



Corporate Presentation

November 9, 2011

Advisory – Forward-Looking Information

Forward-Looking Statements - This presentation offers our assessment of Zargon's future plans and operations as at November 9, 2011, and contains forward-looking statements. Such statements are generally identified by the use of 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 presentation contains forward-looking information as to Zargon's corporate strategy and business plans, Zargon's oil exploration project inventory and development plans, Zargon's dividend policy, Zargon's capital expenditure program and the allocation and the sources of funding thereof, Zargon's cash flow and dividend model and the assumptions contained therein and the results there from, 2011 and 2012 production and other guidance and the assumptions contained therein, estimated tax pools, Zargon's reserve estimates, Zargon's hedging policies, Zargon's drilling and development plans and projects and the results there from and Zargon's ASP project costs and rates of return. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including 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 is available on 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; 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 presentation 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.

Barrels of Oil Equivalent - Barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Operational & Financial Highlights

(Quarter ended September 30, 2011)

- Q3 2011 Production – 9,014 boe/d
 - Oil 5,330 bbl/d (59% of production)
 - Gas 22.10 mmcf/d
 - Oil reduced by 260 bbl/d from property dispositions
- Undeveloped land - 448 thousand net acres
- Funds flow - \$0.50/diluted share (\$14.6 million)
- Common shares outstanding - 29.24 million
- Net debt - \$94.5 million
- Effective October 2011, Zargon's monthly dividend rate was reduced from \$0.14 to \$0.10 per common share

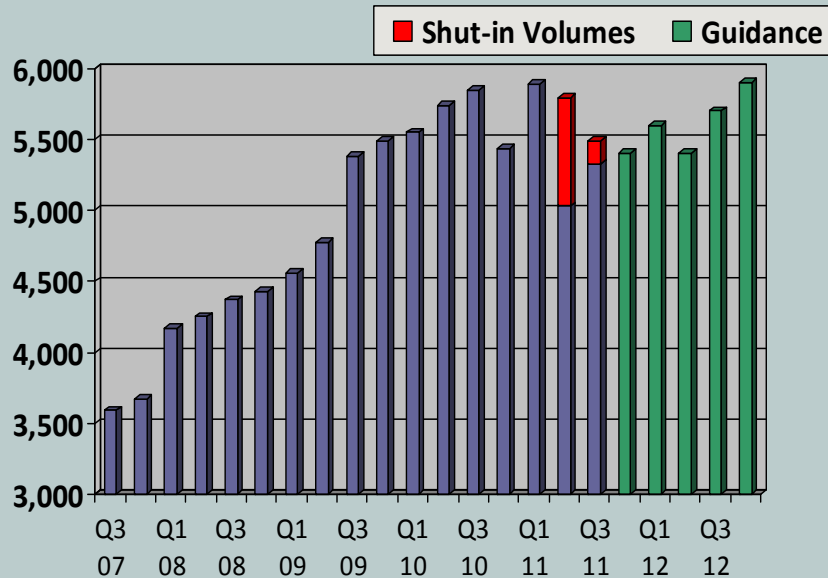
Corporate Strategy

Oil Exploitation: Increase oil reservoir recovery factors by horizontal drainage wells, production optimizations, waterfloods and now, tertiary methods.

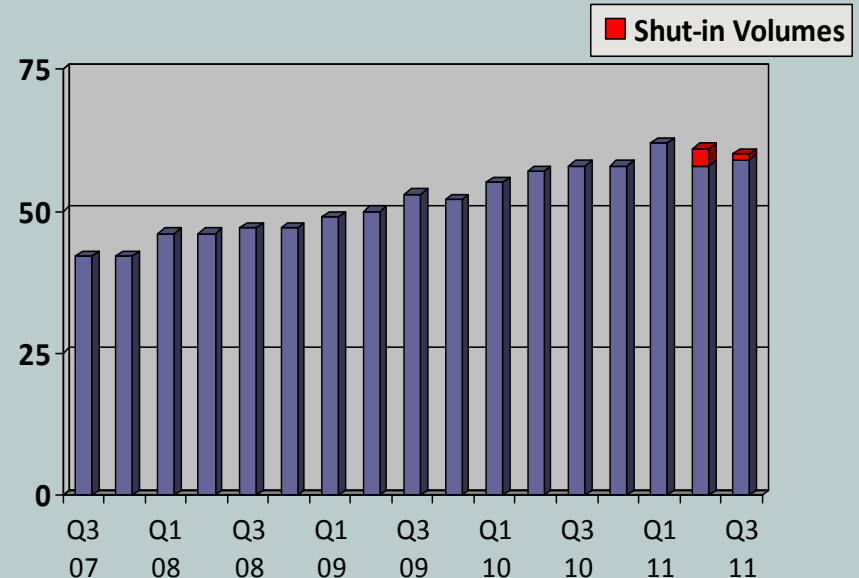
- Focused on smaller and technically complex, but very profitable oil exploitation projects often overlooked by larger competitors.
- Disciplined partial cash flow dividend model encourages efficiencies and returns. We have already returned \$15.08 per share through dividends and distributions.
- Concentrated on growing oil production and oil reserves on an absolute and a per share basis; letting natural gas volumes decline.
- Protect investors' underlying asset base with conservative hedging, debt and financing practices.

Growing Oil Production

Oil Production (bbl/day)



Production Weighting to Oil (%)



In Q3 2007, a strategic decision was made to focus on our oil exploitation skills. Since that time:

- Oil production has increased 48%.
- Oil production weighting has increased from 42% to 59%.

The Q3 2011 oil production volumes were reduced by 260 bbl/d due to Williston Basin property dispositions and 160 bbl/d of weather related shut-ins.

Business Plan

Oil Exploitation (increasing reservoir oil recovery factors)

- Increase oil production, reserves and ultimate recoveries from existing oil pools through waterfloods, development drilling and other production optimization methods that may include tertiary recovery projects.
- The feedstock for our oil business is underdeveloped oil-in-place assets. We target complex, smaller pools with 200 to 500 barrels of oil per day of potential that may be overlooked by our larger competitors.

Accretive Acquisitions (when available i.e. 2008-2010) & Dispositions

- Accretive acquisitions are funded by debt or equity issuances (generally to the vendor). We have sourced these assets through:
 - Acquisitions of smaller public and private oil and gas companies that tend to be too small to attract the attention of larger companies or the investment community.
 - Acquisitions of complementary properties that are being shed by larger competitors for strategic size and focus reasons.

Successful Oil Acquisition & Disposition Strategy

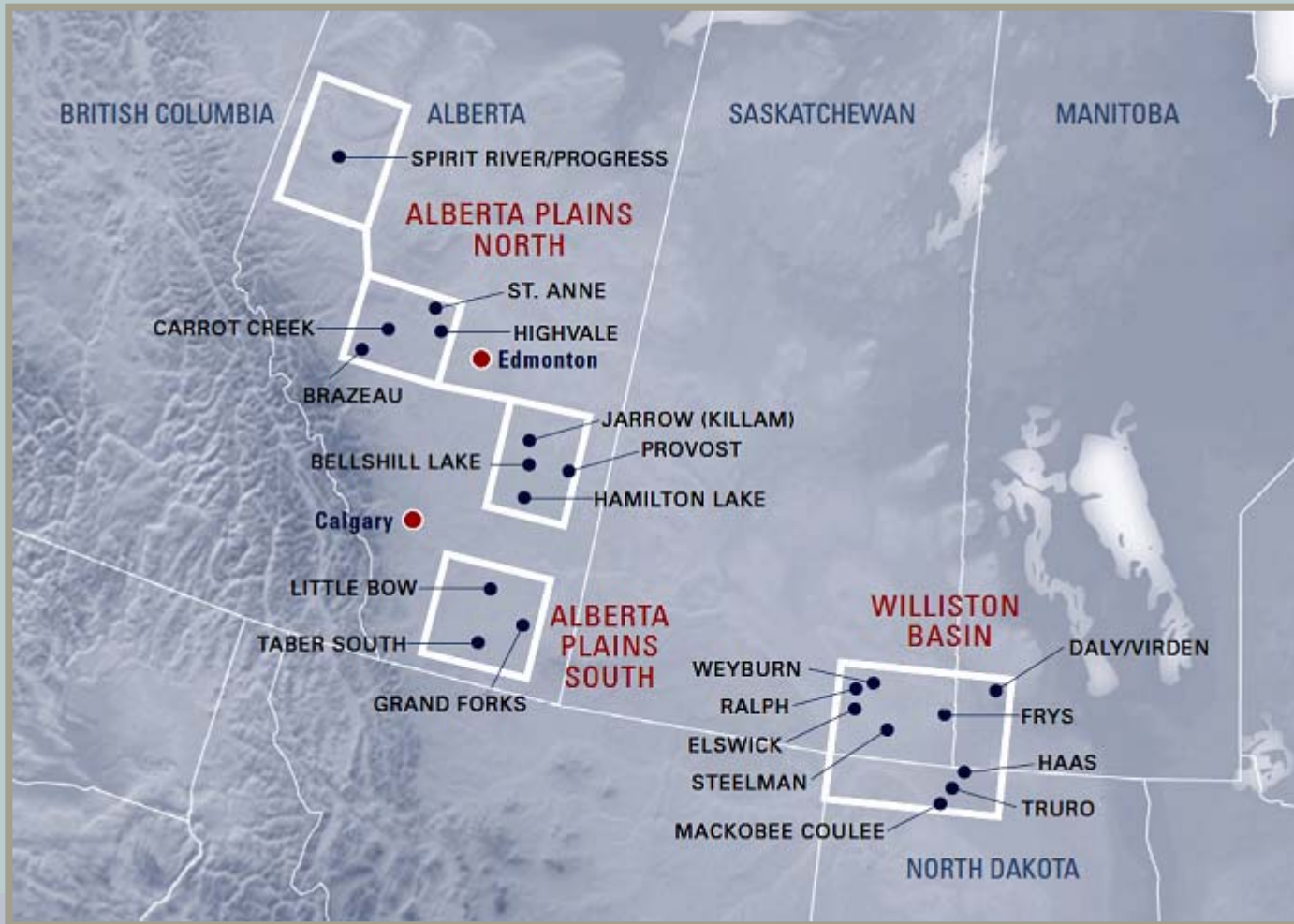
In 2008-2010, we completed five corporate acquisitions and one significant property acquisition that brought oil exploitation opportunities:

