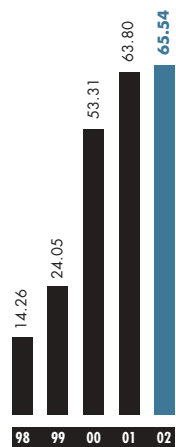
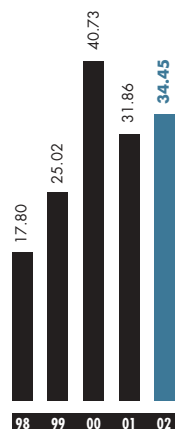


Zargon reported solid operational results in 2002 with gains in production and reserves, but the impact of substantially lower average natural gas prices resulted in lower comparative financial results.

MANAGEMENT'S
DISCUSSION &
ANALYSIS



Revenue
(\$ million)



Oil and
Liquid Prices
(\$/bb)

HIGHLIGHTS

For 2002, revenue increased slightly, cash flow decreased marginally and earnings were down 19 percent from 2001 levels. Net capital expenditures decreased 36 percent, primarily because 2001 capital expenditures were expanded by the corporate acquisition of Herc Energy Corp.

(\$ million, except per share amounts)	2002	2001	Percent Change
Production revenue	65.54	63.80	3
Cash flow from operations	32.12	32.67	(2)
Per diluted share (\$)	1.81	2.03	(11)
Earnings	10.68	13.14	(19)
Per diluted share (\$)	0.60	0.82	(27)
Net capital expenditures	35.55	55.18	(36)

DETAILED FINANCIAL ANALYSIS

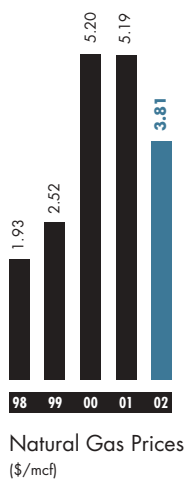
PRODUCTION REVENUE

Zargon derives its revenue from the production and sale of crude oil, natural gas liquids and natural gas. Oil (inclusive of natural gas liquids) and natural gas revenue exclusive of hedges increased three percent to \$65.54 million in 2002 from \$63.80 million in 2001 and \$53.31 million in 2000. Production volumes in 2002 increased 14 percent from the prior year and were the major contributor to higher revenue. The average price of oil and liquids received by Zargon rose to \$34.45 per barrel in 2002, up eight percent from 2001, but the average field price of natural gas fell 27 percent to \$3.81 per thousand cubic feet from the 2001 average that included very high first quarter 2001 natural gas prices.

Production revenue in 2002 was allocated 43 percent to the sale of natural gas and 57 percent to the sale of oil and liquids. Natural gas revenue allocations had been trending higher from a 31 percent weighting in 1998 to 55 percent in 2001. The 2002 reversal of this trend was caused by relatively low natural gas prices during the first nine months of 2002, and from the effect of additional oil volumes from the July 2001 oil weighted acquisition of Herc Oil Corp. The current much higher natural gas prices, coupled with Zargon's recent growth in natural gas volumes, are expected to result in a higher natural gas revenue allocation in 2003.

CRUDE OIL PRICING

Zargon's field crude oil and liquid prices are negatively adjusted for transportation charges and oil quality differentials from an Edmonton light sweet price that varies with world commodity prices. In 2002, Zargon's average oil and liquid field price, exclusive of price hedges, rose eight percent to \$34.45 per barrel from



\$31.86 per barrel in 2001. The field price differential for Zargon's average blended 30 degree API crude stream was \$5.49 per barrel less than the 2002 Edmonton reference crude price, which compares to the 2001 differential of \$7.32 per barrel (\$3.60 per barrel in 2000). The improved 2002 price differential is attributed to the narrowing of the Canadian market's medium gravity crude differentials, as Zargon's crude quality has remained relatively consistent during the last two years.

