1 9 9 9 S E C O N D Q U A R T E R R E P O R T

FOR THE SIX MONTHS ENDED

JUNE 30, 1999

Corporate Highlights

	Six Months Ended (unaudited)		
	June 30, 1999	June 30, 1998	Percent Change
FINANCIAL:			
Revenue ($ millions)	**9.34**	6.70	39
Cash flow from operations ($ millions)	**3.80**	3.13	21
Per share - basic ($)	**.26**	.24	8
- fully diluted ($)	**.25**	.24	4
Earnings ($ millions)	**1.00**	.81	23
Per share - basic ($)	**.07**	.06	17
- fully diluted ($)	**.07**	.06	17
Net capital expenditures ($ millions)	**5.38**	3.72	45
Long term debt ($ millions)	**9.12**	5.34	71
Shareholders' equity ($ millions)	**29.94**	24.00	25
Property and equipment ($ millions)	**41.42**	31.30	32
Weighted average number of common shares			
- basic (millions)	**14.81**	12.74	16
- fully diluted (millions)	**15.68**	13.74	14
Period end number of common shares			
- basic (millions)	**14.66**	12.97	13
OPERATIONS:			
Production Volumes:			
Crude oil and liquids (Bbl/d)	**1,699**	1,432	19
Natural gas (MMcf/d)	**8.62**	6.11	41
Equivalents (BOE/d)	**2,561**	2,043	25
Average Selling Price:			
Crude oil and liquids ($/Bbl)	**19.52**	17.97	9
Natural gas ($/Mcf)	**2.13**	1.85	15
Equivalents ($/BOE)	**20.14**	18.12	11
Equivalents, after hedging ($/BOE)	**19.82**	18.93	5
Net wells drilled	**5.7**	3.1	84
Undeveloped land (net acres)	**132,000**	87,800	50

Report to the Shareholders

Higher production and improved oil and gas prices enabled Zargon to reach record levels of revenue, cash flow and earnings during the first half of 1999. Revenue of $9.34 million, cash flow of $3.80 million and earnings of $1.00 million provided increases of 39 percent, 21 percent and 23 percent respectively over the corresponding 1998 period.

PRODUCTION

Production on an equivalents basis was 2,561 BOE/d in the first half of 1999, an increase of 25 percent over the 2,043 BOE/d recorded in first half 1998. For the 1999 six month period crude oil and liquids averaged 1,699 Bbl/d, an increase of 19 percent over the 1,432 Bbl/d recorded in the prior year. Natural gas production climbed 41 percent to 8.62 MMcf/d up from 6.11 MMcf/d. The gains in crude oil production came primarily from a fall 1998 property acquisition at Taber, Alberta and from new Cardium completions at Brazeau in West Central Alberta. The incremental gas production was derived from exploration and development drilling programs at Zargon's principal gas properties of Jarrow and Hamilton Lake in East Central Alberta. Second quarter 1999 production of 1,680 Bbl/d and 8.52 MMcf/d totalled 2,532 BOE/d which was down slightly from the first quarter 1999 rate of 2,591 BOE/d. During the second quarter, gas production was curtailed at Jarrow by a six week compressor problem which has now been successfully remedied.

FINANCIAL

During the first half of 1999, Zargon's revenues improved 39 percent to $9.34 million. Increased production volumes augmented by improved commodity prices were responsible for the gains. Prior to hedging activities, field oil and liquids prices of $21.92/Bbl in the second quarter and $17.16/Bbl in the first quarter, averaged $19.52/Bbl in the half, a nine percent increase from the $17.97/Bbl recorded in the corresponding 1998 half. Field prices received for natural gas of $2.20/Mcf in the second quarter and $2.07/Mcf in the first quarter, averaged $2.13/Mcf in the first half, a 15 percent improvement from the first six months of 1998.

Zargon's 1999 first half average price on an equivalents basis was $20.14/BOE, reflecting an 11 percent increase over the prior year. After adjusting for the impact of oil, gas and currency hedges, Zargon's average price was $19.82/BOE which represents a 5 percent improvement over the hedge-assisted 1998 first half price of $18.93/BOE. Third quarter 1999 oil and natural gas prices have shown further substantial improvements, which will have a positive impact on revenues, cash flows and earnings.

Cash flow increased 21 percent to $3.80 million in the first half of 1999, up from $3.13 million in the 1998 period. Powered by a $4.76/Bbl improvement in field oil and liquids prices, second quarter cash flow climbed 32 percent to $2.16 million from the first quarter cash flow of $1.64 million. On a unit of production basis, second quarter corporate cash flow improved to $9.40/BOE from $7.02/BOE in the first quarter.