- Rival Energy Ltd. (public TSX) \$47.8 million for 1,020 boe/d; Jan. 2008 – oil at Bellshill Lake
- Newpact Energy Corp. (private) \$12.0 million for 350 boe/d; May 2008 – oil at St. Anne
- Masters Energy Inc. (public TSX) \$40.0 million for 1,275 boe/d; April 2009 – oil at Little Bow
- Churchill Energy Inc. (public TSX) \$16.3 million for 400 boe/d; Sept. 2009 – tax pools, oil at Brazeau and Grand Forks
- Little Bow property acquisition \$25.0 million for 350 boe/d; May 2010 – oil at Little Bow
- Oakmont Energy Ltd. (private) \$9.4 million for 280 boe/d; Sept. 2010 – oil at Taber and Grand Forks

Our disciplined, technically focused acquisition strategy includes regular high-grading disposition programs, when attractive valuations can be realized:

- 2010 property high grades \$30.9 million 400 boe/d; 2010 – oil at Pinto, Moose Valley, etc., Saskatchewan
- 2011 property dispositions \$29.7 million 260 boe/d; Summer 2011 – oil at Antler and Manor, Saskatchewan; undeveloped land at Whitecourt, Alberta

Oil Exploitation Properties



Oil Exploitation Project Inventory

Williston Basin

	<u>Potential Net Locations</u>	<u>Waterflood</u>
Steelman, SK Frobisher Horizontals	4	Primary
Steelman, SK Midale Horizontals	2	Modify
Steelman West, SK Midale Verticals or Horizontals	4	Implement
Steelman, SK Frobisher Marker Horizontals	7	Implement
Elswick and Weyburn, SK Midale Horizontals	15+	Implement/modify
Ralph and Weyburn North, SK Midale Horizontals	20+	Modify
Frys/Carnduff, SK Tilston/Frobisher Horizontals	3	Modify
Workman, SK Frobisher Horizontals	5	Modify
Virden, MB Lodgepole Horizontals	3	Primary
Daly, MB Lodgepole Stimulated Horizontals	10+	Implement
Mackabee Coulee, ND Frobisher Equivalent, Seismic and Horizontals	4	Modify
Truro, ND Frobisher Equivalent, Horizontals	4	Modify
Haas, ND Alida Equivalent, Horizontals	4	Modify
	Subtotal	85+

Oil Exploitation Project Inventory

(Alberta Plains South and North)

<u>Alberta Plains South</u>	<u>Potential Net Locations</u>	<u>Waterflood</u>
Taber South, AB Sunburst and Glauconite Horizontals	10	Implement (two projects)
Taber South East, AB Sunburst Horizontals	4	Implement
Grand Forks, AB Glauconite Seismic and Horizontals	8	Implement
Little Bow, AB Mannville Waterfloods	nil	Implement (three projects)
<u>Alberta Plains North</u>		
Jarrow (Killam), AB Glauconite (New Pool) Horizontals	15+	Implement
Bellshill Lake and Killam South, AB Dina Verticals or Horizontals	7	High Volume Primary
Provost, AB Dina Seismic and Verticals or Horizontals	3	High Volume Primary
Hamilton Lake, AB Viking Stimulated Horizontals	25+	Ultimately Implement
Highvale South, AB Banff Horizontals	3	Implement
Carrot Creek, AB Cardium and Brazeau, AB Nisku Verticals	2	Accelerate
Northeast Peace River, AB Montney Horizontals	3+	Primary
	SubTotal	80+

Zargon's Dividend Policy

- Zargon is committed to deliver a steady, but supportable dividend. Dividend payout levels are ultimately targeted to be 35% of cash flow and should not exceed 50% of cash flow for an extended period of time.
- By retaining at least 50% of our cash flow for capital programs, we can efficiently develop long term oil exploitation projects at the Little Bow, Hamilton Lake, Killam, Taber and Williston Basin properties that have been partially de-risked and clearly justify significant additional capital.
- Consistent with this dividend policy, Zargon reduced the October 2011 monthly dividend to \$0.10 per common share. At this new level and at current prices, we have the resources to maintain our dividend and fund our ongoing oil exploitation programs including the ASP project if sanctioned.

Zargon's Cash Flow and Dividend Model

- **Base Assumptions:**
 - Based on forward strip commodity prices, currency rates, commodity price differentials and current hedges
 - Assumes increasing cost trends can be arrested and no change in interest rates or DRIP participation
 - Natural gas production is allowed to decline naturally; now at a rate of less than 15 percent per year
- **Capital and Oil Production Relationship:**
 - Corporate base oil production decline - 21 percent per year
 - Overall capital program efficiency - \$30,000 per barrel of oil per day (mid-year rate)
 - Capital Efficiencies are aided by accretive dispositions of non-core assets
- **Capital Assumptions (Before ASP Project Expenditures):**
 - 2011 net capital budget of \$45 million (\$70 million less \$25 million of net property dispositions)
 - 2012-14 net capital budget of \$55 million (\$65 million less \$10 million of net property dispositions)
 - Results in essentially no change to year end debt levels
- **2012-2014 Results (Before ASP Project Expenditures):**
 - Shareholder return from oil production growth - 3 percent per share annual growth rate
 - Yield from \$0.10 per share monthly dividend - 8 percent per year
- **Significant Upsides:**
 - Little Bow ASP project is implemented and provides significant production and cash flow growth by 2014
 - Long term commodity prices improve over current levels

Production Guidance (November 9 Update)

- **Oil and liquids:**
 - Q3 2011 5,200 barrels per day (delivered 5,330 barrels per day)
 - Q4 2011 5,400 barrels per day
 - Q1 2012 5,600 barrels per day
 - Q2 2012 5,400 barrels per day (reflecting spring break-up)
 - Q3 2012 5,700 barrels per day
 - Q4 2012 5,900 barrels per day
- **Natural gas:**
 - Q3 2011 22.0 million cubic feet per day
 - Q4 2011 21.6 million cubic feet per day
 - 2012 avg. 18.6 million cubic feet per day
 - “Run-off” natural gas decline rates are beginning to moderate
- **Capital Assumptions:**
 - Guidance reflects a 2012 net capital budget of \$55 million (after \$10 million of net property dispositions and excluding ASP)
- **Cost Assumptions:**
 - Operating Cost less than \$17 per boe
 - G&A Cost less than \$5 per boe (excluding one time items)

Reserve Highlights

(effective December 31, 2010)

- McDaniel Proved and Probable Estimate (84% is developed producing)

Oil	21.3 mmbbl
Gas	66.5 bcf
Equivalent	32.4 mmboe

- Reserve Life Indices

Proved producing	6.0 years
Proved and probable (2P)	9.5 years

- Reserves estimates do not include:
Little Bow ASP project, Taber South waterflood, Hamilton Lake exploitation, additional Killam development, the vast majority of the Williston Basin exploitation wells or waterflood modifications.

Key Valuation Parameters

(November 9, 2011)

- **Enterprise Value (EV) as of November 8, 2011 – \$527 million**
 - 29.24 million shares at \$14.79 per share or \$432 million
 - Net debt of \$94.5 million at September 30, 2011
- **EV of production – \$58,500 per barrel of oil equivalent per day**
 - 9,014 barrels of oil equivalent per day (Q3 2011 Actuals)
 - 5,330 barrels of oil and liquids per day
 - 22.1 million cubic feet of natural gas per day
- **EV of McDaniels' proved and probable reserves – \$16.27 per barrel of oil equivalent**
 - 32.4 million barrels of oil equivalent (effective December 31, 2010)
 - 21.3 million barrels of oil and liquids
 - 66.5 billion cubic feet of natural gas

Prepared if Lower Oil Prices Materialize

Recent activities to strengthen balance sheet

- In Q2 2011 raised \$37 million from equity issuance.
- In Q3 2011 raised a net \$23 million from the sale of oil properties and land.

Conservative banking arrangements

- Current net debt of approximately \$94.5 million or 1.62 years of first nine months of 2011 annualized funds flow from operating activities.
- Approximately \$101.8 million available on \$180 million of banking facilities.

Active hedging program

- Locked in approximately 50, 35 and 4 percent of forecasted 2011 H2, 2012 and 2013 oil production, respectively, at prices ranging from \$84.50 to \$101.89 US per barrel.

Despite short term pricing volatility, we remain positive regarding long term oil pricing trends and our ability to grow oil production.

Hedging Strategy

- Zargon uses hedges as a risk management tool to assist in the funding of dividends and capital programs in the event of significant commodity price declines. Our policies allow for the sale of:
 - up to a 50 percent maximum of our estimated oil production
 - up to a maximum 24-month period
- Current Forward Oil Sales:
 - Q4 2011: 2,700 bbl/d at \$85.02 US/bbl (WTI)
 - H1 2012: 2,500 bbl/d at \$89.91 US/bbl (WTI)
 - H2 2012: 1,667 bbl/d at \$95.96 US/bbl (WTI)
 - H1 2013: 450 bbl/d at \$101.89 US/bbl (WTI)

Key Takeaways at Current Share Price

(November 9, 2011)

- **Zargon has considerably improved its business by focusing on its core oil exploitation strengths.**
 - Zargon's reorganization has taken longer than anticipated and most recently was set back by Williston Basin surface access challenges.
 - The organizational heavy lifting is however, now essentially complete.
- **Hamilton Lake, Killam, Taber, Williston Basin and other Zargon oil exploitation assets provide good visibility of profitable oil exploitation projects.**
 - These projects are economic to pursue at considerably lower oil prices.
- **The Little Bow ASP project could be very significant to Zargon.**
 - Success at Little Bow could lead to significant follow-on projects at Little Bow and other Zargon properties.
- **Zargon shares represent good value.**
 - Investors pay only for proved and probable producing reserves and receive a rich opportunity set that includes 165 net oil exploitation locations plus the high impact Little Bow Alkaline Surfactant Polymer tertiary flood project.
- **Zargon provides a long dated call option on future oil prices and pays an 8% dividend in the interim.**
 - Downside is now protected by a strong balance sheet and in-the-money forward oil hedges.