NATURAL GAS PRICING

During 2002, Zargon's field natural gas price exclusive of price hedges stayed relatively low throughout the first three quarters at an average of \$3.28 per thousand cubic feet. Prices strengthened significantly in the fourth quarter as supply shortfalls became apparent to the market and brought the average for the year up to \$3.81 per thousand cubic feet compared to \$5.19 in 2001 and \$5.20 in 2000. Approximately 41 percent of Zargon's 2002 gas production was sold under aggregator contracts pursuant to long-term contracts with Mirant Energy Ltd. (Jarrow – 33 percent) and ProGas Limited (Hamilton Lake – eight percent). The remainder of Zargon's gas production was sold by spot sale contracts and received Alberta index prices. As Zargon develops significant new gas reserves outside of the original Jarrow and Hamilton Lake aggregator contract areas, it is anticipated that the aggregator share of total production will continue to decline.

HEDGING ACTIVITIES

Crude oil and natural gas prices again moved in large ranges in 2002 and our hedging program functioned by mitigating the effects on revenue of price peaks and valleys. During the first three quarters, natural gas prices were weak and below expectations and hedging activities produced a net gain in revenue of \$1.38 million. Both natural gas and oil prices began to climb in September and the overall hedge gain in revenue for the 2002 year was reduced to \$0.67 million. This compares with hedge losses of \$0.57 million in 2001 and \$2.73 million in 2000. A similar level of risk management was employed in all three years but price swings varied widely as did the degree of predictability. As a matter of strategic policy, Zargon maintains 20 to 30 percent of net production volumes (after royalty deductions) hedged for up to 18 months in advance. Where commercially feasible, Zargon minimizes the use of fixed price swaps, replacing them with a combination of puts and costless collars so as to preserve the ability to benefit from unexpected increases in price.

During the year, crude oil and currency hedges resulted in a \$0.35 million reduction of 2002 oil and liquid revenues, which is equivalent to a \$0.33 per barrel charge against the year's total oil and liquid production. Natural gas hedges added to Zargon's 2002 revenues by \$1.02 million, equivalent to a \$0.14 per thousand cubic feet gain on the year's total natural gas production.

ROYALTIES

Royalties include payments made to the Crown, freehold owners and third parties. Reported royalties include credits received through the Alberta Royalty Tax Credit (ARTC) program, the cost of the Saskatchewan Resource Surcharge (SRC) and the cost of the North Dakota state and county taxes. During 2002, total royalties were \$13.51 million, down five percent from \$14.22 million in 2001. Royalties as a percentage of gross revenue (before hedging adjustments) were 20.6 percent in 2002 compared to 22.3 percent in 2001 and 20.1 percent in 2000. On a commodity basis, oil royalties averaged 19.9 percent (before hedging), which was a slight increase from the

previous year's average of 19.8 percent. Natural gas royalties averaged 21.5 percent, down from 24.3 percent in 2001. The lower natural gas royalty rate is a consequence of the natural gas cost allowance being a larger relative deduction against the Crown royalty expense, during the 2002 lower natural gas price year.

During the year, 53 percent of the total royalties were paid to provincial governments with the remainder paid to freehold owners and other third parties. Royalties payable to the Province of Alberta on qualifying properties are reduced through the ARTC program. Zargon received a \$0.32 million ARTC rebate in 2002 compared to a \$0.50 million rebate in 2001. Due to higher Saskatchewan oil revenues the SRC charges increased to \$0.52 million in 2002 from \$0.34 million in 2001 and \$0.30 million in 2000. North Dakota state and county taxes increased to \$0.52 million Cdn. in 2002 from the part year total of \$0.20 million in 2001.

PRODUCTION EXPENSES

Zargon's production expenses increased 31 percent to \$15.65 million in 2002. On a unit of production basis, expenses increased 15 percent to \$6.75 per barrel of equivalent from \$5.89 per barrel of equivalent in 2001 (\$5.68 per barrel of equivalent in 2000).

Production expenses for natural gas increased 17 percent to \$0.69 per thousand cubic feet, up from \$0.59 per thousand cubic feet in both 2000 and 2001. The increased costs reflected a full year of additional Jarrow compression charges and higher costs from the acquired Hadrian natural gas properties. This trend to higher natural gas production costs is expected to be reversed in 2003 as substantial new West Central Alberta lower-cost higher-rate volumes are being added through Zargon operated facilities.

