures when they become due, which has resulted in Zargon not having sufficient funds to settle the Debentures in cash upon their redemption or maturity;
- the impact of the Alberta government's recently announced mandatory production curtailment and rail transportation plans;
- the Zargon Board's assessment of the current challenging economic environment in terms of commodity prices, market access restrictions and the current political climate;
- the timing of and the number of Common Shares that would be issued, the ownership interests of Shareholders and Debentureholders, the trading liquidity of the Common Shares under the Exchange Transaction compared to other alternatives and the Zargon Board's belief that the Exchange Transaction provides more certainty with respect to these factors and results in the most equitable treatment to the Debentureholders;

- the costs incurred in pursuing the Exchange Transaction, the diversion of management resources away from the conduct of Zargon's business and the resulting uncertainty to Zargon's stakeholders and the Zargon Board's belief that the Exchange Transaction is likely to be completed in accordance with its terms and within a reasonable time; and
- Debentureholders will have an opportunity to vote on the Extraordinary Resolution.

The foregoing summary of the information and factors considered by the Special Committee and the Zargon Board is not intended to be exhaustive of the factors considered by them in reaching their respective conclusions and making their recommendations. In their evaluation of the Exchange Transaction, individual members of the Special Committee and the Zargon Board evaluated the various factors summarized above in light of their own knowledge of the business, financial condition and prospects of Zargon, and based upon the advice of the Zargon Board's and the Special Committee's legal and financial advisors. In view of the numerous factors considered in connection with their evaluation of the Exchange Transaction, neither the Special Committee nor the Zargon Board found it practicable to, and did not, quantify or otherwise attempt to assign relative weight to specific factors in reaching their respective conclusions and recommendations. In addition, individual members of the Special Committee and the Zargon Board may have given different weights to different factors. The conclusions and recommendations of the Special Committee and the Zargon Board were made after considering all of the information and factors involved.

RECOMMENDATION OF THE ZARGON BOARD

Following an extensive review and analysis of the Exchange Transaction and consideration of other available alternatives and based upon the recommendation of the Special Committee and other relevant factors considered by the Zargon Board, the Zargon Board has unanimously: (i) determined that the Exchange Transaction is in the best interests of the Company, (ii) determined that the Exchange Transaction is fair to Debentureholders; and (iii) recommends that the Debentureholders vote in favour of the Extraordinary Resolution. See "Background to the Exchange Transaction" and "Reasons for the Exchange Transaction".

THE EXCHANGE TRANSACTION

General

If the Exchange Transaction is approved by the Debentureholders, the Company will issue Common Shares in payment of the entire principal amount of the Debentures (\$41.94 million) and the accrued and unpaid interest owing on the Debentures from and including September 30, 2018 to but not including the Effective Date, in each case at a price equal to \$0.10 per Common Share. Assuming an Effective Date of January 11, 2019, Zargon will issue approximately 428.9 million Common Shares pursuant to the Exchange Transaction, representing approximately 93.28% of the pro forma Common Shares outstanding on the Effective Date. Debentureholders will receive approximately 10,000 Common Shares for every \$1,000 in principal amount of Debentures held and 1,000 Common Shares for every \$100 of accrued and unpaid interest.

No fractional Common Shares will be issued. Any fractional Common Shares that would otherwise be issued shall be rounded down to the nearest whole number and no cash payment or other payment shall be made in consideration for such fractional Common Share.

The Exchange Shares issued pursuant to the Exchange Transaction will represent approximately 93.28% of the outstanding Common Shares following the Exchange Transaction.

In accordance with their terms, the Company currently has the option to settle all or a portion of the outstanding principal amount of the Debentures at maturity through the issuance of Common Shares by giving notice of such intent to Debentureholders not more than 60 and not less than 40 days prior to the

maturity date at a price equal to 95% of the Current Market Price on the maturity date. The Debentures mature on December 31, 2019. The Company intends to settle the Debentures in Common Shares upon their maturity if the Exchange Transaction is not approved. Zargon may also elect to pay the interest payments due to the Debentureholders up to but not including December 31, 2019 by issuing Common Shares.

Debentureholder Approval

Pursuant to the Indenture, the Extraordinary Resolution must be approved at the Meeting by 66 2/3% of the votes represented at the Meeting.

The quorum requirements of the Indenture will be satisfied by the presence in person or by proxy of Debentureholders representing at least 25% of the principal amount of Debentures outstanding on the date of the Meeting. If a quorum is not present within 30 minutes from the time fixed for holding the Meeting, the Meeting may be adjourned to such date being not less than 14 and not more than 60 days later, and to such place and time as may be appointed by the chairman of the Meeting. Not less than 10 days notice shall be given of the time and place of such adjourned Meeting. At the adjourned Meeting, the Debentureholders present in person or by proxy shall form a quorum and may transact the business for which the Meeting was originally convened, even if they hold less than 25% of the outstanding principal amount of Debentures. Debentureholders will receive one vote for each \$1,000 principal amount held.

For information with respect to the procedures for Debentureholders to follow to receive their Exchange Shares pursuant to the Exchange Transaction, see "*Procedures for the Surrender of Debentures and Receipt of Exchange Shares*". See also "*General Proxy and Debentureholder Meeting Matters – Procedure and Votes Required*".

Listing

The TSX has conditionally approved the listing of the Exchange Shares to be issued as a result of the Exchange Transaction. Listing will be subject to Zargon fulfilling all the listing requirements of the TSX. Zargon will apply to have the Debentures delisted following the completion of the Exchange Transaction. The Common Shares will continue to trade on the TSX under the symbol "ZAR".

The Exchange Transaction is not expected to materially affect control of the Company within the meaning of the rules of the TSX.

Conditions to the Exchange Transaction Becoming Effective

The following conditions are pre-requisites to the completion of the Exchange Transaction:

- (a) the Extraordinary Resolution shall have been approved by the requisite percentage of Debentureholders;
- (b) all required stakeholder or regulatory approvals, consents, waivers and filings shall have been obtained or made, as applicable;
- (c) all filings under applicable Laws shall have been made and any regulatory consents or approvals that are required in connection with the Exchange Transaction shall have been obtained; and
- (d) there shall not be in effect any preliminary or final decision, order or decree by a Governmental Authority, no application shall have been made to any Governmental Authority, and no action or investigation shall have been announced, threatened or commenced by any Governmental Authority, in consequence of or in connection with the Exchange Transaction that restrains, impedes or prohibits (or if granted would reasonably

be expected to restrain, impede or inhibit), the Exchange Transaction or any part thereof or requires or purports to require a variation of the Exchange Transaction.