Oil Exploitation Projects

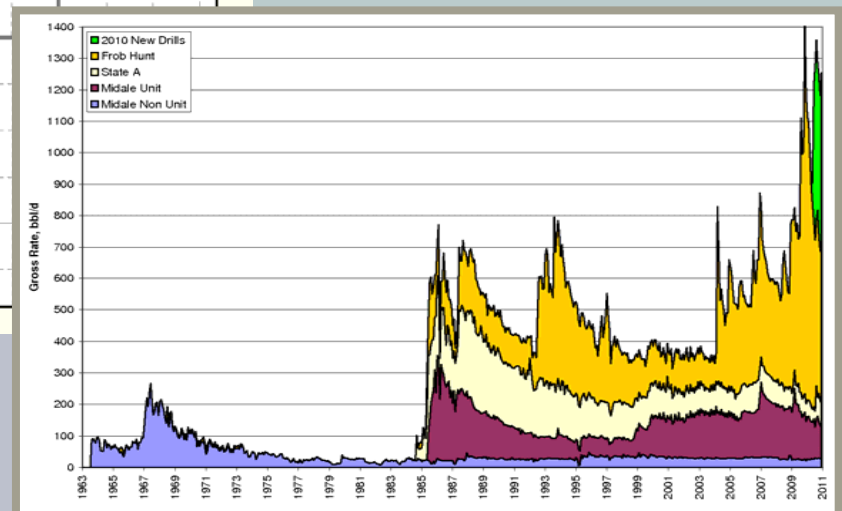
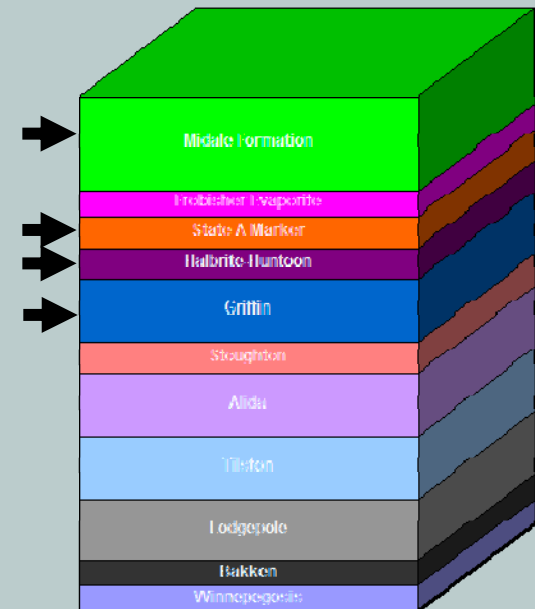
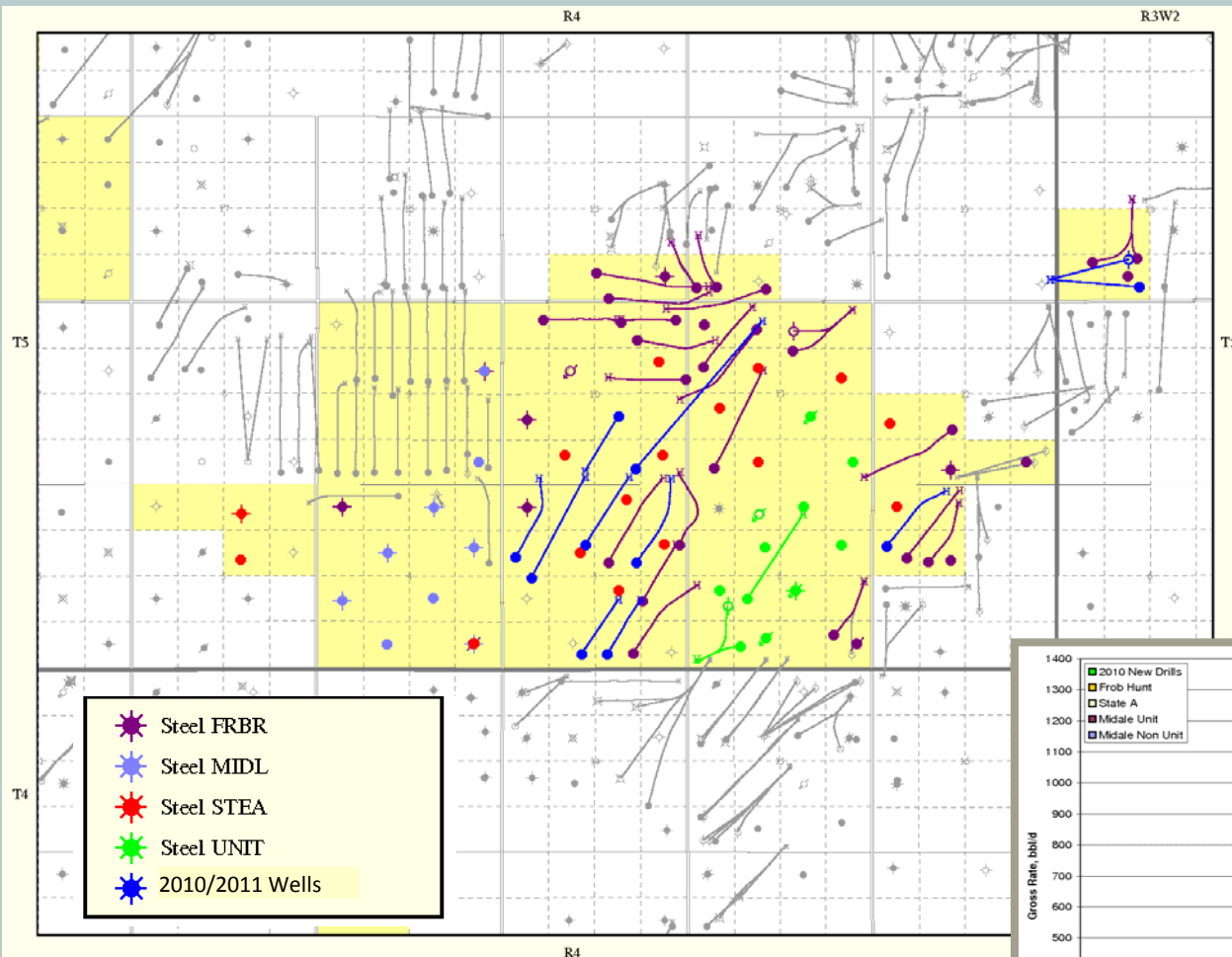
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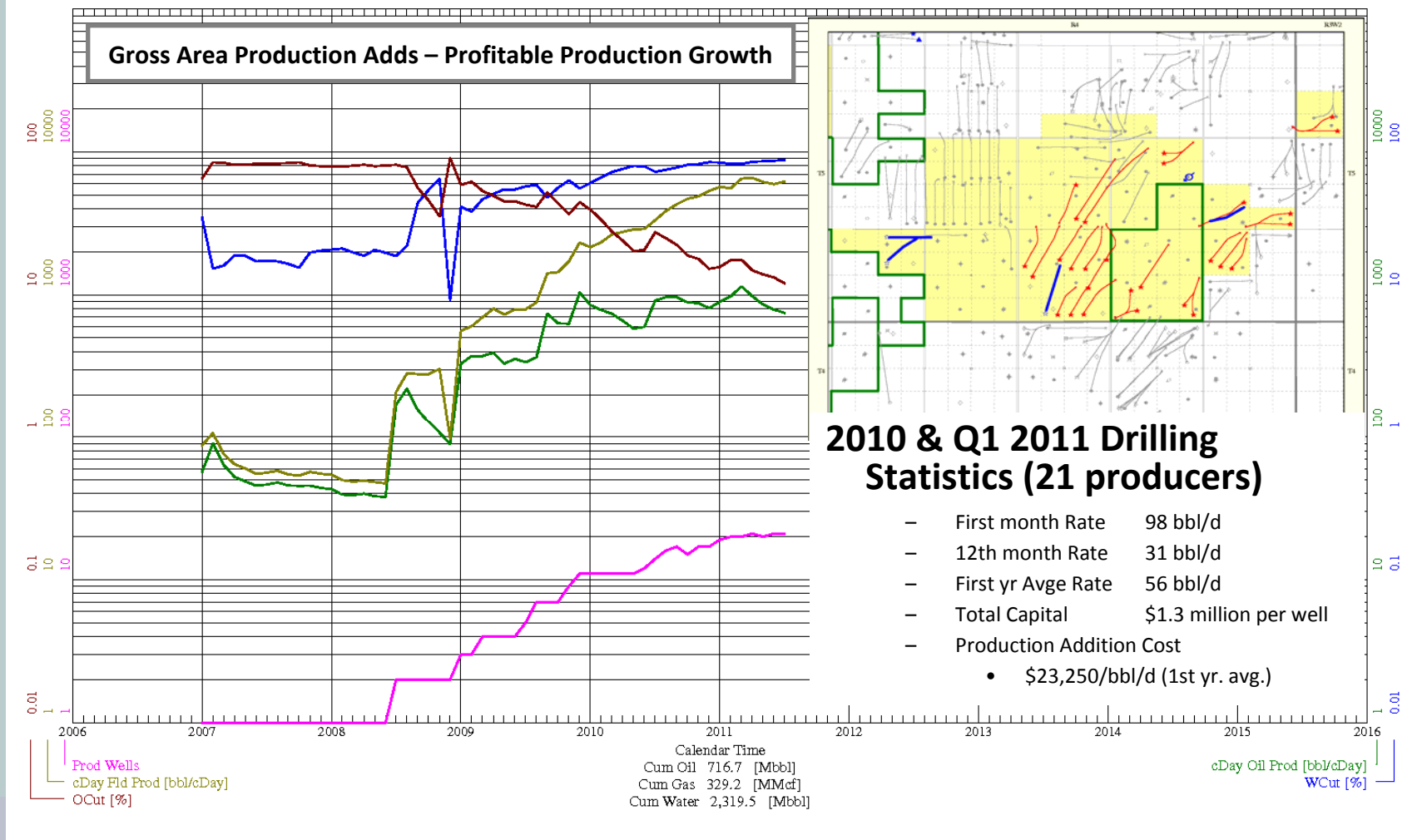
Steelman – Compact Exploitation Opportunities