In 2002 oil production expenses climbed 10 percent to \$9.72 per barrel from \$8.85 per barrel in 2001 and \$8.69 per barrel in 2000. The acquisition of Herc Oil Corp. in mid-2001 increased oil production 42 percent by adding largely long-life, low-decline exploitable properties with relatively high production costs. This was followed in mid-2002 by the acquisition of another higher-cost exploitable oil property at Modeste Creek in West Central Alberta. The combined effect of these acquisitions was to increase Zargon's average oil production cost.

The reversal of these increasing trends in production costs is a key focus for Zargon. In the fourth quarter of 2002, the first of a series of proposed dispositions of high-cost, non-core properties was concluded, taking advantage of the current robust property markets. Other field initiatives are underway to control and improve production costs, but material improvements in our cost structure will require the disposition of the higher cost component of our property base.

OPERATING NETBACKS

The average oil price received after hedges in 2002 was \$34.12 per barrel, eight percent higher than the \$31.53 per barrel in 2001 while the average natural gas price received after hedges in 2002 was \$3.95 per thousand cubic feet, 23 percent lower than \$5.15 per thousand cubic feet in 2001. During 2002, Zargon's oil netbacks increased seven percent to \$17.54 per barrel from \$16.37 per barrel in 2001 (\$20.92 per barrel in 2000) while natural gas netbacks declined 26 percent to \$2.44 per thousand cubic feet from \$3.30 per thousand cubic feet in 2001 (\$3.43 per thousand cubic feet in 2000). On an equivalent basis, 2002 operating netbacks fell 13 percent to \$15.99 per barrel of equivalent from \$18.29 per barrel of equivalent in 2001 (\$20.62 per barrel of equivalent in 2000).

OPERATING NETBACKS

	2002		2001	
	Oil & Liquids (\$/bbl)	Natural Gas (\$/mcf)	Oil & Liquids (\$/bbl)	Natural Gas (\$/mcf)
Revenues (adjusted for hedges)	34.12	3.95	31.53	5.15
Royalties (net of ARTC and SRC)	(6.86)	(0.82)	(6.31)	(1.26)
Production costs	(9.72)	(0.69)	(8.85)	(0.59)
Operating netbacks	17.54	2.44	16.37	3.30

GENERAL AND ADMINISTRATIVE EXPENSES

Gross general and administration costs increased 12 percent in 2002 to \$5.06 million from \$4.50 million in 2001 reflecting increased technical and professional inputs from our staff. On a unit of production basis, general and administrative costs decreased two percent to \$1.49 per barrel of equivalent. Zargon's growth strategy is based on the exploitation of oil properties with high operational, reservoir and engineering requirements and through the exploration/exploitation of gas properties using an intense geophysical and geological focus. Each of these initiatives requires substantial inputs from professional and technical staff. Salaries and related benefits for all exploration staff are included in general and administrative expenses. Since 1995, Zargon has maintained a policy of not capitalizing any portion of its general and administrative costs.

GENERAL AND ADMINISTRATIVE EXPENSES

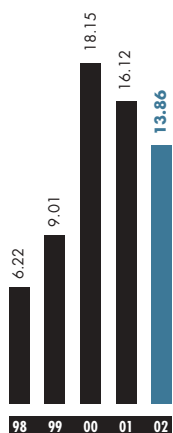
(\$ million, except as noted)	2002	2001	2000
Gross general and administrative expense	5.06	4.50	3.53
Overhead recoveries	(1.61)	(1.42)	(1.34)
Net general and administrative expense	3.45	3.08	2.19
Net expense after recoveries (\$/boe)	1.49	1.52	1.44
Number of employees at year-end	31	30	24

INTEREST EXPENSE

Zargon's primary borrowings are through its bank line of credit. Despite expanded debt levels in 2002, unprecedented low short-term interest rates kept interest charges down to \$1.10 million in 2002, compared to \$0.96 million in 2001 and \$1.27 million in 2000. Zargon's effective interest rate was 4.1 percent on an average bank debt of \$26.72 million in 2002 compared to 4.9 percent on an average bank debt of \$19.50 million in 2001 and a 7.1 percent effective interest rate on an average bank debt of \$18.00 million in 2000. At year-end 2002 Zargon's bank debt including working capital totalled \$28.74 million, up four percent from \$27.65 million at December 31, 2001 and substantially higher than the \$18.42 million reported at December 31, 2000.