Zargon may waive, in whole or in part, any of the above conditions. In addition, the Extraordinary Resolution provides that notwithstanding the passing of the Extraordinary Resolution, the Zargon Board, without further notice to, or approval of, the Debentureholders, are authorized and empowered to determine not to proceed with the Exchange Transaction at any time.

CERTAIN INFORMATION CONCERNING ZARGON

General

Zargon is an Alberta based company engaged in the business of oil and natural gas exploration, exploitation, development, acquisition and production in Canada and the United States. Zargon's business plan is to deliver sustainable and profitable oil and natural gas property exploitation and production activities in the oil and natural gas industry. In recent years, Zargon has refocused its business on long-life and low-decline conventional oil exploitation properties and the Little Bow ASP tertiary oil project.

Zargon's head and principal office is located at Sun Life Plaza, East Tower, Suite 1100, 112 – 4th Ave. SW, Calgary, Alberta, T2P 0H3.

Documents Incorporated by Reference

The following documents of the Company filed with securities commissions or similar authorities in each of the provinces of Canada are incorporated by reference into this Circular:

- (a) the annual information form of Zargon dated March 15, 2018 for the year ended December 31, 2017 (the "**AIF**");
- (b) the consolidated audited financial statements of Zargon for the years ended December 31, 2017 and 2016 and the associated management's discussion and analysis (the "**Zargon Annual Financial Statements**");
- (c) the unaudited comparative interim financial statements of Zargon as at and for the three and nine months ended September 30, 2018 and 2017 and the associated management's discussion and analysis (the "**Zargon Interim Financial Statements**");
- (d) the information circular and proxy statement dated April 19, 2018 for the annual meeting of Shareholders held on May 30, 2018;
- (e) the information circular and proxy statement dated April 17, 2017 for the annual and special meeting of Shareholders held on May 30, 2017; and
- (f) the material change report of the Company dated November 22, 2018 in respect of the Exchange Transaction.

Copies of the documents incorporated by reference herein and all of Zargon's other public filings providing additional information relating to Zargon are located and may be obtained on Zargon's profile at www.sedar.com.

Any documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including interim financial statements and related interim management's discussion and analysis, material change reports (except confidential material change reports) and business acquisition reports, filed by Zargon with the securities commissions or similar

authorities in any of the provinces of Canada subsequent to the date of this Circular and prior to completion of the Exchange Transaction shall be deemed to be incorporated by reference in this Circular.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Circular to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Circular.

Zargon – Before the Exchange Transaction

Zargon is authorized to issue an unlimited number of Common Shares without nominal or par value and 10,000,000 preferred shares without nominal or par value issuable in series. As of the date of this Circular, Zargon had 30,902,064 Common Shares, no preferred shares issued and outstanding, and \$41,941,000 principal amount of Debentures outstanding. Assuming an Effective Date of January 11, 2019, an aggregate of \$946,832.44 of interest will be accrued and owing.

There has been no material change in Zargon's share or debt capital structure since September 30, 2018 other than as disclosed in the Zargon Interim Financial Statements. Readers should also refer to the Zargon Annual Financial Statements and the Zargon Interim Financial Statements incorporated by reference herein. For information concerning the impact of the Common Shares issued as a result of the Exchange Transaction on the share structure of Zargon, see below at "*Zargon – After the Exchange Transaction*".

Zargon – After the Exchange Transaction

The following table sets forth the pro forma Common Share interests, assuming an Effective Date of January 11, 2019:

	<u>Number of Common Shares</u>	<u>Percentage</u>
Common Shares outstanding at January 11, 2019	30,902,064	6.72%
Common Shares issued to Debentureholders as part of the Exchange Transaction	428,878,324 ⁽¹⁾	93.28%
Common Shares outstanding after completion of the Exchange Transaction	459,780,388	100%

Note:

- (1) Common Shares issued in respect of \$41,941,000 aggregate principal of Debentures and \$946,832.44 in accrued interest from and including September 30, 2018 to but not including the Effective Date for a total of \$42,887,832.44 and converted to Common Shares at a rate of \$0.10 per Common Share.

Prior Sales

The following is a description of prior sales of Common Shares and securities convertible into Common Shares during the twelve-month period prior to the date of this Circular:

- 100,633 Common Shares were issued in the period from January 1, 2018 to September 30, 2018 pursuant to the exercise of share awards granted under the Company's share award plan; and
- 359 Common Shares were issued in December 2017 pursuant to the exercise of share awards granted under the Company's share award plan.

Interests of Directors and Officers in the Exchange Transaction

The interest of the directors of Zargon in the Exchange Transaction are summarized in the following table. The Zargon Board was aware of these interests and considered them, among other matters, when recommending approval of the Exchange Transaction. Mr. Craig Hansen, President and Chief Executive Officer of Zargon, and the only Zargon director or officer holding Debentures, has advised the Zargon Board that he intends to vote in favour of the Extraordinary Resolution.

Name and Position	Number and Percentage of Common Shares held	Number and Percentage of Debentures Held	Expected Number of Common Shares Issuable pursuant to the Exchange Transaction⁽¹⁾	Number and Percentage of Common Shares Held after giving effect to the Exchange Transaction⁽¹⁾
Craig H. Hansen Director and President and Chief Executive Officer	2,370,214 (7.67%)	\$900,000 principal amount (2.15%)	9,203,180 (2.15%)	11,573,394 (2.52%)
Kyle Kitagawa Chairman and Director	71,753 (0.23%)	Nil	Nil	71,753 (0.02%)
Geoffrey Merritt Director	100,887 (0.33%)	Nil	Nil	100,887 (0.02%)
Jim Peplinski Director	268,748 (0.87%)	Nil	Nil	268,748 (0.06%)
Ron Wigham Director	247,700 (0.80%)	Nil	Nil	247,700 (0.05%)
Grant Zawalsky Director	33,729 (0.11%)	Nil	Nil	33,729 (0.01%)

Note:

- (1) Assuming an Effective Date of January 11, 2019 and assuming no additional Common Shares are issued prior to the Effective Date.

Market for Securities

The Common Shares and the Debentures are listed and traded on the TSX. The trading symbol for the Common Shares is "ZAR" and for the Debentures is "ZAR.DB.A".

The closing price of the Common Shares on November 20, 2018, the last full trading day on the TSX before the public announcement of the Exchange Transaction was \$0.12 and on November 30, 2018, the last full trading day on the TSX before the date of this Circular, the closing price of the Common Shares was \$0.06.

The following table sets forth the high and low trading prices and the aggregate volume of trading of the Common Shares, as reported by the TSX for the periods indicated.

