



Zargon Oil & Gas Ltd. Announces Q4 2018 Production Volumes and 2018 Year End Reserves

January 24, 2019

CALGARY, Alberta, Jan. 24, 2019 (GLOBE NEWSWIRE) -- Zargon Oil & Gas Ltd. (the "Company" or "Zargon") (TSX:ZAR) announces fourth quarter 2018 production volumes and announces 2018 year end reserves. Zargon intends to release its 2018 audited financial results on March 14, 2019, after market close.

2018 FOURTH QUARTER PRODUCTION VOLUMES:

Fourth quarter 2018 production averaged 1,786 barrels of oil equivalent per day, a 26 percent decline from the fourth quarter 2017 rate of 2,416 barrels of oil equivalent per day. The reduced volumes were primarily due to the suspension of discretionary oil exploitation capital programs, the deferral of routine maintenance operations due to cash constraints, minor property sales and the shut-in of uneconomic natural gas properties.

Fourth quarter 2018 oil and liquids production averaged 1,575 barrels per day, and compares to rates of 1,680 barrels of oil and liquids per day in the preceding quarter and 1,924 barrels of oil and liquids per day in the fourth quarter of 2017. Fourth quarter 2018 natural gas production averaged 1.27 million cubic feet per day, and compares to rates of 1.64 million cubic feet per day in the preceding quarter and 2.95 million cubic feet per day in the fourth quarter of 2017.

For calendar 2018, Zargon's production averaged 2,069 barrels of oil equivalent per day, and was comprised of 1,751 barrels of oil and liquids per day and 1.91 million cubic feet per day of natural gas. We are forecasting first half 2019 production to average approximately 1,800 barrels of oil equivalent per day, which is comprised of 1,585 barrels of oil and liquids per day and 1.30 million cubic feet of natural gas per day. This forecast is based on \$2.0 million of first half 2019 capital expenditures. Additional details regarding guidance, capital budgets, oil exploitation opportunities, hedging and corporate outlook are provided in our updated presentation and previous press releases that are located on our website at www.zargon.ca.

2018 YEAR END RESERVES:

- Zargon's reserves have been appraised by our independent reserves evaluator McDaniel & Associates Consultants Ltd. ("McDaniel") and are effective as of December 31, 2018. Zargon's 2018 year end proved and probable total reserves totalled 9.14 million barrels of oil equivalent, a 27 percent decrease from the 2017 year end reserves of 12.45 million barrels of oil equivalent. Total proved and probable oil and liquid reserves are 8.24 million barrels and represent 90 percent of Zargon's total reserves.
- Zargon's 2018 year end proved developed producing reserves decreased 15 percent to 5.86 million barrels of oil equivalent and included 5.26 million barrels of oil and liquids. Zargon's proved developed producing reserve totals represent 64 percent of the Zargon's total proved and probable reserves.
- Zargon's 2018 year end proved and probable developed producing reserves decreased 19 percent to 7.38 million barrels of oil equivalent and included 6.63 million barrels of oil and liquids. Zargon's proved and probable developed producing reserve totals represent 81 percent of the Zargon's total proved and probable reserves.
- Zargon's oil properties are characterized by pressure supported reservoirs (waterflood, tertiary schemes or natural aquifers) that provide long-life, low-decline oil production. Consequently, Zargon's proved developed producing oil and liquids reserve life index is 9.1 years and Zargon's proved and probable producing oil and liquids reserve life index is 11.5 years. Finally, Zargon's total proved and probable oil and liquids reserve life index is 14.3 years. The relatively large developed producing reserve life indices are indicative of low decline oil production from relatively mature properties.
- Zargon's year end 2018 "produce-out" proved and probable net asset value is calculated to be \$0.18 per basic share (with the shares issued on January 11, 2019 to settle the debentures). On a proved developed producing basis the "produce out" net asset value is calculated to be \$0.11 per basic share. These calculations reflect McDaniel's estimate of the Zargon properties' future cash flow using a before tax 10 percent discount rate and forecast prices and costs plus Zargon's undeveloped land less an allowance for the full future face value of the \$3.6 million (USD) year end bank debt and working capital. These net asset value estimates do not include ongoing operating costs or site reclamation and abandonment costs for wells that are not assigned reserves.

