

CORPORATE HIGHLIGHTS

Nine months ended September 30 (unaudited)	2000	1999	Percent Change
FINANCIAL			
Income and Investments (\$ million)			
Production revenue	33.99	16.16	110
Cash flow from operations	16.57	6.97	138
Earnings	6.50	2.31	181
Net capital expenditures	19.61	10.41	88
Balance Sheet at Period End (\$ million)			
Property and equipment	65.74	45.01	46
Long-term debt	17.63	11.51	53
Shareholders' equity	38.47	31.09	24
Per Common Share, Fully Diluted			
Cash flow from operations (\$/share)	1.07	0.45	138
Earnings (\$/share)	0.42	0.15	180
Shares Outstanding at Period End (million)			
Basic	14.49	14.59	(1)
Fully diluted	15.74	16.00	(2)
OPERATIONS			
Average Daily Production			
Crude oil and liquids (bbl/d)	1,732	1,720	1
Natural gas (mmcf/d)	13.64	8.76	56
Equivalents (boe/d) 6:1	4,005	3,181	26
Equivalents (boe/d)	3,096	2,596	19
Average Selling Price			
Crude oil and liquids (\$/bbl)	39.91	22.58	77
Natural gas (\$/mcf)	4.03	2.32	74
Equivalents (\$/boe)	40.06	22.80	76
Equivalents, after hedges (\$/boe)	38.01	21.98	73
Wells Drilled, Net	26.4	9.5	178
Undeveloped Land at Period End (thousand net acres)	202	163	24

Note: 10 mcf is equivalent to 1 bbl except where stated otherwise

REPORT TO SHAREHOLDERS

ZARGON DELIVERED OUTSTANDING THIRD QUARTER 2000 RESULTS DUE TO THE COMBINATION OF SUBSTANTIALLY HIGHER GAS PRODUCTION VOLUMES AND VERY STRONG GAS AND OIL PRICES. THE MOMENTUM OF THE THIRD QUARTER, BUILDING ON THE STRONG RESULTS IN THE FIRST HALF OF THIS YEAR, PROVIDED ZARGON RECORD OPERATING AND FINANCIAL RESULTS FOR THE FIRST THREE QUARTERS OF 2000. COMPARED TO THE SAME NINE-MONTH PERIOD IN 1999:

- Revenue increased by 110 percent;
- Cash flow increased by 138 percent;
- Earnings increased by 181 percent;
- Capital expenditures increased by 88 percent;
- Total production (10:1) increased by 19 percent;
- Gas production increased by 56 percent; and,
- After tax return on book equity was 24 percent.

The third quarter was highlighted by Zargon's average gas production rate of 16.45 million cubic feet per day, which brings Zargon's gas weighting to 49 percent of total production on a 10 to 1 equivalency basis.

PRODUCTION

Zargon's third quarter production reached a new corporate record of 3,347 barrels of oil equivalent per day. This represents a 14 percent increase over the prior quarter's rate of 2,931 barrels of oil equivalent per day, and a 26 percent improvement over last year's third quarter rate of 2,665 barrels of equivalent per day. Gas production increased 39 percent during the quarter to reach 16.45 million cubic feet of gas per day. This record rate represents an 82 percent improvement over the 1999 third quarter production volume. Oil production declined three percent in the third quarter to average 1,702 barrels of oil per day.

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INTERIM REPORT

FOR THE NINE MONTHS

ENDED SEPTEMBER 30, 2000

On a nine-month comparative basis, Zargon's average 2000 production of 3,096 barrels of oil equivalent per day is up 19 percent from the same period in 1999. The 56 percent increase in 2000 gas production to 13.64 million cubic feet per day is a direct result of Zargon's ongoing East Central Alberta land acquisition, seismic, and gas drilling programs that were initiated in late 1998. In particular, Zargon's third quarter 2000 gas volumes were sharply higher as additional compressor capacity was installed at our East Central Alberta Jarrow property to meet the gas production capability generated in the winter/spring 1999-2000 drilling program.