Period	High	Low	Volume (000's)
2017	\$	\$	
November	0.50	0.33	1,122
December	0.46	0.36	1,434
2018			
January	0.55	0.45	1,256
February	0.54	0.38	1,266
March	0.49	0.38	973
April	0.52	0.36	1,238
May	0.55	0.45	948
June	0.53	0.43	935
July	0.46	0.41	475
August	0.44	0.27	1,102
September	0.30	0.21	1,164
October	0.26	0.15	1,458
November	0.18	0.04	5,296

The closing price of the Debentures on November 20, 2018, the last full trading day on the TSX before the public announcement of the Exchange Transaction was \$38.00 for each \$100 principal amount of Debenture, and on November 30, 2018, the last full trading day on the TSX before the date of this Circular, the closing price of the Debentures was \$34.00 for each \$100 principal amount of Debenture.

The following table sets forth the high and low trading prices and the aggregate volume of trading of the Debentures (per \$100 principal amount of Debentures), as reported by the TSX for the periods indicated.

Period	High	Low	Volume
2017	\$	\$	
November	85.50	81.55	5,630
December	83.50	80.52	1,830
2018			
January	87.01	82.05	6,220
February	82.99	77.00	2,350
March	81.99	78.00	3,830
April	79.75	72.50	4,090
May	79.00	75.65	6,680
June	77.75	75.90	3,840
July	83.00	75.25	14,275
August	80.00	70.51	4,950
September	76.00	69.99	2,880
October	65.00	50.00	13,110
November	53.00	32.49	9,450

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Burnet, Duckworth and Palmer LLP, counsel to Zargon, the following is a summary of the principal Canadian federal income tax considerations generally applicable as of the date hereof under the Tax Act to a Beneficial Debentureholder who disposes of Debentures pursuant to the Exchange Transaction and who, for the purposes of the Tax Act and at all relevant times: (i) deals at arm's length and is not affiliated with Zargon; and (ii) holds all Debentures and will hold all Common Shares issuable under the Exchange Transaction (collectively, the "**Securities**") as capital property (each, a "**Holder**"). The Securities will generally be considered to be capital property to a Holder for the purposes of the Tax Act provided the Holder does not use or hold those Securities in the course of carrying on a business and has not acquired such Securities in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to a Holder: (i) that is a "financial institution" for the purposes of the "mark-to-market" rules; (ii) that is a "specified financial institution"; (iii) that is a partnership; (iv) an interest in which would be a "tax shelter investment"; (v) that has elected to determine its Canadian tax results in a foreign currency pursuant to the functional currency reporting rules; or (vi) that has entered or will enter into in respect of the Securities, a "derivative forward agreement", all within the meaning of the Tax Act. Any such Holders should consult with their own tax advisors to determine the particular Canadian federal income and other tax consequences to them of the Exchange Transaction.

It is assumed for the purposes of the tax considerations that follow that the Debentures will, at all relevant times prior to the Exchange Transaction, be listed on a "recognized stock exchange" within the meaning of the Tax Act (which currently includes the TSX), and that the Common Shares, including those that will be issued pursuant to the Exchange Transaction in repayment of the Debentures, will, at all relevant times, be listed on a "designated stock exchange" and a "recognized stock exchange" within the meaning of the Tax Act (which currently includes the TSX).

This summary is based on the facts set out in this Circular, the assumptions set out herein, the current provisions of the Tax Act in force as at the date hereof, and counsel's understanding of the current administrative and assessing practices and policies of the Canada Revenue Agency published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and assumes that all Proposed Amendments will be enacted in the form proposed; however, no assurance can be given that the Proposed Amendments will be enacted in the form publicly announced or at all. This summary does not otherwise take into account or anticipate any changes in law or administrative or assessing practice whether by legislative, regulatory, administrative, or judicial action nor does it take into account tax legislation or considerations of any province, territory or foreign jurisdiction, which may be different from those discussed herein.

This summary is of a general nature only and is not exhaustive of all possible Canadian federal income tax considerations applicable to the Exchange Transaction. The income and other tax consequences of acquiring, holding or disposing of Securities will vary depending on a Holder's particular status and circumstances, including the country, province or territory in which the Holder resides or carries on business. This summary is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder and no representations with respect to the income or other tax consequences to any particular Holder are made. Holders should consult their own tax advisors for advice with respect to the income and other tax consequences of the Exchange Transaction in their particular circumstances, including the application and effect of the income and other tax laws of any applicable country, province, state or local tax authority.

This summary does not discuss any non-Canadian income or other tax consequences of the Exchange Transaction. Holders resident or subject to taxation in a jurisdiction other than Canada should be aware that the Exchange Transaction may have tax consequences both in Canada and in such other jurisdiction. Such consequences are not described herein. Holders should consult with their own tax advisors with respect to their particular circumstances and the tax considerations applicable to them.

Exchange Transaction Generally

If the Exchange Transaction becomes effective, the Debentures held by each Holder will be irrevocably exchanged and transferred to Zargon in consideration of repayment by Zargon in the form of newly issued Common Shares. This repayment will not occur pursuant to the Holder's right of conversion under the Debentures and each Holder will be considered to have disposed of its Debentures for proceeds of disposition in an amount equal to the aggregate fair market value (at the time of the repayment) of the Common Shares received in repayment for the Debentures and any other consideration so received (excluding any amounts received or deemed to be received as interest). Holders should consult their own tax and financial advisors with respect to determining the fair market value of the consideration received. In addition, accrued but unpaid interest payable on the Debentures to the Effective Date of the Exchange Transaction will be paid by Zargon to the Holders, in Common Shares.

Holders Resident in Canada

The following portion of the summary is generally applicable to a Holder who, for the purposes of the Tax Act and any applicable income tax treaty or convention, and at all relevant times, is a resident of Canada (each, a "**Resident Holder**").

Receipt of Interest on Debentures

A Resident Holder that is a corporation, partnership, unit trust or any trust of which a corporation or partnership is a beneficiary will generally be required to include in income the amount of interest accrued or deemed to accrue on the Debentures or that became receivable or was received in the year, including interest accrued to the date of the disposition of the Debentures, except to the extent that such amounts were otherwise included in the Resident Holder's income for the year or a preceding taxation year.

Any other Resident Holder, including an individual, will be required to include in income for a taxation year all interest on the Debentures that is received or receivable by such Resident Holder in the year (depending upon the method regularly followed by the Resident Holder in computing income), including interest accrued to the date of the disposition of the Debentures, except to the extent that such amounts were otherwise included in its income for the year or a preceding taxation year.

A Resident Holder that is, throughout the relevant taxation year, a "Canadian-controlled private Company" (as defined in the Tax Act) may be liable to pay an additional refundable tax on its "aggregate investment income", which is defined in the Tax Act to include amounts in respect of interest. In addition, pursuant to changes to the Tax Act that were introduced in the 2018 federal budget that was released on February 27, 2018 (the "**2018 Budget**"), such a Resident Holder may be required to reduce its business limit on a straight-line basis to the extent that it, together with other corporations associated with it, receive certain investment income in an amount exceeding \$50,000 for a particular taxation year. Such Resident Holders should consult their own tax advisors regarding the 2018 Budget.