DETAILED RESERVE INFORMATION:

Reserves included herein are stated on a gross company working interest basis unless otherwise noted. All reserves information has been prepared in accordance with National Instrument 51-101 Standards of Disclosure ("NI 51-101"). In addition to the detailed information disclosed in this press release, more detailed information will be included in Zargon's 2018 Annual Information Form to be filed on SEDAR (www.sedar.com) and posted on our website (www.zargon.ca) in March 2019.

Based on the independent reserves evaluation conducted by McDaniel effective December 31, 2018, and prepared in accordance with NI 51-101, Zargon had proved and probable reserves of 9.14 million barrels of oil equivalent.

COMPANY TOTAL Reserves⁽¹⁾			Barrels of Oil
At December 31, 2018	Oil and Liquids (mmbbl)	Natural Gas (bcf)	Equivalent ⁽²⁾ (mmboe)
Proved producing	5.26	3.59	5.86
Proved non-producing	0.39	0.48	0.47
Proved undeveloped	0.35	-	0.35
Total proved	6.00	4.07	6.68
Probable additional producing	1.37	0.89	1.52
Probable non-producing and undeveloped	0.87	0.45	0.94
Total probable additional	2.24	1.34	2.46
Total proved and probable producing	6.63	4.48	7.38
Total proved and probable	8.24	5.41	9.14
Proved producing reserve life index, years ⁽³⁾	9.1	7.7	9.0
Proved reserve life index, years ⁽³⁾	10.4	8.8	10.2
Proved and probable producing reserve life index, years ⁽³⁾	11.5	9.7	11.3
Proved and probable reserve life index, years ⁽³⁾	14.3	11.7	14.0

1. *Company working interest reserves are gross reserves before deduction of royalties, boe (6:1).*
2. *Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.*
3. *Reserve life is calculated using annualized fourth quarter 2018 production.*

CANADA Reserves⁽¹⁾			Barrels of Oil
At December 31, 2018	Oil and Liquids (mmbbl)	Natural Gas (bcf)	Equivalent ⁽²⁾ (mmboe)
Proved producing	3.43	3.59	4.03
Proved non-producing	0.39	0.48	0.47
Proved undeveloped	0.09	-	0.09
Total proved	3.91	4.07	4.59
Probable additional producing	0.94	0.89	1.09
Probable non-producing and undeveloped	0.56	0.45	0.63
Total probable additional	1.50	1.34	1.72
Total proved and probable producing	4.37	4.48	5.12
Total proved and probable	5.41	5.41	6.31
Proved producing reserve life index, years ⁽³⁾	7.9	7.7	7.9
Proved reserve life index, years ⁽³⁾	9.0	8.8	9.0
Proved and probable producing reserve life index, years ⁽³⁾	10.1	9.7	10.0
Proved and probable reserve life index, years ⁽³⁾	12.5	11.7	12.4

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equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

3. Reserve life is calculated using annualized fourth quarter 2018 Canadian production.

UNITED STATES Reserves⁽¹⁾			Barrels of Oil
At December 31, 2018	Oil and Liquids (mmbbl)	Natural Gas (bcf)	Equivalent ⁽²⁾ (mmbbl)
Proved producing	1.83	-	1.83
Proved non-producing	-	-	-
Proved undeveloped	0.26	-	0.26
Total proved	2.09	-	2.09
Probable additional producing	0.43	-	0.43
Probable non-producing and undeveloped	0.31	-	0.31
Total probable additional	0.74	-	0.74
Total proved and probable producing	2.26	-	2.26
Total proved and probable	2.83	-	2.83
Proved producing reserve life index, years ⁽³⁾	12.9	-	12.9
Proved reserve life index, years ⁽³⁾	14.7	-	14.7
Proved and probable producing reserve life index, years ⁽³⁾	15.9	-	15.9
Proved and probable reserve life index, years ⁽³⁾	19.9	-	19.9

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3. Reserve life is calculated using annualized fourth quarter 2018 United States production.

Zargon's reserves are characterized by long-life, low-decline oil production with a high producing developed component that generally provides a corresponding high confidence level. In calendar 2018, net reserves of 0.30 and 0.97 million barrels of oil equivalents of negative reserve revisions were booked for the proved developed producing and proved and probable developed producing cases, respectively. The reduction of developed producing proved and probable reserves was primarily attributable to the production performance related decrease in reserves for the Little Bow ASP project, property sales and the shut-in of uneconomic natural gas properties, partially offset by positive revisions in North Dakota.