Earnings showed large quarter over quarter gains, more than doubling from $.30 million in first quarter 1999 to $.70 million in the second quarter. Earnings for the 1999 first half of $1.00 million were 21 percent above the 1998 period. Zargon's annualized return on book equity for the first half was 6.5 percent, approximately equal to the corresponding 1998 rate of return.

Comparisons of cash flow and earnings on a fully diluted per share basis showed modest gains over the prior year with higher production volumes and better prices overcoming the dilutive impact of the 1.8 million shares issued in the November 1998 special warrant financing. Cash flow increased slightly to $.25 per share in the 1999 first half, up from $.24 in the 1998 period, while earnings moved to $.07 per share in 1999 as compared to $.06 per share in the 1998 first half. Fully diluted second quarter cash flow and earnings were $.14 per share and $.05 per share, respectively.

Zargon's net capital expenditures in first half 1999 were $5.38 million, an increase of 45 percent over $3.72 million in the 1998 half when a number of expenditures were deferred because of the then prevailing high cost environment. Premised on a very active capital program planned for the second half of the year, Zargon's 1999 capital budget has been expanded to $15 million. Long term debt less working capital was $8.39 million at June 30, 1999 and is approximately one year's cash flow at second quarter levels.

In June 1999, Zargon received regulatory approval pursuant to a normal course issuer bid to re-purchase a maximum of 970,000 Zargon common shares over a 12 month period. By the end of the second quarter, 146,900 shares had been re-purchased for cancellation on the open market at an average price of $2.45/share. As of June 30, 1999, Zargon had 14.66 million shares issued and outstanding and 15.54 million fully diluted shares. The 0.88 million share increment relates to exercisable share options. Warrants granted in the 1997 Oasis Energy Corporation corporate acquisition to purchase 0.50 million shares at $3.00 per share expired unexercised on July 31, 1999.

ACQUISITIONS

During the first half of 1999, Zargon completed twenty-three property acquisitions generally related to existing operated properties for an aggregate cost of $1.42 million. Primarily through Crown land sales, Zargon has expanded its undeveloped land inventory to 132,000 net acres, up 14 percent from 115,800 net acres at December 31, 1998, and 50 percent higher than the 87,800 net acres recorded at June 30, 1998. Almost all of the additional land holdings are in gas-prone areas of East Central Alberta. During the remainder of the year, Zargon will vigorously pursue Crown sale postings in order to expand the East Central Alberta core gas areas and to develop new West Central Alberta gas concepts.

DEVELOPMENT AND EXPLORATION

Zargon drilled and completed 6 (5.7 net) wells in the first half of 1999, resulting in 2.0 net oil wells, 3.7 net gas wells and no dry holes. Of these, one oil well was drilled at Frys, Saskatchewan with the remaining wells drilled in Jarrow, Hamilton Lake and Sturgeon Lake, Alberta. Second quarter field operations were limited to two net wells due to spring break-up conditions. Zargon's drilling program is now accelerating with three gas wells in Jarrow and one oil well at Spirit River in Northwest Alberta drilled to date in the third quarter. Zargon expects to drill a minimum of ten net wells in the second half of 1999. These wells will focus on Alberta gas targets plus selected Southeast Saskatchewan oil development locations.

Jarrow, Alberta

Jarrow, in East Central Alberta, is Zargon's largest gas property with a net working interest of about 65 percent. Zargon's current property production is in excess of 4 MMcf/d and is expected to grow significantly in the balance of 1999. During the first six months of 1999 one gas well was drilled and tied-in. A minimum of six wells are scheduled to be drilled in the second half of this year. Two initial 2D seismic programs have been completed and a third $0.45 million seismic program in support of our ongoing drilling program is underway. Zargon's interests in this core area have expanded geographically well beyond the original Jarrow Unit acquisitions and are expected to continue to grow throughout the remainder of the year by farm-ins, Crown sale purchases and property swaps. Zargon's undeveloped land in this area now totals 21,900 net acres.

Hamilton Lake, Alberta

Hamilton Lake, also in East Central Alberta is Zargon's second largest gas property, with over 2 MMcf/d of production. During the first half, two gas wells and one gassy-oil well were drilled, which will be pipeline-connected in the third quarter. Additional wells are scheduled for Hamilton Lake and associated lands in the fourth quarter of this year. Zargon's undeveloped land in this 100 percent-owned area now totals over 50,000 net acres.