Disposition of Debentures

Generally, subject to the making of a Joint Tax Election (as defined below), a Resident Holder will realize a capital gain (or sustain a capital loss) on the disposition of its Debentures pursuant to the Exchange Transaction equal to the amount by which the proceeds of disposition exceed (or are exceeded by) the adjusted cost base to the Resident Holder of the Debentures, plus any reasonable costs of disposition. The tax treatment of any such capital gain (or capital loss) is as described below under "*Holders Resident in Canada - Taxation of Capital Gains and Capital Losses*".

A Resident Holder who would otherwise recognize a capital gain on the disposition of its Debentures pursuant to the Exchange Transaction may electively obtain a full or partial deferral of the gain by filing a joint income tax election with Zargon pursuant to section 85 of the Tax Act (and any analogous provincial or territorial tax legislation) in prescribed form and within the time limit set under the Tax Act (a "**Joint**

Tax Election"). A Resident Holder who wishes to file a Joint Tax Election should consult their own tax advisors and give their immediate attention to this matter following the Effective Time. Provided the Exchange Transaction is implemented, Zargon is prepared to execute a Joint Tax Election with any Resident Holder provided that such Resident Holder fully completes the prescribed election form and provides an executed copy to Zargon (attention: Chief Executive Officer) no later than 60 days following the Effective Time. Such prescribed form will be signed by Zargon and returned to the Resident Holder within 30 days of receipt thereof by Zargon for filing by the Resident Holder with the appropriate government authorities. Zargon will not be responsible for the proper completion of any election form and its obligations will be limited solely to signing any such election forms received by Zargon within 60 days of the Effective Time. For greater certainty, Zargon will not be responsible for any taxes, interest, penalties or other amounts resulting from the failure by a Resident Holder to properly complete or file the election form in the prescribed form and manner and within the time prescribed by the Tax Act (or any analogous provincial or territorial tax legislation).

Acquisition of Common Shares

A Resident Holder who acquires Common Shares in repayment of the Debentures pursuant to the Exchange Transaction and who does not file a Joint Tax Election will be considered to have acquired such Common Shares at an aggregate cost equal to their fair market value at the time such shares are issued. The aggregate cost of Common Shares acquired by a Resident Holder who files a Joint Tax Election will depend on the amount elected, or deemed to have been elected, by such Resident Holder for the purposes of the Joint Tax Election. The cost of the Common Shares must be averaged with the adjusted cost base of all other Common Shares held by the Resident Holder as capital property to determine the adjusted cost base on a per Common Share basis.

Receipt of Dividends on Common Shares (post-Exchange Transaction)

A Resident Holder will be required to include in computing its income for a taxation year any taxable dividends received or deemed to be received on the Common Shares.

In the case of a Resident Holder that is an individual (other than certain trusts), such taxable dividends will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit rules applicable to any dividend validly designated as an "eligible dividend" in accordance with the provisions of the Tax Act. There can be no assurance that any dividends paid by Zargon will be designated as an "eligible dividend". Dividends realized by an individual (other than certain trusts) may give rise to a liability for alternative minimum tax under the Tax Act.

In the case of a Resident Holder that is a corporation, such Resident Holder generally will be entitled to deduct the amount of such dividends in computing its taxable income. Certain corporations, including "private corporations" or "subject corporations" (as such terms are defined in the Tax Act), may be liable to pay a refundable tax under Part IV of the Tax Act on dividends received or deemed to be received on the Common Shares to the extent that such dividends are deductible in computing taxable income. A Resident Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax on its "aggregate investment income", which is defined in the Tax Act to include dividends which are not deductible in computing taxable income. In addition, pursuant to changes to the Tax Act that were introduced in the 2018 Budget, such a Resident Holder may be required to reduce its business limit on a straight-line basis to the extent that it, together with other corporations associated with it, receive certain investment income in an amount exceeding \$50,000 for a particular taxation year. Further, subsection 55(2) of the Tax Act provides that, where certain corporate holders of shares receive a dividend or deemed dividend in specified circumstances, all or part of such dividend may be treated as capital gain from the disposition of capital property and not as a dividend. Resident Holders that are Canadian-controlled private corporations or to whom subsection 55(2) may be applicable should consult their own tax advisors.

Disposition of Common Shares (post-Exchange Transaction)

A Resident Holder who disposes of or is deemed to dispose of Common Shares will generally realize a capital gain (or sustain a capital loss) to the extent that the Resident Holder's proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to the Resident Holder. The tax treatment of such capital gain (or capital loss) is as described below under "*Holders Resident in Canada - Taxation of Capital Gains and Capital Losses*".

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain realized in a taxation year (a "**taxable capital gain**") will be included in computing the Resident Holder's income in that taxation year and, generally, one-half of any capital loss realized in a taxation year (an "**allowable capital loss**") must be deducted from the taxable capital gains realized by the Resident Holder in the same taxation year, in accordance with the rules contained in the Tax Act. Allowable capital losses in excess of taxable capital gains realized by a Resident Holder in a particular taxation year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized by the Resident Holder in such taxation year, subject to and in accordance with the rules contained in the Tax Act.

The amount of any capital loss realized by a Resident Holder that is a corporation on the disposition of a Common Share may be reduced by the amount of dividends received or deemed to be received by it on such share (or on a share for which the share has been substituted) to the extent and under the circumstances prescribed by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns shares, directly or indirectly through a partnership or a trust. Resident Holders to whom these rules may apply should consult their own tax advisors.

A Resident Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax on its "aggregate investment income", which is defined in the Tax Act to include taxable capital gains. Capital gains realized by an individual may give rise to a liability for alternative minimum tax under the Tax Act. In addition, pursuant to changes to the Tax Act that were introduced in the 2018 Budget, such a Resident Holder may be required to reduce its business limit on a straight-line basis to the extent that it, together with other corporations associated with it, receive certain investment income in an amount exceeding \$50,000 for a particular taxation year.

Holders Not Resident in Canada

The following portion of the summary is generally applicable to a Holder who, for the purposes of the Tax Act and any applicable income tax treaty or convention, and at all relevant times, is not a resident of Canada and does not use or hold, and is not deemed to use or hold, the Debentures and will not use or hold, or be deemed to use and hold, the Common Shares acquired on the repayment of the Debentures pursuant to the Exchange Transaction in connection with carrying on a business in Canada (each, a "**Non-Resident Holder**"). This discussion is not generally applicable to a Non-Resident Holder that is an insurer carrying on an insurance business in Canada and elsewhere.