CAPITAL AND CURRENT INCOME TAX

Zargon did not pay current income taxes in 2002, but remitted \$0.38 million of federal and provincial capital taxes compared to the \$0.36 million remitted in 2001. Zargon reorganized its operations into a partnership structure effective July 10, 2001 and acquired significant excess tax pools with both the 2001 Herc Oil Corp. and 2002 Hadrian Energy Corp. acquisitions. These transactions helped increase the 2002 year-end tax pools to approximately \$87 million compared to the 2001 year-end balance of \$73 million. It is expected that Zargon will have sufficient tax pools to shelter most or all of budgeted 2003 taxable income.



Corporate Cash Flow Netback (\$/boe)

CORPORATE CASH FLOW NETBACKS

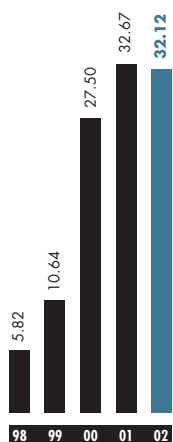
Lower gas prices in the first three quarters of 2002 were the primary reason for lower operating 2002 netbacks as compared to the previous years. Corporate cash flow netbacks, defined as operating netbacks less general and administrative costs, financing charges and cash taxes, were also lower in 2002 averaging \$13.86 per barrel of equivalent, 14 percent below the 2001 netback of \$16.12 per barrel of equivalent (\$18.15 per barrel of equivalent in 2000).

CORPORATE NETBACKS

(\$/boe)	2002	2001	2000
Revenue	28.28	31.48	35.17
Hedging	0.29	(0.29)	(1.80)
Royalties	(5.83)	(7.01)	(7.07)
Production costs	(6.75)	(5.89)	(5.68)
Operating netbacks	15.99	18.29	20.62
General and administrative	(1.49)	(1.52)	(1.44)
Financing charges	(0.47)	(0.47)	(0.84)
Capital and current income taxes	(0.17)	(0.18)	(0.19)
Corporate cash flow netbacks	13.86	16.12	18.15
Depletion and depreciation	(5.84)	(5.22)	(4.49)
Site restoration and reclamation	(0.55)	(0.52)	(0.48)
Foreign exchange	(0.03)	(0.05)	–
Future income taxes	(2.83)	(3.85)	(5.75)
Net earnings	4.61	6.48	7.43

CASH FLOW FROM OPERATIONS

In 2002, a 14 percent gain in production volumes was offset by a 14 percent reduction in corporate cash flow netbacks, with the net result that 2002 cash flow from operations of \$32.12 million declined two percent from the 2001 levels of \$32.67 million (\$27.50 million in 2000). The corresponding cash flow per diluted share was \$1.81 in 2002, 11 percent below \$2.03 in 2001 and compares to \$1.86 in 2000. The per share statistics reflected a six percent increase in outstanding shares to 17.64 million at December 31, 2002 from 16.67 million at December 31, 2001.

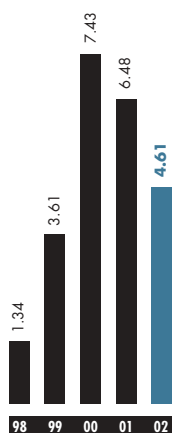


Cash Flow from Operations (\$ million)

DEPLETION AND DEPRECIATION

In 2002, Zargon's depletion and depreciation provision increased 12 percent to \$5.84 per barrel of equivalent, up from \$5.22 per barrel of equivalent in 2001 and \$4.49 per barrel of equivalent in 2000. Depletion, depreciation and site restoration charges calculated on a unit of production method are based on total proven reserves with a conversion of six thousand cubic feet of natural gas being equivalent to one barrel of oil. The 2002 depletion calculation includes \$6.04 million of future capital expenditures to develop the Company's reserves but excludes \$11.14 million of unproven properties relating to undeveloped land. Zargon's historically low unit depletion and depreciation charges increased in 2001 and 2002, and reflects the industry-wide trend, also experienced by Zargon, to higher finding and development costs.

Zargon's corporate depletion and depreciation provision increased 28 percent to \$13.54 million in 2002 compared to \$10.58 million in 2001 and \$6.80 million in 2000. The higher charges reflected both increased production volumes and the higher per unit charges referred to above.