Williston Basin



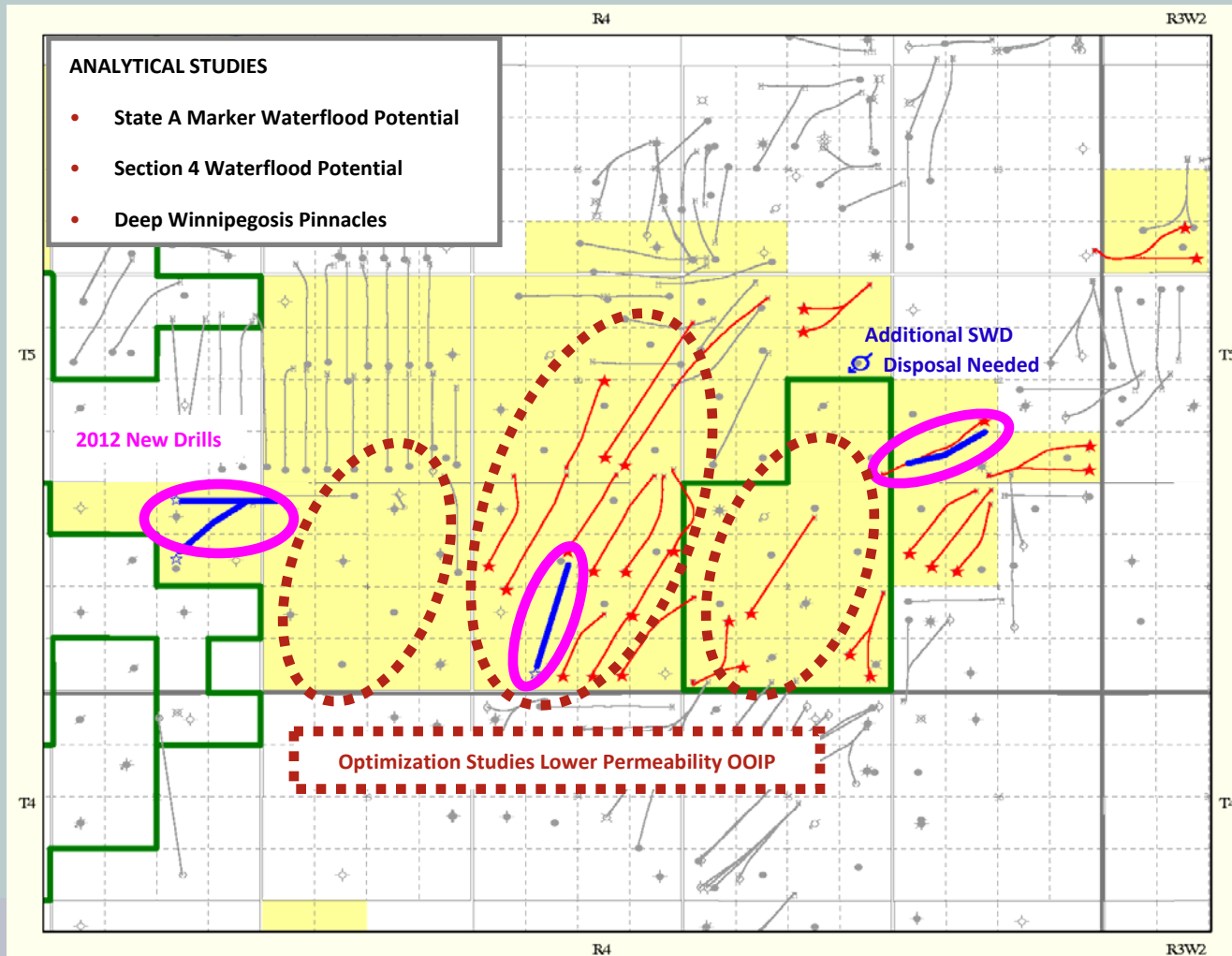
Williston Basin

Steelman (Frobisher) Drilling Program 2007 – Current



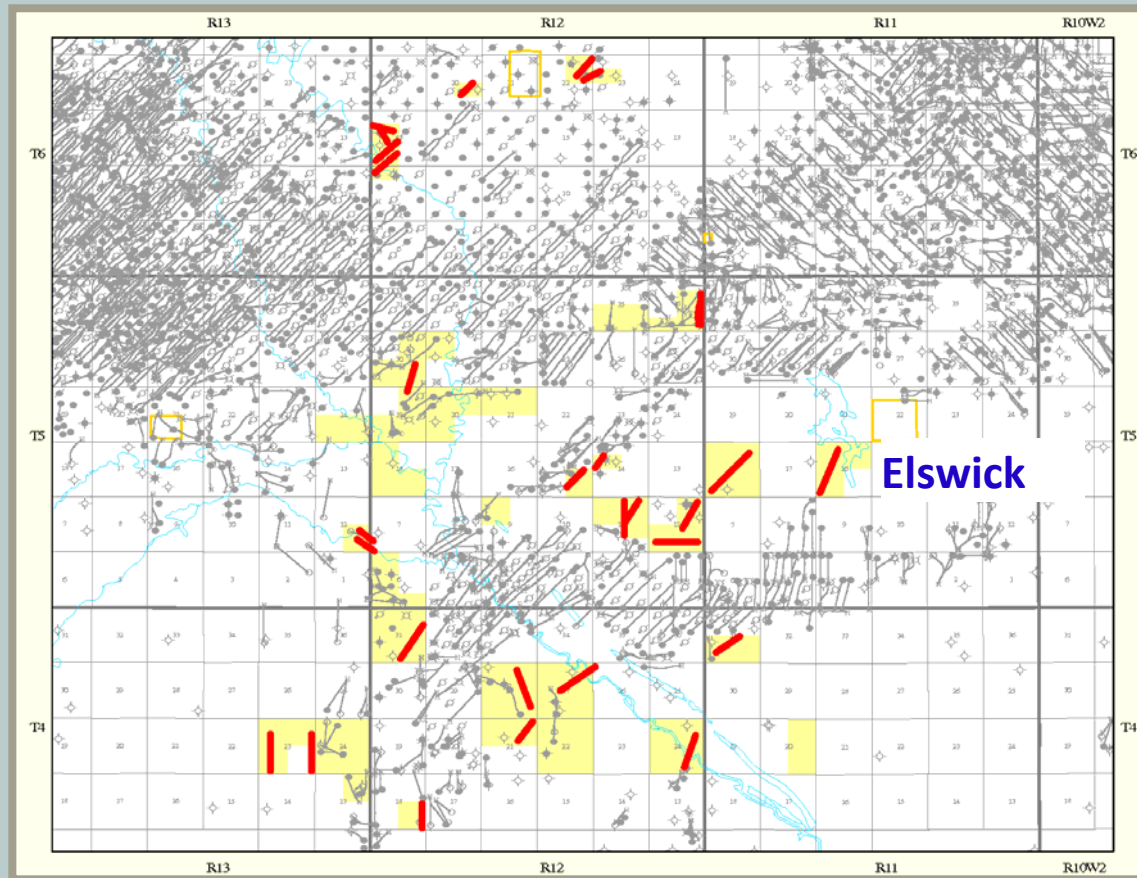
Williston Basin

Steelman – Future Frobisher Marker & Midale Potential



Elswick / Weyburn Midale Drainage Locations

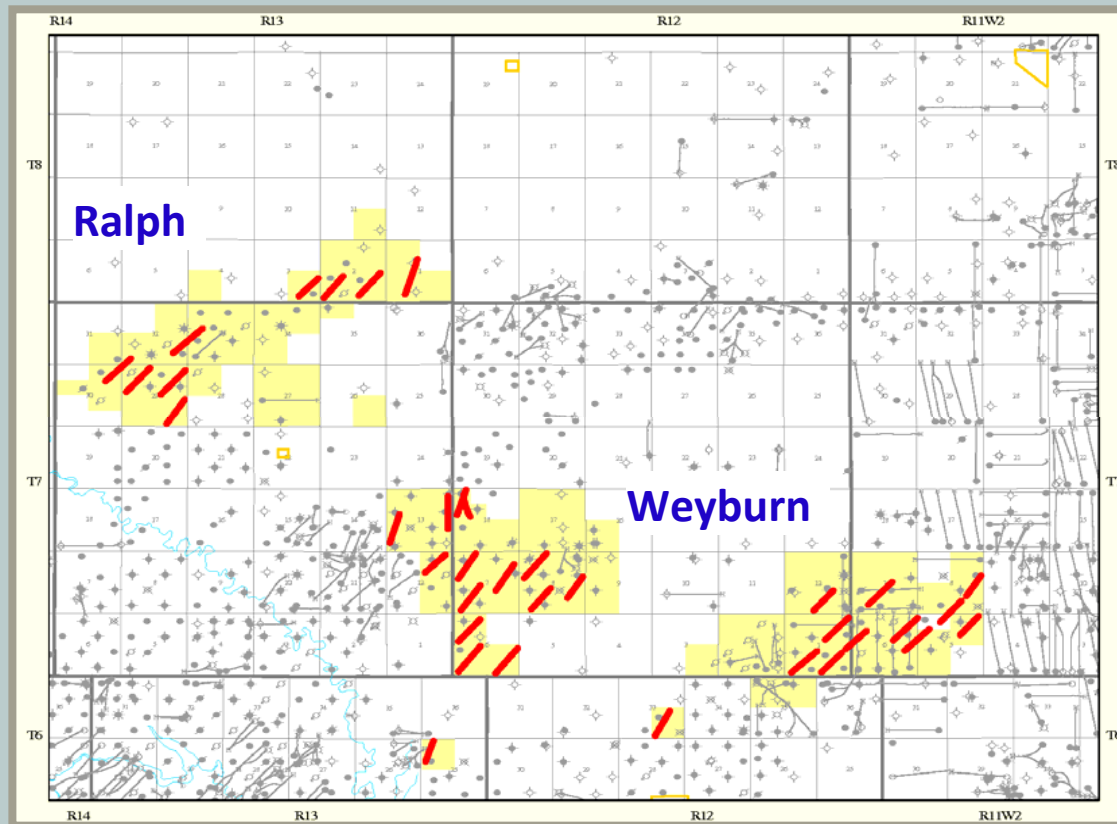
Williston Basin



Zargon's Elswick and Weyburn lands provide more than 25 Midale drainage locations defined by 3D seismic, and in many cases, pressure supported by offsetting water injection pressure maintenance schemes.