In calendar 2018, net reserves of 0.49 and 2.54 million barrels of oil equivalents of negative reserve revisions were booked for the total proved and total proved and probable cases, respectively. These reductions were primarily attributed to economic factors related to the removal of previously booked Little Bow ASP project expansions and the shut-in of uneconomic natural gas properties.

NET ASSET VALUE:

Zargon's oil, liquids and natural gas reserves were evaluated using McDaniel's price forecasts effective January 1, 2019, prior to provisions for income taxes, interest, debt service charges, transaction costs and general and administrative expenses. The estimated values of future net revenue disclosed do not represent the fair market value of the reserves.

TOTAL COMPANY Before Tax Present Value of Future Net Revenue (Forecast Prices and Costs)

(\$ millions)	Discount Factor			
	0%	5%	10%	15%
Proved producing	74.7	60.7	49.6	41.7
Proved non-producing	8.3	6.4	5.1	4.2
Proved undeveloped	5.1	3.3	2.0	1.0
Total proved	88.1	70.4	56.7	46.9
Probable additional producing	42.8	24.1	15.3	10.7
Probable additional non-producing and undeveloped	22.1	15.3	10.9	8.0
Total probable additional	64.9	39.4	26.2	18.7
Total proved and probable producing	117.5	84.8	64.9	52.4

Total proved and probable	153.0	109.8	82.9	65.6
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**CANADA Before Tax Present Value of Future Net Revenue
(Forecast Prices and Costs)**

(\$ millions)	Discount Factor			
	0%	5%	10%	15%
Proved producing	49.0	39.6	32.7	27.8
Proved non-producing	8.3	6.4	5.1	4.2
Proved undeveloped	2.1	1.6	1.2	0.8
Total proved	59.4	47.6	39.0	32.8
Probable additional producing	30.7	18.4	12.1	8.6
Probable additional non-producing and undeveloped	14.2	10.3	7.7	5.9
Total probable additional	44.9	28.7	19.8	14.5
Total proved and probable producing	79.7	58.0	44.8	36.4
Total proved and probable	104.3	76.3	58.8	47.3

**UNITED STATES Before Tax Present Value of Future Net Revenue
(Forecast Prices and Costs)**

(\$ millions)	Discount Factor			
	0%	5%	10%	15%
Proved producing	25.7	21.1	16.9	13.9
Proved non-producing	-	-	-	-
Proved undeveloped	3.0	1.7	0.8	0.2
Total proved	28.7	22.8	17.7	14.1
Probable additional producing	12.1	5.7	3.2	2.1
Probable additional non-producing and undeveloped	7.9	5.0	3.2	2.1
Total probable additional	20.0	10.7	6.4	4.2
Total proved and probable producing	37.8	26.8	20.1	16.0
Total proved and probable	48.7	33.5	24.1	18.3

The following net asset value table shows what is customarily referred to as a "produce-out" net asset value calculation under which the current value of Zargon's reserves would be produced at McDaniel's forecast future prices and costs. The value is a snapshot in time as at December 31, 2018, and is based on various assumptions including commodity prices and foreign exchange rates that vary over time. In this analysis, the present value of the proved and probable reserves is calculated at a before tax 10 percent discount rate. These net asset value calculations do not include ongoing operating costs or site reclamation and abandonment costs for wells that are not assigned reserves.

Net Asset Value	Proved Developed Producing Reserves	Proved and Probable Reserves
As at December 31, 2018 (\$ millions)		
Proved and probable reserves (PVBT 10%) ⁽¹⁾	50	83
Undeveloped land - unaudited	2	2
Working capital (excluding unrealized derivative assets/liabilities) - unaudited	2	2
Bank debt - unaudited	(5) (5
Convertible debenture – proforma as at January 17, 2019	-	-
Net asset value	49	82

1. McDaniel's estimate of future before tax cash flow discounted at PV 10 percent.
2. Calculated using basic total shares outstanding at January 17, 2019 of 459.811 million shares.