FINANCIAL

Higher production rates combined with very strong commodity prices pushed Zargon's revenue to more than double the prior year's levels, reaching \$14.24 million and \$33.99 million for the three month and nine month period, respectively. Pricing for both oil and gas has been exceptionally strong in 2000. Zargon's average oil and liquids price during the 2000 nine-month period averaged \$39.91 per barrel, a 77 percent improvement over the corresponding 1999 price of \$22.58 per barrel. Third, second and first quarter 2000 oil prices were \$43.10, \$39.59 and \$37.09 per barrel, respectively. Field natural gas prices rose sharply to \$4.03 per thousand cubic feet in the first nine-months of 2000, an increase of 74 percent from \$2.32 per thousand cubic feet recorded in the corresponding 1999 period. Third quarter 2000 gas prices were a very strong \$4.94 per thousand cubic feet as compared to the second and first quarter prices of \$4.02 and \$2.82 per thousand cubic feet.

Including adjustments for hedging activities, Zargon's nine-month 2000 price averaged \$38.01 per barrel of oil equivalent, an increase of 73 percent from the \$21.98 per barrel of oil equivalent in the prior year. Zargon has maintained a consistent policy, hedging approximately 20 percent of Zargon's production at a price that protects the minimum cash flows necessary to fund ongoing capital commitments. In the first nine months of 2000, this hedging program resulted in a reduction in revenues of \$2.05 per barrel of oil equivalent. Zargon continues to be committed to its hedging policy, but in 2001 the majority of the hedging will be with "put" option contracts that provide downside price protection, but do not limit the exposure to higher commodity prices.

Cash flow from operations increased 42 percent during the 2000 third quarter to \$7.17 million, representing a 126 percent improvement over the 1999 third quarter cash flow of \$3.17 million. On a unit basis, Zargon's third quarter cash flow reached a record netback of \$23.28 per barrel of oil equivalent, up from \$18.86 and \$15.92 in the prior two quarters and \$9.84 in the first nine months of 1999. These higher netbacks and gains in gas production volumes pushed Zargon's nine-month cash flow to \$16.57 million, up a very strong 138 percent from the \$6.97 million reported in the prior year.

Third quarter 2000 earnings of \$2.88 million were also at record levels, exceeding second quarter 2000 and third quarter 1999 earnings by 56 and 120 percent, respectively. Earnings of \$6.50 million in the first nine months of 2000 improved 181 percent over the 1999 comparative period's earnings of \$2.31 million. On a unit basis, the nine-month 2000 earnings were \$7.67 per barrel of oil equivalent or 39 percent of cash flow. Zargon's after tax annualized return on book equity in the current nine-month reporting period was a very strong 24 percent, compared to 10 percent in 1999.

Year over year comparisons on a per share basis continue to be very strong. Cash flow per fully diluted share increased 138 percent in the first nine-months of 2000 to \$1.07 per share from \$0.45 per share in the comparative 1999 period. Third quarter cash flow climbed to \$0.46 per fully diluted share which represents 44 percent and 59 percent improvements over the second and first quarter cash flows of \$0.32 and \$0.29 per share, respectively. Earnings per fully diluted share increased 180 percent in the first nine months of 2000 to \$0.42 per share from \$0.15 per share in the prior year period. Third quarter earnings were \$0.18 per share, up 50 percent from the \$0.12 per share reported in both the first and second quarters of 2000. At November 10, 2000, Zargon has 15.76 million fully diluted shares of which 14.49 million shares are issued and outstanding.

Over the first nine months of 2000, Zargon's expanded pace of field activity resulted in net capital expenditures of \$19.61 million, an 88 percent increase over the \$10.41 million spent in the prior year period. These expenditures were allocated 64 percent to our gas (explore and develop) business strategies, with the remainder allocated to our oil (buy and exploit) programs. Zargon's revised 2000 capital budget of \$29 million reflects a very active fourth quarter focused on expanded gas exploration and development drilling programs. The capital budget will be funded from cash flow and Zargon's bank line, of which \$17.63 million was drawn at quarter-end. Zargon's debt at September 30, 2000, including adjustments for working capital, represents less than a 0.8 year multiple of the nine-month 2000 annualized cash flow.