Ralph and Weyburn North Waterflood Properties

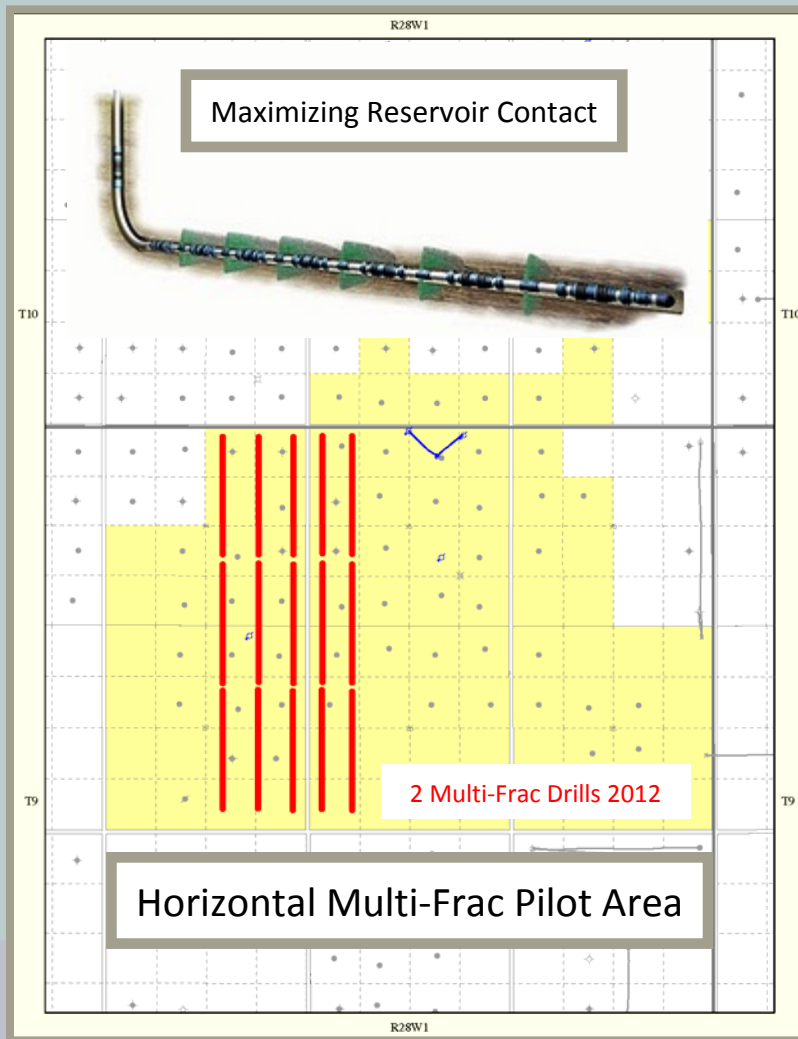
Williston Basin



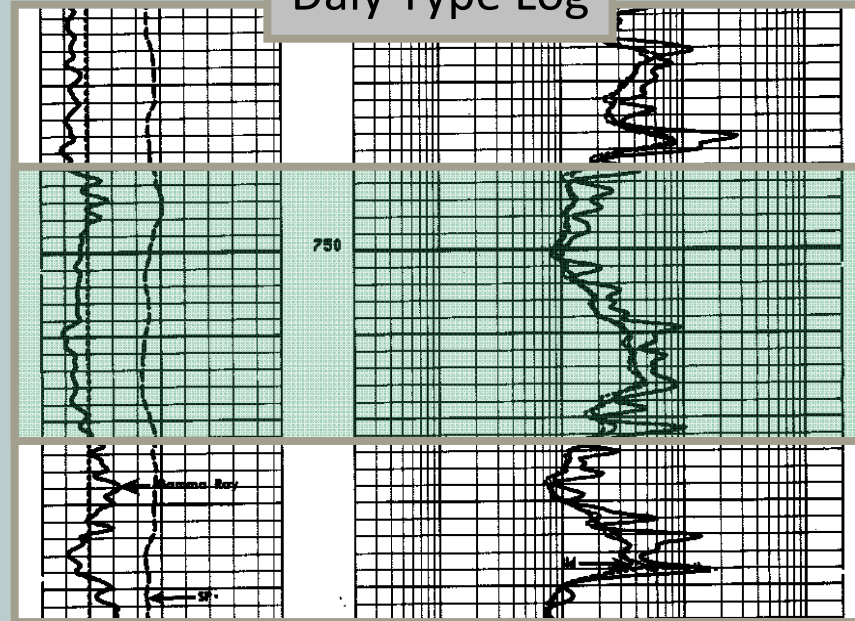
The Ralph and Weyburn North waterflood projects provide a long term opportunity to enhance waterflood performance and drill Midale drainage wells. Ultimately, as many as 35 locations may be drilled, once reservoir pressures are fully restored.

Daly Manitoba

Horizontal Multi-Frac Waterflood Development Project



Daly Type Log



Horizontal Multi-Frac Location

The Daly property is a thick oil-saturated Carbonate Bank, with low reservoir recoveries. Our models indicate that horizontal multi-frac wells can effectively exploit this resource.

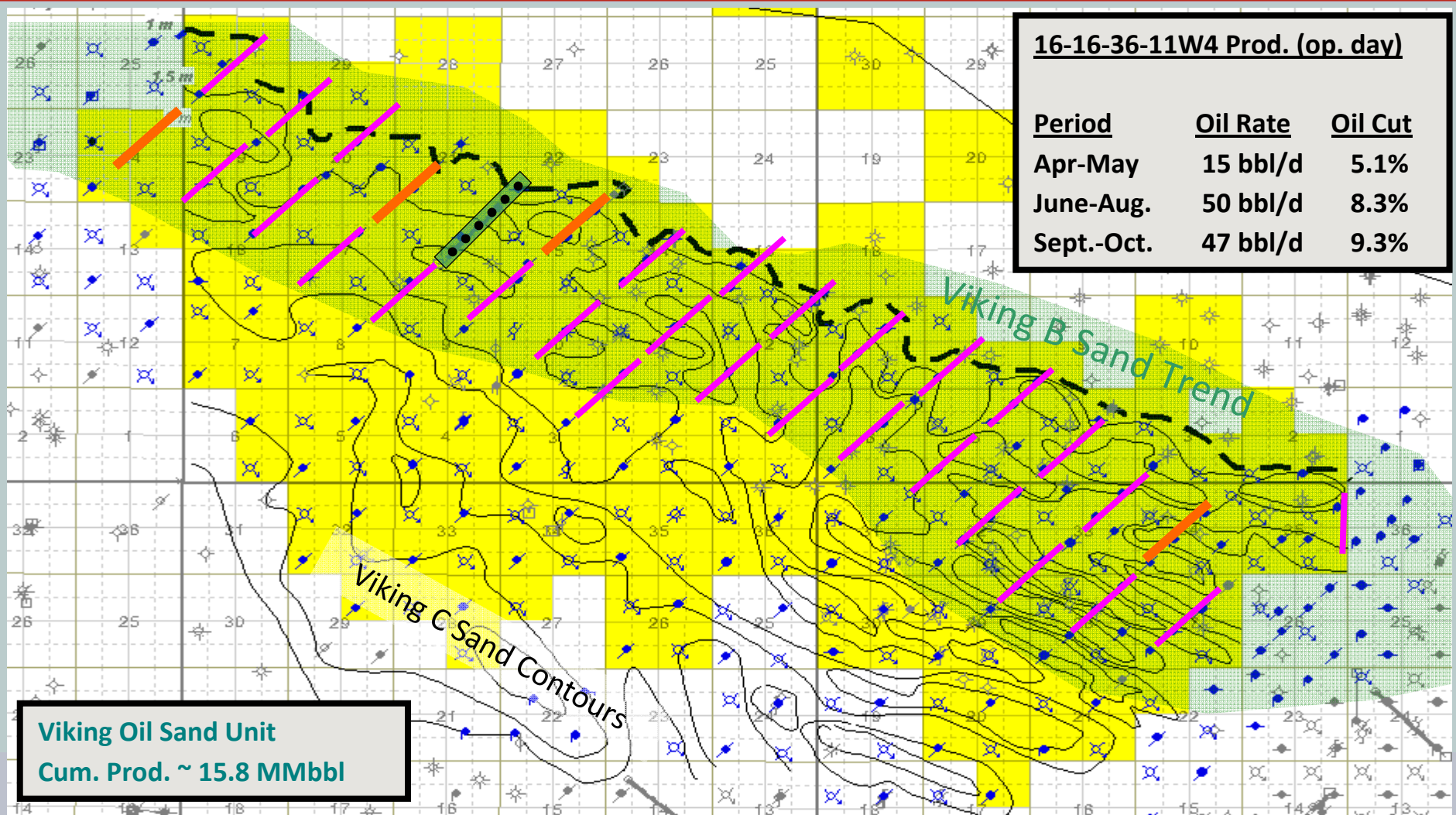
Oil Exploitation Project Inventory

(Alberta Plains South and North)

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Hamilton Lake Horizontal Multi-Frac Opportunity