Corporate Earnings Netback (\$/boe)

SITE RESTORATION AND RECLAMATION

Zargon provided for \$1.27 million of site restoration and reclamation charges in 2002 compared to \$1.05 million in 2001 and a \$0.72 million provision in 2000. This charge of \$0.55 per barrel of equivalent is six percent higher than the \$0.52 and 15 percent higher than the \$0.48 per barrel of equivalent charges booked in 2001 and 2000 respectively. Higher 2002 charges reflected the increased abandonment liabilities acquired in the Herc and Hadrian acquisitions. Zargon accrues the estimated future restoration and reclamation charges on a unit of production basis assuming a \$25,000 net after salvage abandonment charge for each net working interest well.

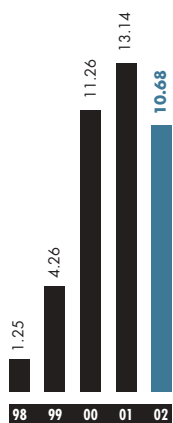
FUTURE INCOME TAXES

Zargon's 2002 future tax expense decreased 16 percent to \$6.55 million from \$7.81 million in 2001 (\$8.71 million in 2000). On a unit of production basis, future income taxes were \$2.83 per barrel of equivalent in 2002, a decrease of 26 percent from the prior year's future income taxes of \$3.85 per barrel of equivalent (\$5.75 per barrel of equivalent in 2000). The 2002 effective tax rate (current and future) increased marginally to 39 percent from 38 percent in 2001 (44 percent in 2000).

NET EARNINGS

Zargon's 2002 net earnings were \$10.68 million, down 19 percent from \$13.14 million in 2001 and compare to \$11.26 million recorded in 2000. On a per diluted share basis, 2002 net earnings decreased 27 percent to \$0.60 from \$0.82 in 2001 and were \$0.76 in 2000. The reduction in per share earnings from 2001 resulted from a combination of lower average commodity prices, higher depletion and depreciation charges, and additional shares outstanding.

On a unit of production basis, the 2002 net earnings were \$4.61 per barrel of equivalent compared to \$6.48 per barrel of equivalent in 2001 and \$7.43 per barrel of equivalent in 2000. Reflecting lower natural gas prices and higher depletion and depreciation charges, the 2002 net earnings represented 33 percent of cash flow, down sharply from 40 percent of cash flow in 2001 and 41 percent in 2000.



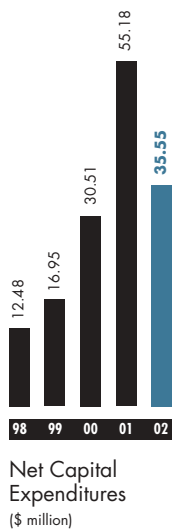
Net Earnings (\$ million)

RETURN ON EQUITY

Zargon's pre-tax return on shareholders' equity in 2002 remained high at 22 percent, although down from 38 percent in the previous year (54 percent in 2000). The after-tax return on shareholders' equity in 2002 declined to 14 percent from 23 percent in the prior year (30 percent in 2000). Zargon's after tax rates of return on equity have averaged 20 percent over the past three years and 16 percent over the Company's eleven year corporate history.

CAPITAL EXPENDITURES

Net capital expenditures in 2002 of \$35.55 million decreased sharply from \$55.18 million in 2001, which included the relatively large Herc corporate acquisition and compares to \$30.51 million in 2000. During the year, Zargon supported an aggressive land acquisition program and active exploration activities, spending \$2.47 million or seven percent of the net capital expenditures on geological and geophysical activities. Total undeveloped land expenditures were \$4.46 million and were highlighted by \$4.20 million of Crown land purchases at an average cost of \$58 per acre. Drilling, completions and workover field activities in 2002 were focused on gas exploration in East and West Central Alberta and totalled \$12.49 million, 35 percent of



the year's capital program. A further \$4.48 million was expended on production equipment and facilities in 2002 as Zargon tied-in new gas wells from successful drilling programs.