ACQUISITIONS AND LAND

Net property acquisitions aggregated \$7.10 million in first three quarters of 2000 of which \$1.45 million was spent in the third quarter. In the first half of the year, nearly all of the acquisitions were directed to expanding oil exploitation opportunities in Southeast Saskatchewan and at Taber, Alberta. In the third quarter, Zargon's property acquisitions were highlighted by a \$1.26 million property transaction relating to the addition of undeveloped lands and the acquisition of interests in non-operated Jarrow gas facilities.

During 2000, Zargon has continued to expand its undeveloped land base, which reached 202 thousand net acres at the end of the third quarter. Zargon has also entered into ten farm-in agreements providing Zargon access to an additional 32 thousand net acres of undeveloped land.

EXPLORATION AND DEVELOPMENT

In the first nine months of 2000, Zargon drilled 33 (26.4 net) wells, a 178 percent increase over last year's total. Third quarter drilling resulted in 15 (11.9 net) wells. Year-to-date drilling has resulted in 17.5 net gas wells in East and West Central Alberta, 3.7 net development oil wells primarily in Southeast Saskatchewan, and 5.2 net dry holes. Zargon operated all but five (1.8 net) of these wells. For the remainder of 2000, Zargon plans a very active 14 net well drilling program focused on gas exploration at Jarrow and Pembina, Alberta, and oil exploitation in Spirit River, Alberta and Southeast Saskatchewan.

Jarrow, Alberta

During 2000, Zargon has continued to expand and develop its largest gas property at Jarrow in East Central Alberta. In the first nine months of 2000, Zargon drilled 14 (11.8 net) wells, shot 80 kilometers of 2D seismic and expanded the undeveloped land base to 110 thousand net acres, with an additional 27 thousand net acres held under option. In late June, Zargon expanded the Jarrow gathering and compression systems adding three million cubic feet of gas per day of net capacity. Consequently, Zargon's third quarter Jarrow production averaged 10.5 million cubic feet of gas per day, up substantially from first half 2000 and calendar 1999 average rates of 6.3 and 4.3 million cubic feet of gas per day, respectively. Recent facility acquisitions and ongoing facility modifications are expected to bring Zargon's year-end net Jarrow production to above 12 million cubic feet per day.

Reflecting this year's undeveloped Jarrow land additions and a current 100 kilometer 2D seismic program, Zargon's drilling inventory has expanded to over 40 (30 net) Jarrow wells of which seven (6.3 net) wells will be drilled in the fourth quarter of 2000. Despite the June compression additions and the recent acquisition of interests in other area gas facilities, Zargon still has substantial excess gas productive capability at Jarrow. These existing shut-in gas volumes plus the anticipated new deliverability from future drilling will be placed on production through facility expansions planned for this winter and next year.

Southeast Saskatchewan

During the first nine-months of 2000, Zargon drilled four (3.3 net) exploitation oil wells and acquired \$4.16 million of properties in eight transactions relating to four Southeast Saskatchewan waterflood projects. Each of these activities is consistent with Zargon's ongoing "buy and exploit" strategy that focuses on obtaining increased oil recoveries from large oil-in-place properties. Zargon is currently working on the expansion or implementation of ten waterflood projects in its Southeast Saskatchewan core area.

Other Properties

In the third quarter, Zargon drilled seven (5.3 net) wells at the Pembina property of West Central Alberta. Completions of these wells are currently in progress, with the tie-in of five net shallow gas wells to local third-party facilities expected by year-end. Zargon expects to follow-up these successful wells with additional drilling programs later this winter.

Also in the year, Zargon completed a \$1.30 million oil property acquisition at Taber, Alberta that has been followed by a \$1.95 million Taber property acquisition which is expected to close in the fourth quarter. Development drilling on this medium gravity exploitation property is scheduled to commence early this winter.