The following discussion assumes that the Debentures do not and the Common Shares will not constitute "taxable Canadian property" within the meaning of the Tax Act to any particular Non-Resident Holder. Provided that the Common Shares are, at any relevant time, listed on a "designated stock exchange" within the meaning of the Tax Act (which currently includes the TSX), neither the Debentures nor the Common Shares will generally be considered "taxable Canadian property" to a particular Non-Resident Holder unless, at any time during the 60-month period immediately preceding the disposition, the Non-Resident Holder, persons with whom the Non-Resident Holder did not deal at arm's length, or the Non-Resident Holder together with all such persons, owned 25% or more of the issued shares of any class or series of shares of the capital stock of Zargon. There are certain other situations in which property can be deemed to be "taxable Canadian property" under the Tax Act. A Non-Resident Holder owning Debentures or

Common Shares that may constitute "taxable Canadian property" should consult its tax advisors prior to a disposition thereof.

Receipt of Interest on Debentures

A Non-Resident Holder will not generally be subject to Canadian withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by Zargon as, on account or in lieu of payment of, or in satisfaction of, interest or principal on the Debentures.

Disposition of Debentures or Common Shares

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized on a disposition or deemed disposition of a Debenture pursuant to the Exchange Transaction or of a Common Share following the Exchange Transaction unless the Debenture or the Common Share, as the case may be, is "taxable Canadian property" to the Non-Resident Holder at the time of disposition and the Holder is not entitled to relief under an applicable income tax treaty or convention.

In the event that the Debentures are taxable Canadian property to a Non-Resident Holder at the time of the disposition of the Debentures pursuant to the Exchange Transaction, such Non-Resident Holder should consult its own tax advisors as to the Canadian tax consequences of the disposition, including the advisability of making a Joint Tax Election. The tax consequences and the procedure for making the Joint Tax Election are generally as described above under "*Holders Resident in Canada – Disposition of Debentures*".

Acquisition of Common Shares

A Non-Resident Holder who acquires Common Shares in repayment of the Debentures pursuant to the Exchange Transaction and who does not file a Joint Tax Election will be considered to have acquired such Common Shares at an aggregate cost equal to their fair market value at the time such shares are issued. The aggregate cost of Common Shares acquired by a Non-Resident Holder who files a Joint Tax Election will depend on the amount elected, or deemed to have been elected, by such Non-Resident Holder for the purposes of the Joint Tax Election. The cost of the Common Shares must be averaged with the adjusted cost base of all other Common Shares held by the Non-Resident Holder as capital property to determine the adjusted cost base on a per Common Share basis.

Receipt of Dividends on Common Shares (post-Exchange Transaction)

Dividends paid or credited or deemed under the Tax Act to be paid or credited on the Common Shares to a Non-Resident Holder will generally be subject to Canadian withholding tax at a rate of 25% on the gross amount of such dividend, subject to any applicable reduction in the rate of withholding pursuant to any applicable income tax treaty or convention. For example, the withholding rate is generally reduced under the Canada-United States Tax Convention (1980), as amended (the "**Convention**") to 15% if the beneficial owner of such dividend is a resident of the United States who is a qualifying person for purposes of the Convention. Non-Resident Holders who may be eligible for a reduced rate of withholding tax on dividends pursuant to any applicable income tax treaty or convention should consult with their own tax advisors with respect to taking all appropriate steps in this regard. Zargon will be required to withhold the required amount of withholding tax from the dividend, and to remit it to the appropriate government authority for the account of the Non-Resident Holder.

ELIGIBILITY FOR INVESTMENT

Based on the current provisions of the Tax Act and subject to the provision of any particular plan, the Common Shares, if listed on a "designated stock exchange", within the meaning of the Tax Act (which currently includes the TSX) or if Zargon is otherwise a "public corporation" for the purposes of the Tax Act, will constitute qualified investments under the Tax Act for a trust governed by a registered retirement savings plan, a registered retirement income fund, a registered disability savings plan, a registered education savings plan, a tax-free savings account (collectively, a "**Registered Plan**") or a deferred profit sharing plan. Zargon expects that the Common Shares will be qualified investments as described above at the time such shares are issued pursuant to the Exchange Transaction.

Notwithstanding the foregoing, if the Common Shares are "prohibited investments", within the meaning of the Tax Act, for a particular Registered Plan, the annuitant or the holder of the Registered Plan (the "**Controlling Individual**"), as the case may be, will be subject to a penalty tax under the Tax Act. The Common Shares will generally not be a "prohibited investment" for these purposes unless the Controlling Individual under the Registered Plan, as applicable, (i) does not deal at arm's length with Zargon for purposes of the Tax Act, or (ii) has a "significant interest", as defined in the Tax Act, in Zargon. In addition, the Common Shares will generally not be a "prohibited investment" if the Common Shares are "excluded property" for purposes of the prohibited investment rules for Registered Plan. Holders who intend to hold the Common Shares in a Registered Plan should consult their own tax advisors having regard to their own particular circumstances.

CANADIAN SECURITIES LAWS MATTERS

The issuance of the Exchange Shares under the Exchange Transaction will be exempt from the prospectus and registration requirements under Securities Laws. As a consequence of these exemptions, certain protections, rights and remedies provided by Securities Laws, including statutory rights of rescission or damages, will not be available in respect of such Exchange Shares. The Exchange Shares will be freely tradable subject to applicable limitations under Securities Laws.

RISK FACTORS

In evaluating whether to approve the Extraordinary Resolution, Debentureholders should carefully consider the following risk factors.

Risks Relating to the Exchange Transaction

Risks Relating to Zargon

Zargon will not have sufficient funds to settle the Debentures with cash upon their redemption or maturity and Zargon does not expect to be able to access the debt or equity capital markets successfully with its current capital structure. As such, if the Exchange Transaction is not completed, Zargon intends to repay the Debentures at the earliest possible redemption date by issuing additional Common Shares to the Debentureholders at 95% of the Current Market Price. Zargon may also elect to pay the interest payments due to the Debentureholders up to but not including December 31, 2019 by issuing Common Shares.

If the Exchange Transaction is not completed, there are substantial doubts on the Company's ability to continue as a going concern.

The Exchange Transaction will have a dilutive effect of the issued and outstanding Common Shares of Zargon.

Zargon will continue to face the risks that it currently faces with respect to its affairs, business and operations and future prospects. Such risk factors are set forth and described in the AIF.

Risks Relating to the Debentureholders

As noted above, if the Exchange Transaction is not approved by the Debentureholders, Zargon intends to exercise its right under the terms of the existing Indenture to repay the Debentures at the earliest possible redemption date by issuing additional Common Shares to the Debentureholders at 95% of the Current Market Price. Zargon may also elect to pay the interest payments due to the Debentureholders up to but not including December 31, 2019 by issuing Common Shares.