Alberta Plains North



Viking Oil Sand Unit
 Cum. Prod. ~ 15.8 MMbbl

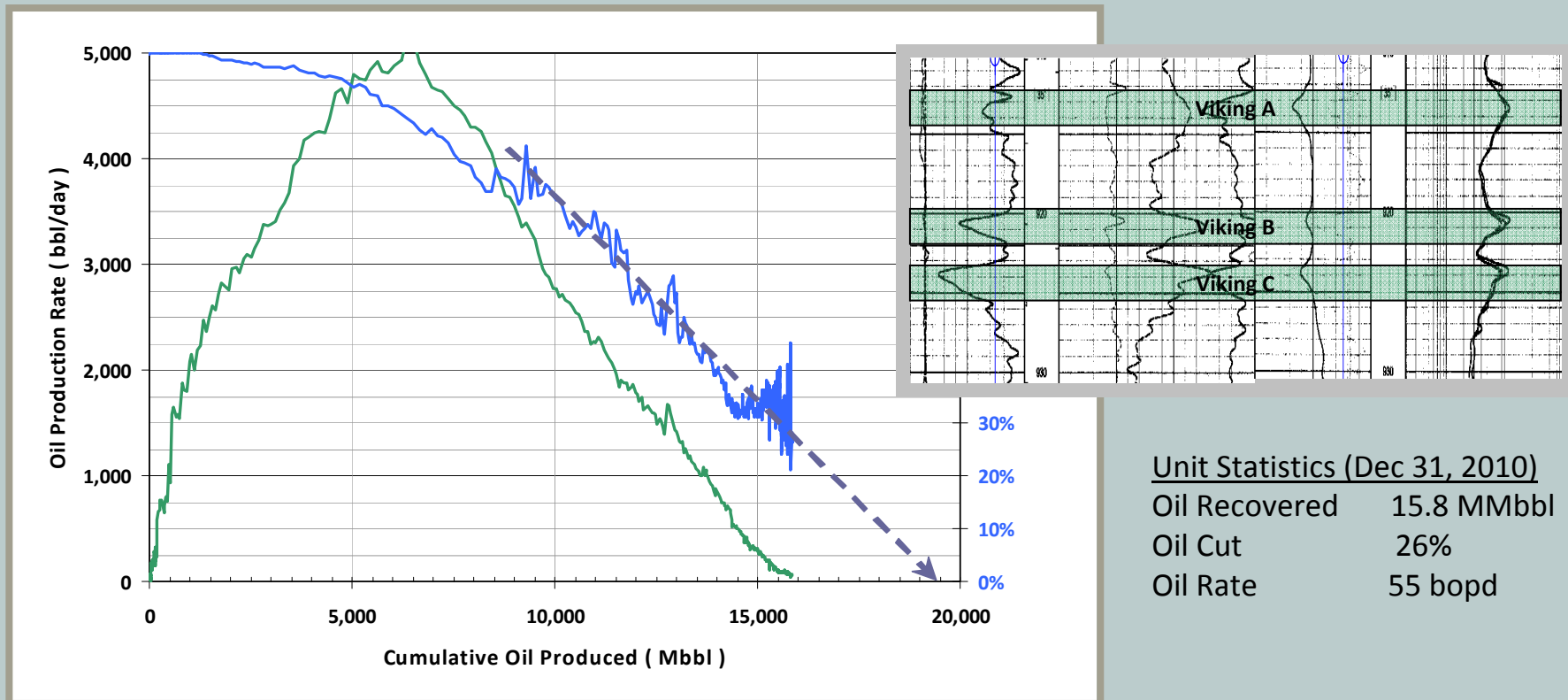


●●●● 16-16-36-11W4 Horizontal

— Q4/2011 & Q1/2012 Drilling Program

— Follow up locations

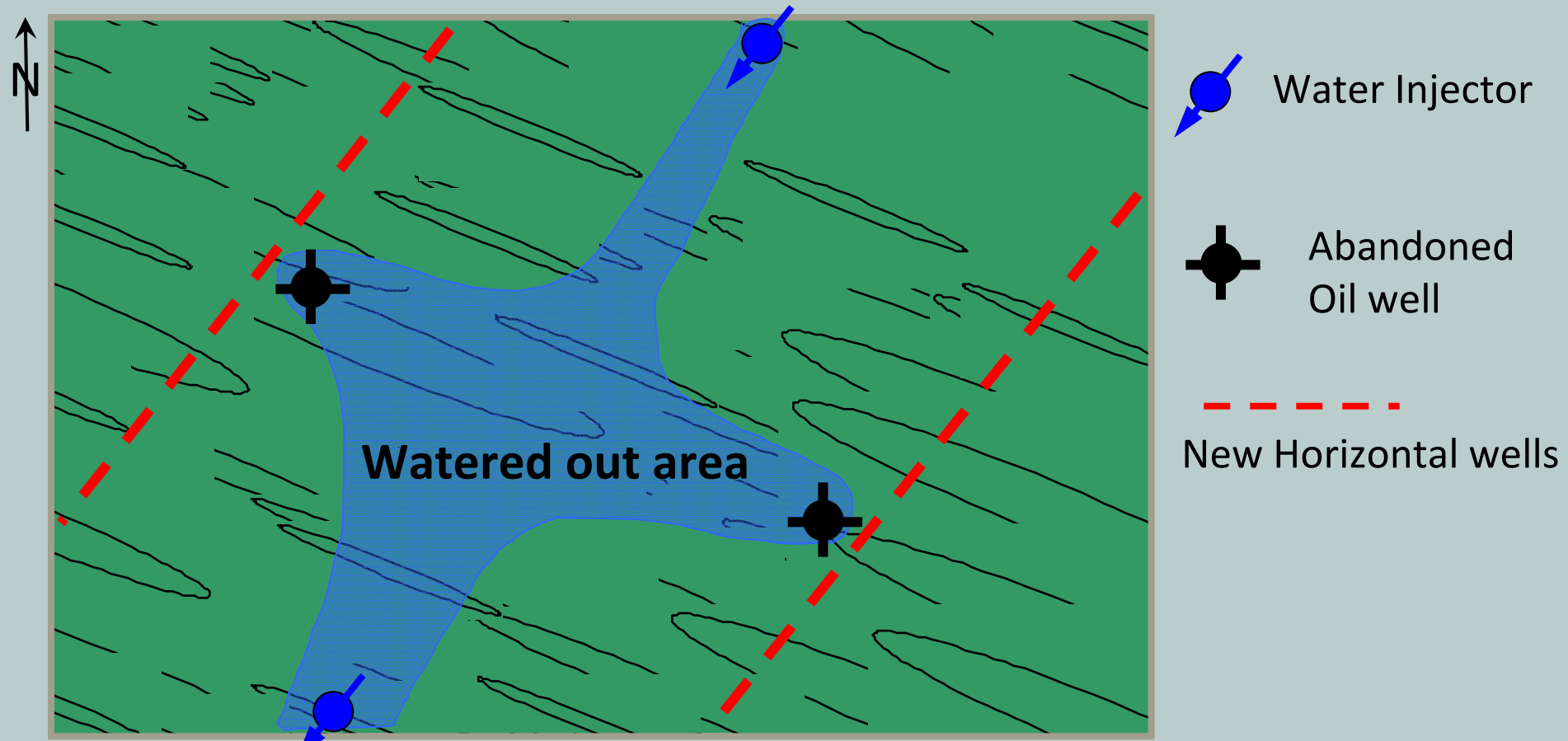
Hamilton Lake Oil Sand Unit Unit Production History



The Hamilton Lake Oil Sand Unit waterflood was prematurely suspended in the 1980's due to unexpected water production at the off-trend producers. Our computer modeling suggests that significant reserves can be recovered with multi-frac horizontal well technology.

Hamilton Lake Viking B Unit

Multi-frac Horizontal Well Depletion Concept

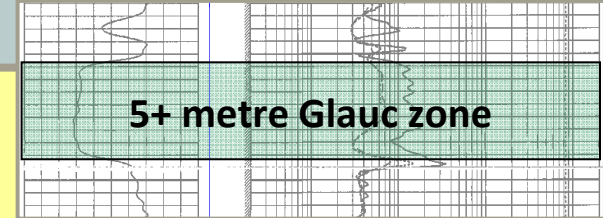


Reservoir modeling shows that the combination of strong northeast fracture trends and poorly connected northwest trending lenticular sands had resulted in early water breakthrough at producers. Multi-frac horizontal wells are expected to access the undrained oil.

Killam Glauconite Oil Development

Alberta Plains North

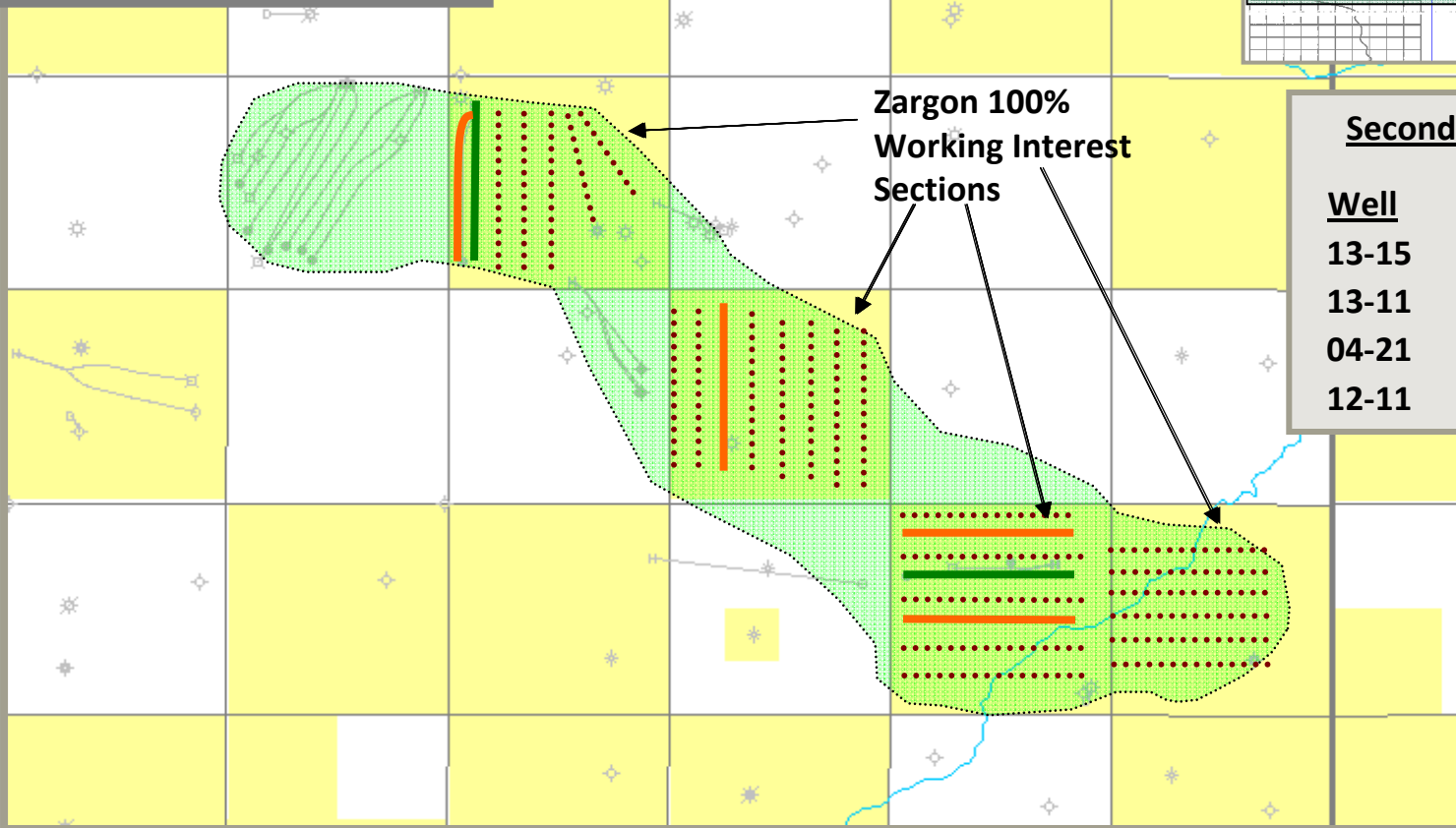
28 Degree API sweet crude
Significant waterflood upside



