



MACQUARIE

OVERVIEW MEMORANDUM STRATEGIC ALTERNATIVES

February 2019

ZARGON 2019 STRATEGIC ALTERNATIVES PROCESS

Zargon Oil & Gas Ltd. ("Zargon") has engaged the Advisory and Capital Markets division of Macquarie Capital Markets Canada Ltd. as financial advisor to assist in seeking outcomes that will maximize value for the Company and its stakeholders. These outcomes may include a corporate merger, sale, recapitalization or reorganization.



OPPORTUNITY HIGHLIGHTS

- In Jan 2019, Zargon completed the exchange transaction of its 8.00% convertible debentures for common shares, materially reducing the debt burden on the business
- The exchange transaction, together with improved WTI pricing and Cdn. differentials, has significantly enhanced the flexibility for Zargon to explore strategic, alternative transactions
- Zargon's long-life, low-decline oil exploitation assets have significant upside potential in a period of prolonged, recovered oil prices
- Strategic optionality with respect to the potential concurrent monetization of Zargon's North Dakota assets
- Zargon brings a TSX listing and \$200 mm+ of high-quality tax pools as at Dec 31, 2018; including \$170 mm of non-capital losses
- Trailing 12-month average production (ending Dec. 2018) of 2,069 boe/d (85% liquids) and operating cash flow of \$9.6 mm
- 2018 PDP reserves of 5.9 mmboe (\$49.6 mm NPV10); P+P reserves of 9.1 mmboe (\$82.9 mm NPV10)

CAPITALIZATION

Current Capitalization Post Debenture Exchange ⁽¹⁾		
Share Price @ Feb. 22, 2019	\$/sh	\$0.035
Shares O/S	mm	460.1
Market Cap	\$mm	\$16.1
Net Cash On Hand	\$mm	\$2.6
Term Loan ⁽²⁾	\$mm	\$4.8
Net Debt	\$mm	\$2.2
Enterprise Value	\$mm	\$18.3

2018 NETBACK BY ASSET⁽³⁾

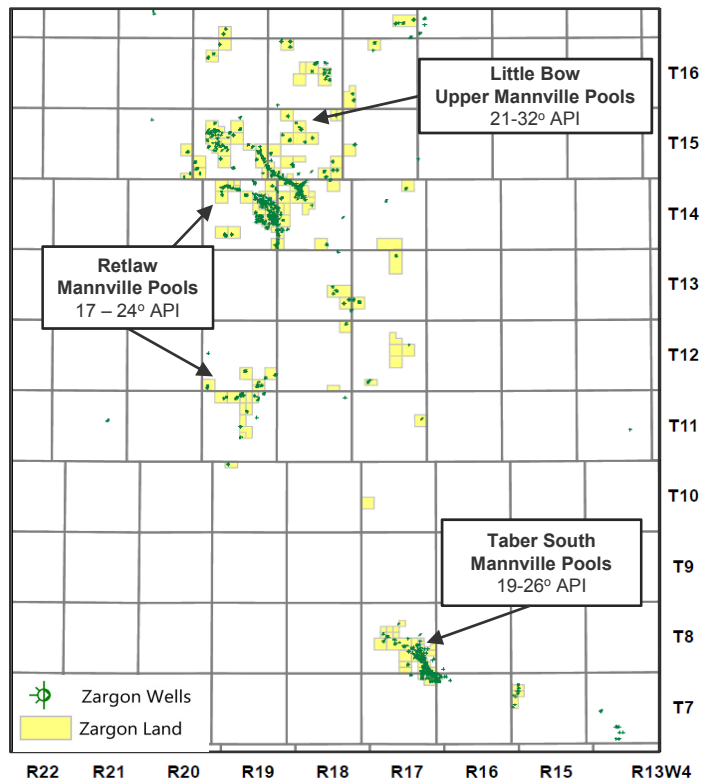
Operating Netback		Canada	US	Corp.
Revenue	\$/boe	\$42.95	\$63.63	\$46.99
Royalties	\$/boe	\$4.34	\$16.71	\$6.76
Operating Costs	\$/boe	\$28.86	\$22.06	\$27.57
Operating Netback	\$/boe	\$9.75	\$24.86	\$12.66

CORPORATE ASSETS – PRODUCTION & RESERVES⁽³⁾

	2018 Production		Cash Flow		Company W.I. Reserves			BTAX NPV10		
	Prodn. (boe/d)	Liq. Wtg. (%)	Op. Netback (\$/boe)	Op. CF (\$mm)	PDP (mmboe)	Proved (mmboe)	P+P (mmboe)	PDP (\$mm)	Proved (\$mm)	P+P (\$mm)
Canada	1,665	81%	\$9.75	\$5.9	4.0	4.6	6.3	\$32.7	\$39.0	\$58.8
United States	404	100%	\$24.86	\$3.7	1.8	2.1	2.8	\$16.9	\$17.7	\$24.1
Corporate	2,069	85%	\$12.66	\$9.6	5.9	6.7	9.1	\$49.6	\$56.7	\$82.9

(1) As at Feb. 22 2019. (2) Includes US\$0.15 mm original issue discount. (3) Based on 2018 actual results and year end reserves. Note: currency is denoted in C\$ unless stated otherwise and assumes a CAD/USD exchange rate of 0.758. Numbers may not add due to rounding. Source: Company provided data, FactSet.