On June 17, 2002 Zargon acquired all of the outstanding shares of Hadrian Energy Corp., a private company, for \$9.60 million, including \$4.75 million cash and the issuance of 542 thousand common shares valued at \$8.75 per share. The corporate acquisition was accounted for by the purchase method, with \$7.39 million assigned to the property and equipment accounts. During the year, Zargon made additional property acquisitions of \$7.39 million and dispositions of \$3.13 million for a net amount of property acquisitions of \$4.26 million. The Hadrian acquisition provided Zargon with new gas exploration opportunities while the property acquisitions generally related to oil exploitation projects. The dispositions were opportunity-driven and consisted of non-core, non-operated, higher-cost assets sold in the fourth quarter during a period of higher oil and natural gas commodity prices. In 2003, Zargon is projecting to spend \$45 million of capital expenditures.

CAPITAL EXPENDITURES

(\$ million)	2002	2001	2000
Undeveloped land	4.46	5.08	2.93
Geological and geophysical (seismic)	2.47	3.80	3.06
Drilling and completion of wells	12.49	17.44	11.28
Well equipment and facilities	4.48	4.87	3.89
Exploration and development	23.90	31.19	21.16
Property acquisitions	7.39	4.83	10.09
Property dispositions	(3.13)	(4.23)	(0.74)
Net property acquisitions	4.26	0.60	9.35
Corporate acquisitions assigned to property and equipment	7.39	23.39	–
Total net capital expenditures	35.55	55.18	30.51

LIQUIDITY AND CAPITAL RESOURCES

Zargon relies on three sources of funding to support its capital expenditure programs:

- Internally generated cash flow provides the basic level of funding for the Company's annual capital expenditures program.
- Debt may be utilized to expand capital programs when it is deemed appropriate. The Company has followed and intends to maintain a conservative debt policy.
- New equity, if available and if on favourable terms, will be utilized to expand further capital programs. Conversely, on occasions when Zargon's equity may be valued by the stock market at levels perceived to be at a substantial discount to the underlying net asset value, the Corporation will consider the repurchase of its shares through an issuer bid.

In calendar 2002, Zargon's capital program was funded 90 percent from cash flow from operations, with a very small increase of \$1.14 million in bank debt and the balance by equity issued in the Hadrian transaction.

Pursuant to the Company's stock option plan, Zargon issued 429 thousand shares for \$1.26 million to employees and directors of the Company in 2002, at an average exercise price of \$2.94 per share. In the prior year, 374 thousand shares were issued pursuant to the plan at an average exercise price cost of \$2.37 per share.

CAPITAL SOURCES

(\$ million)	2002	2001	2000
Cash flow from operations	32.12	32.67	27.50
Changes in working capital	(3.58)	0.39	1.98
Bank indebtedness	1.14	8.23	1.79
Issuance (buyback) of common shares	5.87	13.89	(0.76)
Total capital sources	35.55	55.18	30.51

CASH FLOW

It is anticipated that the majority, if not all of Zargon's 2003 capital budget will be financed through the reinvestment of the Company's cash flow from operations. Cash flow is partially influenced by factors that the Company cannot control such as commodity prices, the US/Canadian dollar exchange rates and interest rates. Zargon's 2003 sensitivity to moderate fluctuations in these key business parameters is shown in the accompanying table.

CASH FLOW SENSITIVITY SUMMARY

	Change in 2003 Cash Flow	
	(\$ million)	(\$/share)
Change of \$1.00 US/bbl in the price of WTI oil	1.11	0.07
Change in oil production of 100 bbl/d	0.41	0.03
Change of \$0.10 US/mcf in the price of NYMEX natural gas	0.71	0.05
Change in natural gas production of 1 mmcf/d	0.59	0.04
Change in \$0.01 in the \$US/\$Cdn exchange rate	0.31	0.02

BANK INDEBTEDNESS

The Company has authorized lines of credit totaling approximately \$57 million: \$50 million with a Canadian bank and \$4.3 million US with an American bank. At December 31, 2002, total debt outstanding including working capital was \$28.74 million, comparable to the prior year-end amount of \$27.65 million. Effective January 1, 2002 the Company adopted the new CICA recommendations that treat revolving demand bank debt as a current liability.