Changes in market conditions, including market volatility and liquidity, as well as changes in economic or other factors may affect the Common Share price to be used at the time of repayment of the Debentures in accordance with the Indenture. This may result in a different price per Common Share, and therefore a different number of Common Shares per Debenture, being issued for the Debentures.

The redemption and repayment by Zargon of the Debentures on December 31, 2019 would generally result in Debentureholders who are residents in Canada realizing a gain or loss for Canadian federal income tax purposes. It is unclear whether a Joint Tax Election to fully or partially defer any gain realized on the Exchange Transaction, as discussed under "*Certain Canadian Federal Income Tax Considerations - Holders Resident in Canada - Disposition of Debentures*", would be available under this scenario and Zargon is under no obligation to execute or file any Joint Tax Election in respect of such redemption and repayment.

Conditions Precedent and Requirement for TSX Approval

The Exchange Transaction will not be completed unless and until all conditions precedent to the Exchange Transaction described herein are satisfied or waived. See "*The Exchange Transaction - Conditions to the Exchange Transaction Becoming Effective*". There can be no certainty that all conditions precedent to the Exchange Transaction will be satisfied or waived, nor can there be any certainty of the timing of their satisfaction or waiver. Some of the conditions precedent are outside of the control of Zargon, including the approval of the Debentureholders and receipt of final TSX approvals. Even if the Exchange Transaction is approved by the requisite number of Debentureholders, it may not be completed.

If for any reason the Exchange Transaction is not completed, the market price of the Common Shares and Debentures may be adversely affected. Moreover, a substantial delay in obtaining satisfactory approvals could adversely affect the business, financial condition or results of operations of Zargon or result in the Exchange Transaction not being completed.

The Exchange Transaction May Not Improve the Financial Condition of Zargon

The Exchange Transaction is intended to provide Zargon with financial flexibility. However, the foregoing is contingent on many assumptions that may prove to be incorrect, including without limitation:

- the ability of Zargon to succeed in continuing to implement its business plan and continue as a going-concern;
- that general economic conditions will not deteriorate beyond currently anticipated levels;
- Zargon's strategic alternative initiatives may not be successful; and
- Zargon's continued ability to manage costs.

Should any of those assumptions not materialize, the Exchange Transaction may not have the effect of providing Zargon with the financial flexibility expected or required to implement its business plan.

Public Market Response to Issuance of Common Shares

There can be no assurance of the response of the public market to the issuance of Exchange Shares through the Exchange Transaction. Holders of the Common Shares may liquidate their investment rather than hold such Common Shares on a long-term basis. Accordingly, the market for Common Shares after the Exchange Transaction may be depressed for a period of time until the market has time to absorb these sales.

No assurance can be given as to the market price or liquidity of the Common Shares after the Effective Date.

Debentureholders' Contractual Rights

By exchanging the Debentures for Exchange Shares pursuant to the Exchange Transaction, Debentureholders will be changing the nature of a portion of their investment from debt to equity. Equity carries certain risks that are not applicable to debt. The Indenture provides a variety of contractual rights and remedies to Debentureholders, including the right to receive interest and repayment of the Debentures upon maturity. These rights will not be available to Debentureholders in respect of their Exchange Shares. Claims of holders of Exchange Shares will be subordinated in priority to the claims of creditors in the event of an insolvency, winding up, or other distribution of the assets of Zargon.

The Exchange Transaction May Reduce Certain Tax Attributes of Zargon

On the repayment of the Debentures pursuant to the Exchange Transaction, Zargon will be deemed, for purposes of the Tax Act, to have paid the aggregate fair market value of the Common Shares issued to the Debentureholders in repayment of the principal amount of the Debentures. If the aggregate fair market value of the Common Shares so issued is less than the aggregate principal amount of the Debentures, the Exchange Transaction will result in debt forgiveness to Zargon. The resulting "forgiven amount", if any, would reduce, in prescribed order, certain tax attributes of Zargon, including non-capital losses, net capital losses, undepreciated capital cost of depreciable property, cumulative eligible capital and certain resource expenditures (the "**Tax Shield**"). Generally, one half of the amount by which the forgiven amount in respect of the settlement or extinguishment of the Debentures exceeds the Tax Shield will be required to be included in Zargon's income for the taxation year in which the Exchange Transaction takes place, subject to a potential offsetting deduction for insolvent corporations. Zargon's Tax Shield is expected to be in excess of any forgiven amount arising on the settlement of the Debentures as a result, Zargon does not expect that the Exchange Transaction will result in any income inclusion or in any Canadian federal income tax liability to Zargon.

GENERAL PROXY AND DEBENTUREHOLDER MEETING MATTERS

Purpose of the Meeting

The information contained in this Circular is furnished in connection with the solicitation of proxies by the management of Zargon for use at the Meeting. At the Meeting, Debentureholders will consider and vote upon the Extraordinary Resolution and such other business as may properly come before the Meeting.

Following an extensive review and analysis of the Exchange Transaction and consideration of other available alternatives and based upon the recommendation of the Special Committee and other relevant factors considered by the Zargon Board, the Zargon Board has unanimously determined that the Exchange Transaction is in the best interests of Zargon and the Debentureholders and that the Exchange Transaction is fair to the Debentureholders. The Zargon Board unanimously recommends that Debentureholders vote in favour of the Extraordinary Resolution. See "*Background to the Exchange Transaction*", "*Reasons for the Exchange Transaction*" and "*The Exchange Transaction*".

Date, Time and Place of Meeting

The Meeting will be held at 3:00 p.m. (Calgary time) on January 10, 2019 at the offices of Burnet, Duckworth & Palmer LLP located at Suite 2400, 525 – 8th Avenue SW Calgary, Alberta T2P 1G1, for the purposes set forth in the accompanying Notice of Meeting. The purpose of the Meeting is for Debentureholders to consider and, if deemed advisable, approve the Extraordinary Resolution.

Debentureholders whose names have been entered in the registers of holders of Debentures on the close of business on the Record Date will be entitled to receive notice of and to vote at the Meeting or any adjournment thereof.

The quorum requirements of the Indenture will be satisfied by the presence in person or by proxy of Debentureholders representing at least 25% of the principal amount of Debentures outstanding on the date of the Meeting. If a quorum is not present within 30 minutes from the time fixed for holding the Meeting, the Meeting may be adjourned to such date being not less than 14 and not more than 60 days later, and to such place and time as may be appointed by the chairman of the Meeting. Not less than 10 days notice shall be given of the time and place of such Meeting. At the adjourned Meeting, the Debentureholders present in person or by proxy shall form a quorum and may transact the business for which the Meeting was originally convened, even if they hold less than 25% of the outstanding principal amount of Debentures. The holders of the Debentures will receive one vote for each \$1,000 principal amount held.