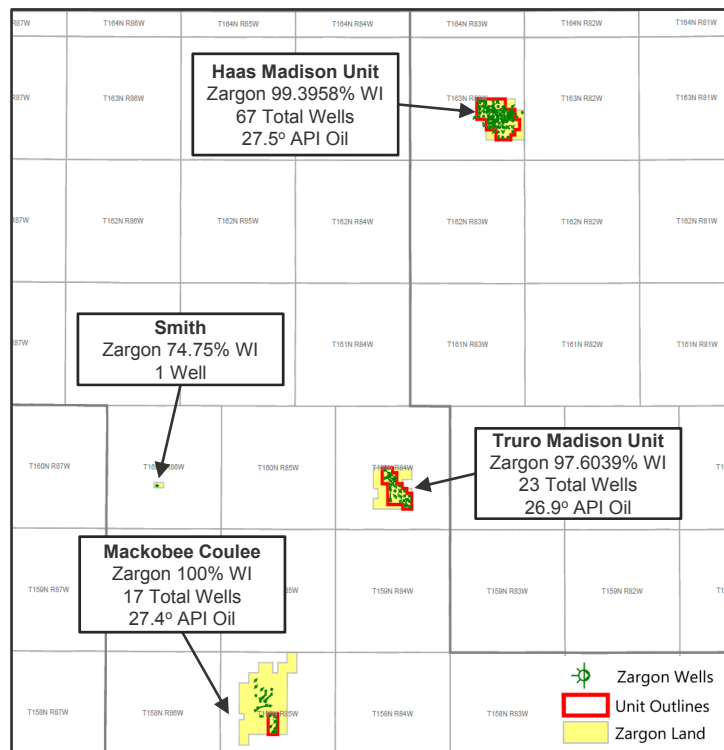
ZARGON ALBERTA ASSETS



ALBERTA ASSET COMMENTARY

- 206,074 gross / 117,685 net acres of total Zargon land in Alberta (Crown and Freehold)
- 1,397 boe/d of low decline (12%) production primarily from the Cretaceous Mannville Group
- 60% of production concentrated in Little Bow, Taber South and Retlaw assets in SE Alberta
- 692 total Zargon wells in Alberta including 189 producing and 261 suspended wells (AB LMR 1.12)
 - The AER's voluntary Area Based Closure liability program requires companies to spend 4% of deemed inactive liability per year
 - For 2019, Zargon is required to spend \$1.2 mm, which compares with Zargon's 2019E budgeted spend of \$2.0 - \$2.5 mm
- Production and injection facilities associated with the ASP flood at Little Bow
- 8 proved and probable locations at Taber and Bellshill Lake
- Little Bow provides material upside opportunity through:
 - Non-ASP waterflood reactivation and expansion projects along with well reactivations
 - ASP project well reactivations

ZARGON NORTH DAKOTA ASSETS



NORTH DAKOTA ASSET COMMENTARY

- 8,253 gross / 7,905 net acres of Zargon, 100% operated land in North Dakota with high working interest ownership
- 390 boe/d of production from Williston Basin Mississippian reservoir units
- 111 total Zargon Oil (ND) Inc. licensed wells including 82 active wells (61 producing, 17 water injection, 3 water source and 1 salt water disposal)
- Opportunity to increase recovery factor through optimization of waterflood and undeveloped land
- Unitized oil production with infill drilling potential
- 7 proved and probable locations at Mackobee Coulee, Truro and Haas
- Potential waterflood expansion project at Truro provides opportunity to ramp up production with minimal associated costs
- Drill ready locations at Truro and Mackobee
- Oil handling infrastructure and water disposal with capacity for increased production levels

Note: Land is presented as of February 2019.

ADDITIONAL INFORMATION

Confidentiality Agreement

- Confidential information is available in the Virtual Data Room. Interested parties wanting access to the confidential information are required to execute and deliver a signed digital copy or two signed hard copies of the Confidentiality Agreement.
- Please contact Ryan Tosi at ryan.tosi@macquarie.com for a copy of the Confidentiality Agreement

Virtual Data Rooms

- Following receipt of a signed Confidentiality Agreement Scott Seelhof will contact you to set up access to the Virtual Data Room

Additional Questions and Inquiries

- Submit to Chad Dundas or Scott Seelhof

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