Zargon 100%
Working Interest
Sections

Second Month Well Results

<u>Well</u>	<u>Rate</u>	<u>Oil Cut</u>
13-15	50 bbl/d	74%
13-11	29 bbl/d	67%
04-21	19 bbl/d	77%
12-11	69 bbl/d	58%



2010 Wells Drilled

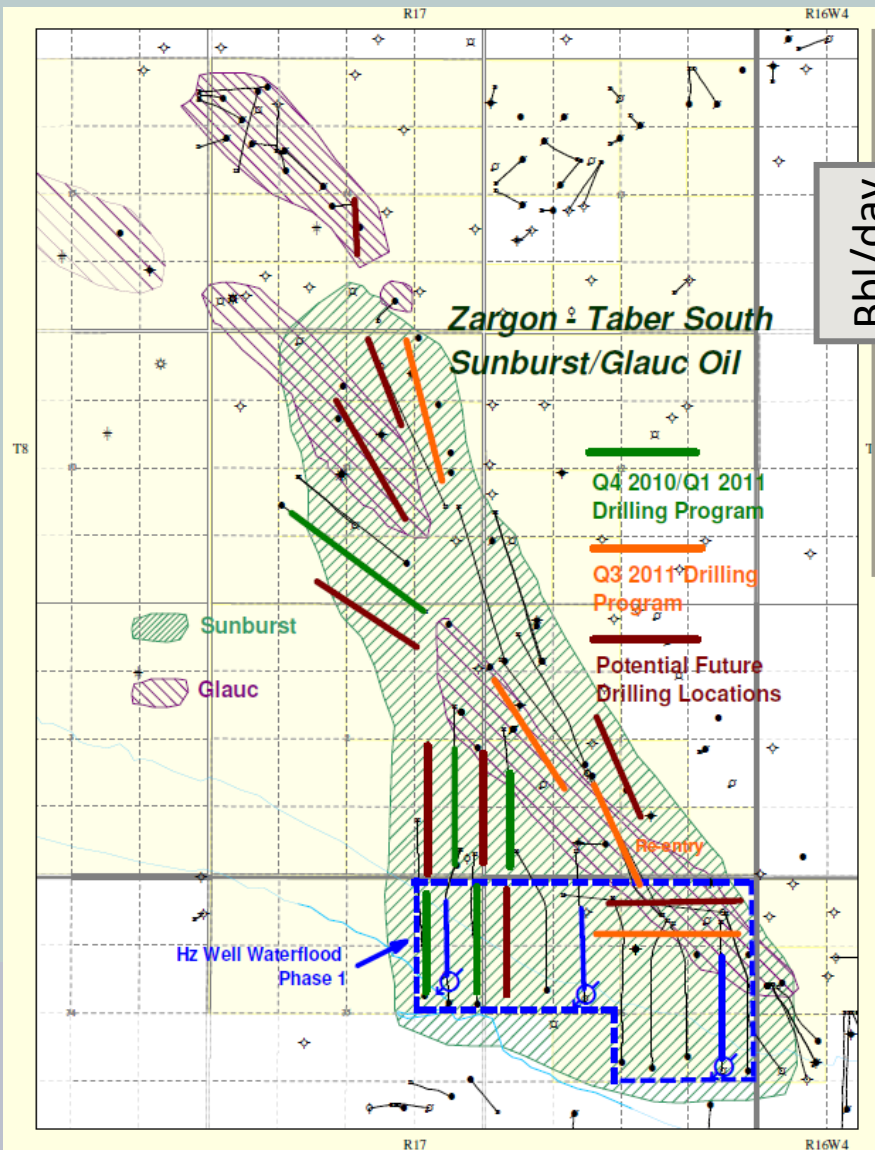
2011 Drilling

Follow up locations

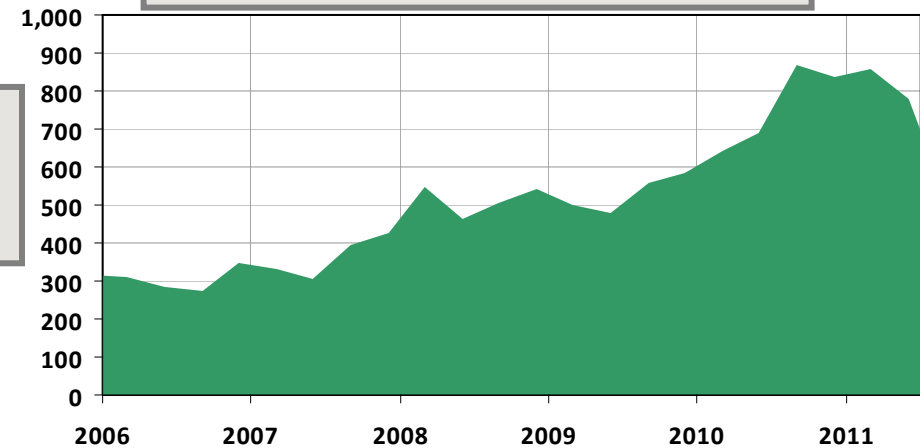


Taber Sunburst Hz Oil / Waterflood Project

Alberta Plains South



Zargon Operated Oil Production



- 3 Horizontal oil wells & 1 Horizontal oil well re-entry drilled in Q3 2011
- 3 wells converted to water injectors and the waterflood startup was completed in Q1/2011
- 10 follow up drilling locations
- Waterflood will be expanded North of the existing area

Alkali Surfactant Polymer ("ASP") Chemical Flood Recovers Bypassed Oil

A lkali

- Alters properties of reservoir rock to increase surfactant efficiency
- Reacts with oil to form natural surfactants

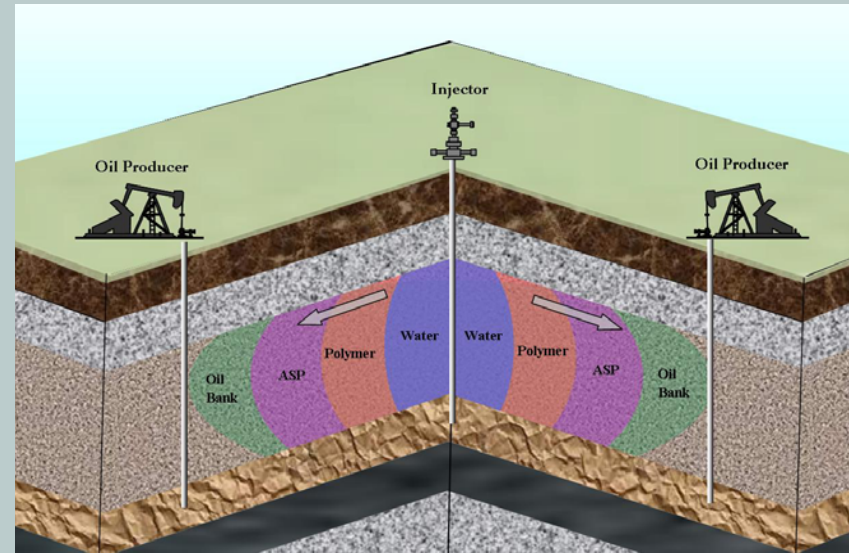
S urfactant

- Reduces interfacial tension between oil and water, mobilizing trapped oil

P olymer

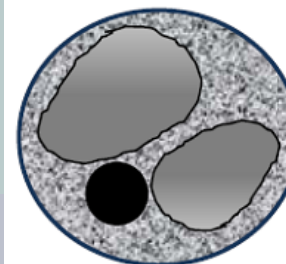
- Thickening agent. This increases the sweep efficiency of the process

- 1) ASP formula injected to mobilize trapped oil.
- 2) Polymer injection displaces mobilized oil to producing wells.
- 3) Water injection continues the displacement.