Solicitation of Proxies

This Circular is provided in connection with the solicitation of proxies by the management of Zargon for use at the Meeting for the purposes set forth in the accompanying Notice of Meeting. Solicitations of proxies will be primarily by mail, but may also be in person or by telephone, fax or oral communication by directors, officers, employees and/or agents of Zargon, including by proxy solicitation agents that may be specifically retained for such purpose. All costs of the solicitation for the Meeting will be borne by Zargon, and Zargon will reimburse Broadridge (as such term is defined below) and intermediaries for the reasonable fees and costs incurred by them in mailing soliciting materials to Beneficial Debentureholders. Also see "*Advice to Beneficial Debentureholders*" below.

The Company is not using "notice and access" to send its proxy related materials to Debentureholders, including this Circular.

Information for U.S. Debentureholders

The solicitation of proxies for the Meeting is not subject to the requirements of Section 14(a) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). Accordingly, the solicitations and transactions contemplated in this Circular are made in the United States with respect to securities of a Canadian issuer in accordance with Canadian corporate and securities laws. Debentureholders in the United States should be aware that such laws are different from those of the United States applicable to registration statements under the United States Securities Act of 1933, as amended, and proxy statements under the Exchange Act. In addition, tax considerations applicable to persons subject to U.S. taxation have not been included in this Circular and there may be material United States tax consequences for persons subject to U.S. taxation in connection with the Redemption. Such Debentureholders should consult their tax advisors to determine the particular tax consequences to them in connection with the Exchange Transaction.

Voting Rights and Appointment of Proxies

As at the date hereof, the Company has \$41,941,000 aggregate principal amount of Debentures issued and outstanding. Each \$1,000 principal amount of Debentures entitles the holder of record as at the close of business on the Record Date to one vote at the Meeting. **All of the Debentures are registered under the name of CDS & Co. (the registration name for CDS). Accordingly, in order for a Beneficial Debentureholder to vote its Debentures FOR or AGAINST the Extraordinary Resolution, it must**

complete and sign the applicable instrument of proxy or other voting instruction form provided by its broker or other intermediary and return such instrument of proxy or other voting instruction form in accordance with the instructions provided therein well in advance of the Meeting. Failure to do so will result in your Debentures not being voted at the Meeting. See "Advice to Beneficial Debentureholders".

Revocation of Proxies

A Beneficial Debentureholder may revoke a proxy or voting instruction form provided by its broker or other intermediary in accordance with the instructions provided therein.

Voting of Proxies

The Debentures represented by the accompanying form of proxy will be voted in accordance with the instructions of the Debentureholder on any ballot that may be called for, and if the Debentureholder specifies a choice with respect to any matter to be acted upon, the Debentures will be voted accordingly. **In the absence of such direction, Debentures represented by proxies will be voted FOR the Extraordinary Resolution.**

The accompanying form of proxy confers discretionary authority on the persons named therein with respect to amendments or variations to matters identified in the Notice of Extraordinary Meeting, or other matters, which may properly come before the Meeting. At the time of printing this Circular, management of the Company knows of no such amendments, variations or other matters to come before the Meeting.

Advice to Beneficial Debentureholders

The information set forth in this section is of significant importance to all Debentureholders, as all of the Debentures are registered in the name of CDS and are held through brokers, intermediaries, trustees or other persons. Without specific instructions, a broker, intermediary, trustee, other person or nominee is prohibited from voting Debentures for its clients.

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Debentureholders in advance of securityholder meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions to clients, which should be carefully followed by Beneficial Debentureholders in order to ensure that their Debentures are voted at the Meeting. Broadridge typically mails a scannable voting instruction form ("**VIF**") instead of the form of proxy. The VIF supplied to a Beneficial Debentureholder is similar to the proxy provided to registered Debentureholders by Zargon; however, its purpose is limited to instructing the registered Debentureholder (the broker or the agent of the broker) how to vote on behalf of the Beneficial Debentureholder. The majority of brokers now delegate responsibility for obtaining voting instructions from clients to Broadridge Financial Solutions, Inc. ("**Broadridge**"). The Beneficial Debentureholder is asked to complete the VIF and return it to Broadridge by mail or facsimile. Alternatively, the Beneficial Debentureholder may call a toll-free number to vote the Debentures held by the Beneficial Debentureholder or vote online. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of the Debentures to be represented at the Meeting.

A Beneficial Debentureholder receiving a VIF cannot use that VIF to vote Debentures directly at the Meeting, but rather a Beneficial Debentureholder must submit its voting instructions in accordance with the instructions in the VIF.

Although a Beneficial Debentureholder may not be recognized directly at the Meeting for the purposes of voting Debentures registered in the name of his broker (or agent of the broker), a Beneficial Debentureholder may attend the Meeting as proxyholder for the registered Debentureholder and vote the Debentures in that capacity. Beneficial Debentureholders who wish to attend the Meeting and indirectly vote their Debentures as proxyholders for the registered Debentureholder should enter their own names in

the blank space on the VIF provided to them and return the same in accordance with the instructions provided well in advance of the Meeting.

The Company will not send proxy-related materials directly to non-objecting Beneficial Debentureholders. Such materials will be delivered to objecting Debentureholders by Broadridge or through the non-objecting Beneficial Debentureholder's intermediary. Zargon will pay the reasonable fees and costs of Broadridge or an objecting Beneficial Debentureholder's intermediary to deliver the proxy-related materials and Form 54-101F7 – *Request for Voting Instructions Made by Intermediary* of National Instrument 54-101 to objecting Beneficial Debentureholders.

Voting Securities and Principal Holders Thereof

As of the date hereof, the directors and executive officers of Zargon are not aware of any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the issued and outstanding Debentures or who will beneficially own, or control or direct, directly or indirectly, more than 10% of the issued and outstanding Common Shares immediately following the Exchange Transaction.

Quorum

The quorum requirements of the Indenture will be satisfied by the presence in person or by proxy of Debentureholders representing at least 25% of the principal amount of Debentures outstanding on the date of the Meeting. If a quorum is not present within 30 minutes from the time fixed for holding the Meeting, the Meeting may be adjourned to such date being not less than 14 and not more than 60 days later, and to such place and time as may be appointed by the chairman of the Meeting. Not less than 10 days notice shall be given of the time and place of such Meeting. At the adjourned Meeting, the Debentureholders present in person or by proxy shall form a quorum and may transact the business for which the Meeting was originally convened, even if they hold less than 25% of the outstanding principal amount of Debentures. The holders of the Debentures will receive one vote for each \$1,000 principal amount held.