OUTLOOK

Zargon's major growth focus for the balance of 1999 is to explore for gas in Central Alberta and to continue to build an undeveloped land inventory to support future drilling programs. The successes achieved by our expanded group of exploration professionals in the past 12 months relating to our seismic-based drilling programs have contributed significantly to reserve and production growth. These additional exploration strengths are substantially augmenting Zargon's historically successful "buy and exploit" strategy.

Zargon's outlook for both the short and medium terms is very encouraging. Commodity prices are sharply higher than second quarter levels on both a spot and "forward market" basis. In recent months, Zargon has substantially expanded its inventory of gas exploration/exploitation and oil exploitation projects. With a debt to current cash flow ratio of less than one year, Zargon has ample balance sheet capacity to support record capital programs focused on profitable production and reserve growth.

C.H. Hansen
President & CEO

J.O. McCutcheon
Chairman

August 16, 1999

BALANCE SHEETS

(unaudited)	**June 30, 1999 $**	June 30, 1998 $
ASSETS		
Current assets	**3,671,870**	2,765,223
Property and equipment, net	**41,416,050**	31,300,479
	45,087,920	34,065,702
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Current liabilities	**2,940,238**	2,148,144
Long term debt	**9,117,527**	5,342,485
Future site restoration	**1,128,788**	814,344
Deferred income taxes	**1,935,555**	1,755,913
	15,122,108	10,060,886
Shareholders' equity		
Share capital	**21,108,126**	16,263,639
Retained earnings	**8,857,686**	7,741,177
	29,965,812	24,004,816
	45,087,920	34,065,702

STATEMENTS OF INCOME AND RETAINED EARNINGS

6 Months Ended (unaudited)	**June 30, 1999 $**	June 30, 1998 $
Income		
Oil and gas sales	**9,335,360**	6,700,390
Hedging income (loss)	**(148,898)**	300,112
Royalties (net of ARTC)	**(1,408,991)**	(825,262)
	7,777,471	6,175,240
Expenses		
Production	**2,824,946**	2,266,015
Administration	**830,181**	647,415
Interest on long term debt	**290,390**	150,849
Site restoration	**287,436**	247,492
Depletion and depreciation	**2,155,720**	1,789,230
	6,388,673	5,101,001
Income before income taxes	**1,388,798**	1,074,239
Income taxes		
Current	**36,888**	(17,188)
Deferred	**347,199**	286,000
	384,087	268,812
Net income for period	**1,004,711**	805,427
Earnings per common share		
Basic	**.07**	.06
Fully diluted	**.07**	.06

STATEMENTS OF CHANGES IN FINANCIAL POSITION

6 Months Ended (unaudited)	**June 30, 1999 $**	June 30, 1998 $
Operating activities		
Net income for period	**1,004,711**	805,427
Add non-cash items:		
Depletion and depreciation	**2,155,720**	1,789,230
Site restoration	**287,436**	247,492
Deferred income taxes	**347,199**	286,000
Cash flow from operations	**3,795,066**	3,128,149
Changes in non-cash working capital items-operating	**(724,139)**	172,199
	3,070,927	3,300,348
Financing activities		
Long term debt	**2,939,115**	470,607
Issuance (buyback) of shares	**(358,744)**	653,300
	2,580,371	1,123,907
Investing activities		
Acquisition of property and equipment	**(5,515,621)**	(4,312,831)
Disposal of property and equipment	**132,713**	594,133
Site restoration expenditures	**(18,549)**	(38,541)
Changes in non-cash working capital items-investing	**(289,352)**	(700,645)
	(5,690,809)	(4,457,884)
Decrease in cash	**(39,511)**	(33,629)
Cash flow from operations per common share		
Basic	**.26**	.24
Fully diluted	**.25**	.24

CORPORATE INFORMATION

BOARD OF DIRECTORS
Craig H. Hansen
K. James Harrison
H. Earl Joudrie
John O. McCutcheon
James D. Peplinski
William L. Rudkin
Byron J. Seaman
William J. Whelan

OFFICERS
John O. McCutcheon
Chairman
Craig H. Hansen
President & CEO
Mark I. Lake
Vice President, Exploration
Daniel A. Roulston
Vice President, Operations
Sheila A. Wares
Controller
Kenneth W. Young
Vice President, Land

KEY PERSONNEL
J. Yves Gauthier
Manager, Exploitation
John D. Sorkilmo
Senior Geologist
Neil D. Watson
Senior Geologist

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