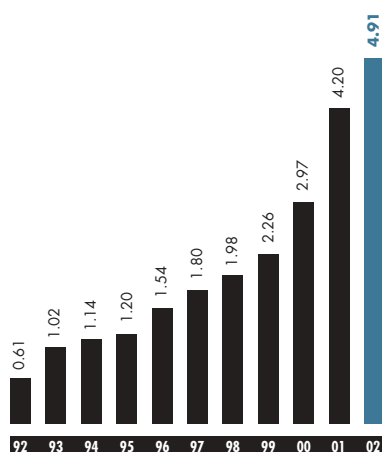
Zargon's combined debt and working capital deficiency of \$28.74 million at December 31, 2002 was equivalent to 89 percent of the 2002 cash flow from operations of \$32.12 million. At December 31, 2001 the combined debt and working capital deficiency was \$27.65 million, equivalent to 85 percent of 2001 cash flow from operations.

EQUITY

On June 17, 2002 Zargon issued 542 thousand common shares as partial consideration for Hadrian Energy Corp. The shares issued were valued at \$8.75 per share.

At year-end 2002, Zargon had 17.64 million shares outstanding. Including the 1.22 million options outstanding (0.75 million vested at December 31, 2002) under the Company stock option plan; Zargon's fully diluted year-end balance of shares outstanding is 18.86 million.

During 2002, 6.33 million Zargon shares traded on The Toronto Stock Exchange with a high of \$9.50 per share, a low of \$7.00 per share and a close of \$9.00 per share. The 2002 trading statistics show a



Shareholders' Equity
(\$/share)

15 percent year-over-year decrease in trading volume, and a 25 percent increase in the closing stock price. Zargon's market capitalization at year-end 2002 was approximately \$160 million.

SEGMENTED GEOGRAPHIC INFORMATION

In calendar 2002, Zargon received approximately 11 percent of its combined oil and natural gas revenue from properties located in the US states of North Dakota and Montana.

BUSINESS RISKS AND OUTLOOK

BUSINESS RISKS

Zargon's external business risks arise from the uncertainty of crude oil and natural gas pricing, the uncertainty of interest and exchange rates, environmental and safety issues, and financial and liquidity considerations. Additional risk arises from the production performance of existing properties and the uncertain results from capital expenditure programs.

Zargon attempts to minimize pricing and currency exchange uncertainty with a risk management program that encompasses a variety of financial instruments. These include forward sales of crude oil and natural gas production, put options on both oil and gas, costless collars (in which some potential high price gain is given up in return for potential low price support) and US dollar currency hedges in different forms for up to 30 percent of its net oil and natural gas volumes. In general the Company seeks to use strategies that allow minimum price expectations to be met while preserving most of the Company's exposure to higher prices. Environmental and safety risks are mitigated through compliance with provincial and federal environmental and safety regulations, by maintaining adequate insurance, and by adopting appropriate emergency response and employee safety procedures.

Financial and liquidity risks are reduced by limiting debt financing to conservative self-imposed debt to cash flow guidelines. Zargon actively manages the risks of its capital programs by concentrating drilling and subsequent development activities in areas where it has demonstrated proven technical capabilities. Finally, Zargon's capital budget is allocated so as to limit capital exposure to any one project or concept to a manageable level.

CORPORATE OUTLOOK

Zargon remains confident of its ability to maintain its record of consistent and sustainable, profitable growth. For calendar 2003, Zargon has budgeted \$45 million of capital expenditures allocated to gas exploration, oil exploitation and property acquisition opportunities.

SELECTED QUARTERLY INFORMATION

(\$ million, except per share amounts)

	2002				2001			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Production revenue	20.67	16.65	15.50	12.73	11.18	14.67	16.90	21.04
Cash flow from operations	10.71	7.75	7.47	6.19	5.81	7.66	8.59	10.61
Per diluted share (\$)	0.59	0.43	0.42	0.36	0.34	0.44	0.57	0.71
Earnings	4.28	2.27	2.55	1.58	1.77	2.60	3.49	5.28
Per diluted share (\$)	0.24	0.13	0.14	0.09	0.10	0.15	0.22	0.36
Total assets	153.7	146.0	137.8	129.0	127.9	119.1	108.3	90.9
Bank Indebtedness	25.28	28.71	28.00	25.26	24.14	19.27	13.19	10.09