Other Business

Management of Zargon does not intend to present and does not have any reason to believe that others will present any item of business other than those set forth in this Circular at the Meeting. However, if any other business is properly presented at the Meeting and may properly be considered and acted upon, proxies will be voted by those named in the form of proxy in their sole discretion, including with respect to any amendments or variations to the matters identified in this Circular.

PROCEDURES FOR THE SURRENDER OF DEBENTURES AND RECEIPT OF EXCHANGE SHARES

Procedure for Debentureholders

All of the Debentures are held in book entry form through the facilities of CDS. If the Exchange Transaction is completed, the Exchange Shares to which Debentureholders are entitled pursuant to the Exchange Transaction will be delivered to CDS and CDS and the applicable participants will distribute the Exchange Shares through the book-entry only system to Beneficial Debentureholders. Beneficial Debentureholders do not need to, submit a letter of transmittal and should contact the broker, dealer, bank, trust company or other nominee through which they hold their Debentures if they have any questions concerning obtaining Common Shares for their Debentures upon the completion of the Exchange Transaction.

Cancellation of Rights of Debentureholders

From and after the Effective Time, each certificate, agreement or other instrument (as applicable) that immediately prior to the Effective Time represented Debentures shall represent only the right to receive the Exchange Shares in respect of such Debentures to be provided under the Exchange Transaction.

LEGAL PROCEEDINGS

There are no legal proceedings that Zargon is a party to that involve a claim for damages that exceed 10% of the current assets of Zargon.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Other than as disclosed herein, there were no material interests, direct or indirect, of directors or executive officers of the Company, of any shareholder who beneficially owns or controls or directs, directly or indirectly, more than 10% of the outstanding Common Shares, or any other Informed Person (as defined in National Instrument 51-102) or any known associate or affiliate of such persons, in any transaction since the commencement of the most recently completed financial year of the Company or in any proposed transaction which has materially affected, or would materially affect, the Company or any of its subsidiaries. Grant Zawalsky, a director of Zargon, is a partner of Burnet, Duckworth & Palmer LLP, which firm receives fees for legal services provided to Zargon.

ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR at www.sedar.com. Financial information in respect of the Company and its affairs is provided in the Company's annual audited consolidated financial statements for the year ended December 31, 2017 and 2016 and the Company's unaudited interim consolidated financial statements for the three and nine months ended September 30, 2018 and 2017 and the related management's discussion and analysis. Copies of the Company's financial statements and related management's discussion and analysis are available upon request from the President and Chief Executive Officer of Zargon at Zargon's head office, Sun Life Plaza, East Tower, Suite 1100, 112 – 4th Ave. SW, Calgary, Alberta, T2P 0H3, Tel: (403) 264-9992.

DEBENTUREHOLDER RIGHTS

Some of your rights as a Debentureholder, including those relating to the Meeting, are described generally in this Circular. For more details, reference is made to the full text of the Indenture. Copies of the Original Indenture and Supplemental Indenture have been posted for public access on the Company's SEDAR profile at www.sedar.com.

APPENDIX A – EXTRAORDINARY RESOLUTION

WHEREAS the 8.00% convertible unsecured subordinated debentures of Zargon Oil & Gas Ltd. ("**Zargon**" or the "**Company**") due December 31, 2019 (the "**Debentures**") were issued pursuant to a debenture indenture between Zargon and Valiant Trust Company, dated May 1, 2012 (the "**Original Indenture**"), as supplemented by a first supplemental indenture between Zargon and the successor trustee Computershare Trust Company of Canada (the "**Trustee**") dated as of February 14, 2017 (the "**Supplemental Indenture**" and together with the Original Indenture, the "**Indenture**");

AND WHEREAS pursuant to article 13.12(l) of the Indenture, the holders of the Debentures (the "**Debentureholders**") have the power to sanction, by way of an Extraordinary Resolution (as defined in the Indenture) the exchange of the Debentures for common shares of the Company ("**Common Shares**");

AND WHEREAS the Debentureholders wish to approve the repayment of all of the issued and outstanding Debentures in the aggregate principal amount of \$41.94 million by way of issuance of Common Shares, including the payment, in the form of Common Shares, of the accrued or unpaid interest owing on the Debentures from and including September 30, 2018 to but not including the effective date of the transaction on the basis of a price of \$0.10 per Common Share (the "**Exchange Transaction**"), all as more fully described in the Information Circular and Proxy Statement of the Company dated December 1, 2018 relating to the Exchange Transaction (the "**Circular**");

BE IT RESOLVED AS AN EXTRAORDINARY RESOLUTION THAT:

1. The Exchange Transaction, as more particularly described and set forth in the Circular, be and is hereby authorized, approved and adopted and the Company be and is hereby authorized and directed to take all such actions as may be necessary or desirable to effect the Exchange Transaction.
2. Notwithstanding anything to the contrary in the Indenture, upon completion of the Exchange Transaction, all of the Debentureholders' rights and claims under the Debentures will be extinguished, the Debentures will be delivered to the Trustee for cancellation, the Company will be deemed to have fully paid, satisfied and discharged the entire amount of principal of, and accrued and unpaid interest on, all of the Debentures and the Company will be fully and finally released and discharged from all of its obligations with respect to the Debentures and all the outstanding Debentures, the terms and conditions of the Debentures, including the terms and conditions with respect thereto set forth in the Indenture, shall no longer be binding upon or applicable to the Company.
3. Any one director or officer of the Company be and is hereby authorized and directed, for and on behalf of the Company (whether under corporate seal or otherwise), to execute and deliver, or cause to be executed and delivered any and all documents, agreements and instruments and to perform, or cause to be performed, such other acts and things, as in such person's opinion may be necessary or desirable to give full effect to these resolutions and the matters authorized hereby, including any supplement to the Indenture necessary or desirable to effect the Exchange Transaction, such determination to be conclusively evidenced by the execution and delivery of such documents or other instruments or the doing of any such act or thing.
4. The proper officers and authorized signatories of the Trustee be and are hereby authorized and directed to execute and deliver all documents and instruments and to take such other actions as they may deem necessary or desirable to implement these resolutions and the matters authorized hereby, including the cancellation of the Debentures, the release and discharge of the Company under the Indenture with respect to the Debentures and all other transactions required and/or contemplated by the Exchange Transaction, such determination to be conclusively evidenced by the execution and delivery of such documents or other instruments or the taking of such actions.

5. Notwithstanding the passing of this resolution, the Board of Directors of the Company, without further notice to, or approval of, the Debentureholders, are hereby authorized and empowered to determine not to proceed with the Exchange Transaction at any time prior to the Effective Time (as defined in the Circular) of the Exchange Transaction.