McDaniel & Associates Consultants Ltd. Price Forecast (effective January 1, 2019)

	WTI Crude Oil \$/US/bbl	Edmonton Light Crude Oil \$/C/bbl	Alberta Bow River Hardisty Crude Oil \$/C/bbl	Western Canadian Select Crude Oil \$/C/bbl	Alberta Heavy Crude Oil \$/C/bbl	Sask Cromer Medium Crude Oil \$/C/bbl	U.S. Henry Hub Gas Price \$/US/MMBtu	Alberta AECO Spot Price \$/C/MMBtu	US/CAN Exchange Rate \$/US/\$CAN
2019	56.50	63.30	48.70	47.50	39.90	60.80	3.00	1.85	0.750
2020	63.80	74.30	58.70	58.00	50.20	70.20	3.00	2.20	0.775
2021	67.60	78.50	65.20	64.40	56.10	73.00	3.15	2.55	0.800
2022	71.60	83.40	69.20	68.40	59.60	77.60	3.45	3.05	0.800
2023	73.10	85.10	70.60	69.80	60.80	79.10	3.60	3.20	0.800
2024	74.50	86.80	72.00	71.20	62.10	80.70	3.70	3.30	0.800
2025	76.00	88.50	73.50	72.60	63.30	82.30	3.75	3.35	0.800
2026	77.50	90.30	74.90	74.00	64.60	84.00	3.85	3.40	0.800
2027	79.10	92.10	76.40	75.50	65.90	85.70	3.90	3.45	0.800
2028	80.70	94.00	78.00	77.10	67.20	87.40	4.00	3.55	0.800
2029	82.30	95.80	79.50	78.60	68.50	89.10	4.05	3.60	0.800
2030	83.90	97.70	81.10	80.10	69.90	90.90	4.15	3.70	0.800
2031	85.60	99.70	82.80	81.80	71.30	92.70	4.25	3.75	0.800
2032	87.30	101.70	84.40	83.40	72.70	94.60	4.30	3.80	0.800
2033	89.10	103.80	86.20	85.10	74.20	96.50	4.40	3.90	0.800
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	0.800

Forward-Looking Statements - This press release contains forward-looking statements relating to our plans and operations as at January 24, 2019. Forward-looking statements typically use words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "plan", "intend", "believe" and similar expressions (including the negatives thereof). In particular, this press release contains forward-looking statements relating, but not limited to: our business strategy, plans and management focus; the timing of release of our 2018 financial results and 2018 Annual Information Form, in this press release are deemed to be forward-looking as they involve an implied assessment, based on certain assumptions and estimates, that the reserves described, can be properly produced in the future.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, such as those relating to results of operations and financial condition, general economic conditions, industry conditions, changes in regulatory and taxation regimes, volatility of commodity prices, escalation of operating and capital costs, currency fluctuations, the availability of services, imprecision of reserve estimates, geological, technical, drilling and processing problems, environmental risks, weather, the lack of availability of qualified personnel or management, stock market volatility, the ability to access sufficient capital from internal and external sources and competition from other industry participants for, among other things, capital, services, acquisitions of reserves, undeveloped lands and skilled personnel. Risks are described in more detail in our Annual Information Form, which will be available on sedar and our website. Forward-looking statements are provided to allow investors to have a greater understanding of our business.

You are cautioned that the assumptions, including, among other things, future oil and natural gas prices; future capital expenditure levels (including ASP); future production levels; future exchange rates; the cost of developing and expanding our assets; our ability to obtain equipment in a timely manner to carry out development activities; our ability to market our oil and natural gas successfully to current and new customers; the impact of increasing competition; our ability to obtain financing on acceptable terms; and our ability to add production and reserves through our development and acquisition activities used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance, or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur or, if any of them do, what benefits we will derive from them. The forward-looking information contained in this document is expressly qualified by this cautionary statement. Our policy for updating forward-looking statements is that Zargon disclaims, except as required by law, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Other Advisories - Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio on a 6:1 basis may be misleading as an indication of value. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

FURTHER INFORMATION:

Based in Calgary, Alberta, Zargon's securities trade on the Toronto Stock Exchange and there are currently approximately 459.811 million common shares outstanding.

Zargon Oil & Gas Ltd. is a Calgary based oil and natural gas company working in the Western Canadian and Williston sedimentary basins and is focused on oil exploitation projects (waterfloods and tertiary ASP) that profitably increase oil production and recovery factors from existing oil

reservoirs.

In order to learn more about Zargon, we encourage you to visit Zargon's website at www.zargon.ca where you will find a current shareholder presentation, financial reports and historical news releases.

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