Other successful drilling activities completed in 2000 include three net gas wells at Hamilton Lake in East Central Alberta and one (0.4 net) oil well at Spirit River in Northwest Alberta. Further follow-up drilling is scheduled at Spirit River in the fourth quarter.

OUTLOOK

Zargon's outlook for the remainder of 2000 and 2001 continues to be very promising. Zargon's increased size and expanded technical depth has provided a very substantial inventory of drilling prospects that will be harvested during this period of robust commodity prices. Zargon's large undeveloped land inventory and extensive seismic database, combined with a strong balance sheet, should provide substantial and profitable growth opportunities for 2001 and beyond.

We are pleased to welcome Grant A. Zawalsky to the Zargon Board of Directors. Mr. Zawalsky is a senior securities lawyer with the firm Burnet, Duckworth & Palmer and has served as a director of a number of public companies.



C.H. Hansen
President & Chief Executive Officer



J.O. McCutcheon
Chairman

Calgary, Alberta
November 10, 2000

BALANCE SHEETS

(\$ thousand)	September 30, 2000 <small>(unaudited)</small>	December 31, 1999
ASSETS		
Current assets	8,868	5,642
Property and equipment, net	<u>65,737</u>	50,383
	74,605	56,025
LIABILITIES		
Current liabilities	8,643	5,787
Long-term debt	17,632	14,116
Future site restoration	1,749	1,265
Future tax liability	<u>8,115</u>	2,334
	36,139	23,502
SHAREHOLDERS' EQUITY		
Share capital	20,928	20,742
Retained earnings	<u>17,538</u>	11,781
	38,466	32,523
	74,605	56,025

STATEMENTS OF INCOME AND RETAINED EARNINGS

Nine months ended September 30 (unaudited)	2000	1999
(\$ thousand, except for per share amounts)		
Income		
Oil and gas sales	33,985	16,158
Hedging income (loss)	(1,738)	(578)
Royalties (net of Alberta royalty tax credit)	<u>(7,125)</u>	(2,569)
	25,122	13,011
Expenses		
Production	5,956	4,379
Administration	1,578	1,201
Interest on long-term debt	922	409
Site restoration	532	439
Depletion and depreciation	<u>4,559</u>	3,593
	13,547	10,021
Income Before Income Taxes	11,575	2,990
Income Taxes		
Future	4,977	624
Current	<u>97</u>	58
	5,074	682
Net Income for the Period	6,501	2,308
Retained Earnings, Beginning of Period	11,781	8,004
Adjustment to Future Income Taxes	(506)	-
Repurchase of Common Shares	<u>(238)</u>	(233)
Retained Earnings, End of Period	17,538	10,079
Earnings Per Common Share		
Basic	0.45	0.16
Fully diluted	0.42	0.15

STATEMENTS OF CASH FLOW

Nine months ended September 30 (unaudited)

(\$ thousand, except for per share amounts)

	2000	1999
Operating Activities		
Net income for the period	6,501	2,308
Add non-cash items:		
Depletion and depreciation	4,559	3,593
Site restoration	532	439
Future income taxes	4,977	624
Cash flow from operations	16,569	6,964
Changes in non-cash working capital	(734)	(1,958)
	15,835	5,006
Financing Activities		
Long-term debt	3,516	5,330
Repurchase of common shares	(487)	(543)
Issuance of common shares	434	-
	3,463	4,787
Investing Activities		
Acquisition of property and equipment	(20,354)	(10,544)
Disposal of property and equipment	740	132
Site restoration expenditures	(48)	(28)
Changes in non-cash working capital	393	603
	(19,269)	(9,837)
Increase (Decrease) in Cash	29	(44)
Cash, Beginning of Period	116	194
Cash, End of Period	145	150
Cash Flow from Operations Per Share		
Basic	1.15	0.47
Fully diluted	1.07	0.45
Weighted Average Number of Shares (million)		
Basic	14.41	14.74
Fully diluted	15.66	15.74

CORPORATE INFORMATION

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Senior Geologist
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Production Manager, South
Stuart A. Wilson
Production Manager, North

STOCK EXCHANGE LISTING

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