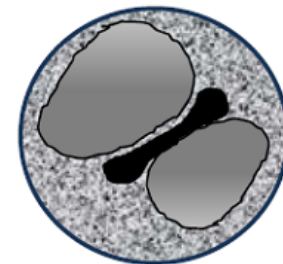
High Interfacial Tension

Oil is trapped by pore throat restriction



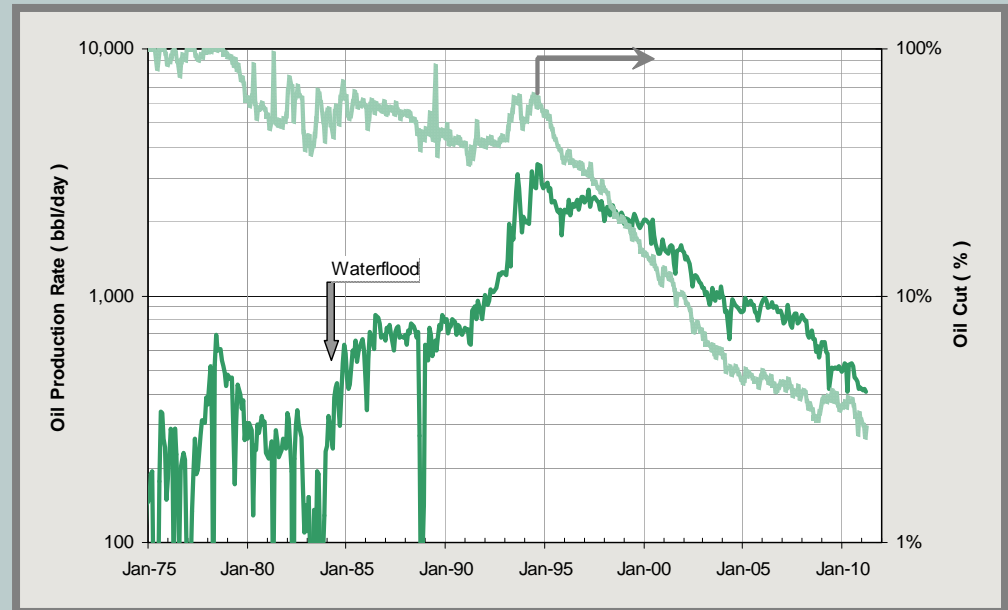
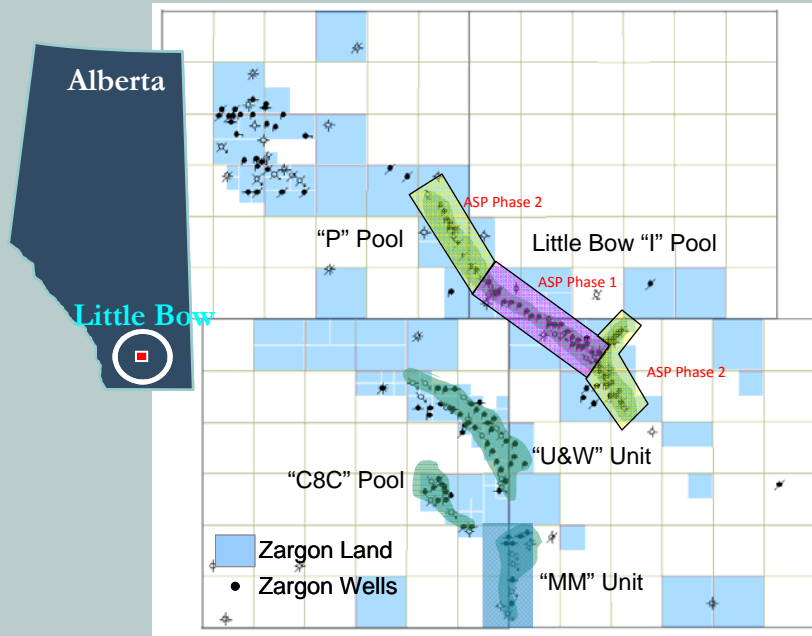
Low Interfacial Tension

Oil passes through pore throat restriction



Little Bow ASP

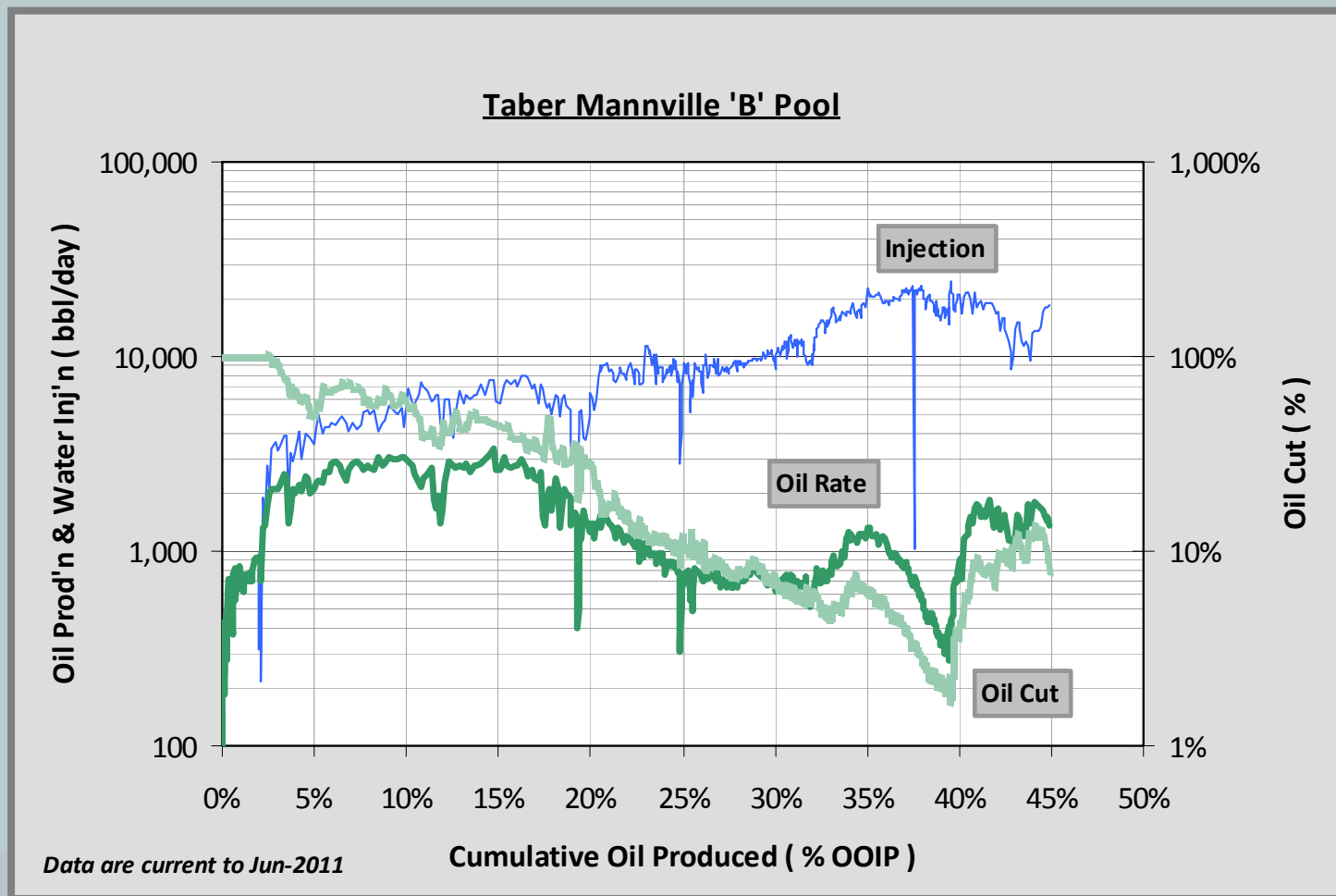
Phases 1 and 2



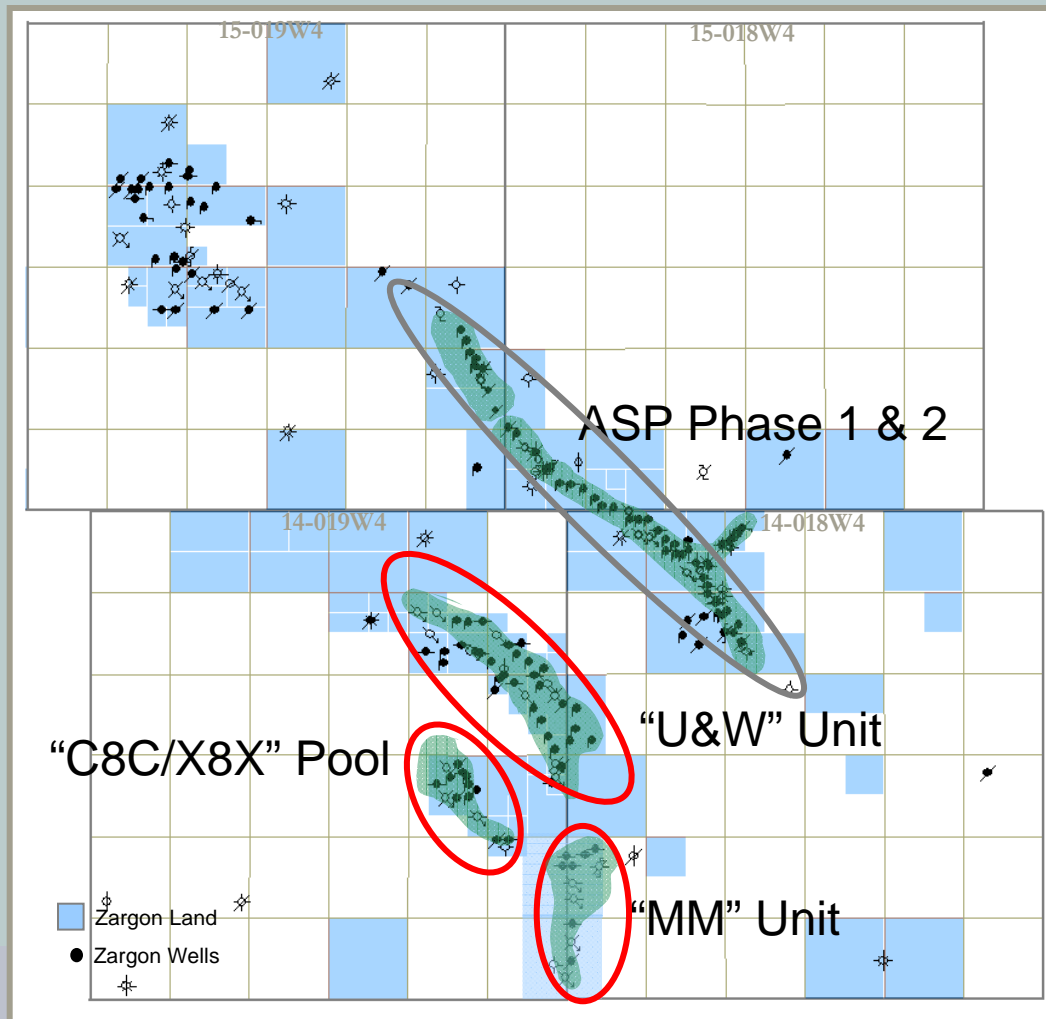
- High Quality Upper Mannville Reservoir
- Zargon WI: 100 %
- Permeability: 1500 mD (Avg.)
- Depth: 3600 ft
- Porosity: 23% (Avg.)
- Net Oil Pay: 37 ft
- Oil Gravity: 21° API

- First Production: 1974
- Waterflood initiated: 1983
- Current Oil Rate: 395 bopd @ 2.9% oil cut
- Cumulative Oil: 12.9 mmbbl

ASP Analog: Taber South Mannville 'B' Pool



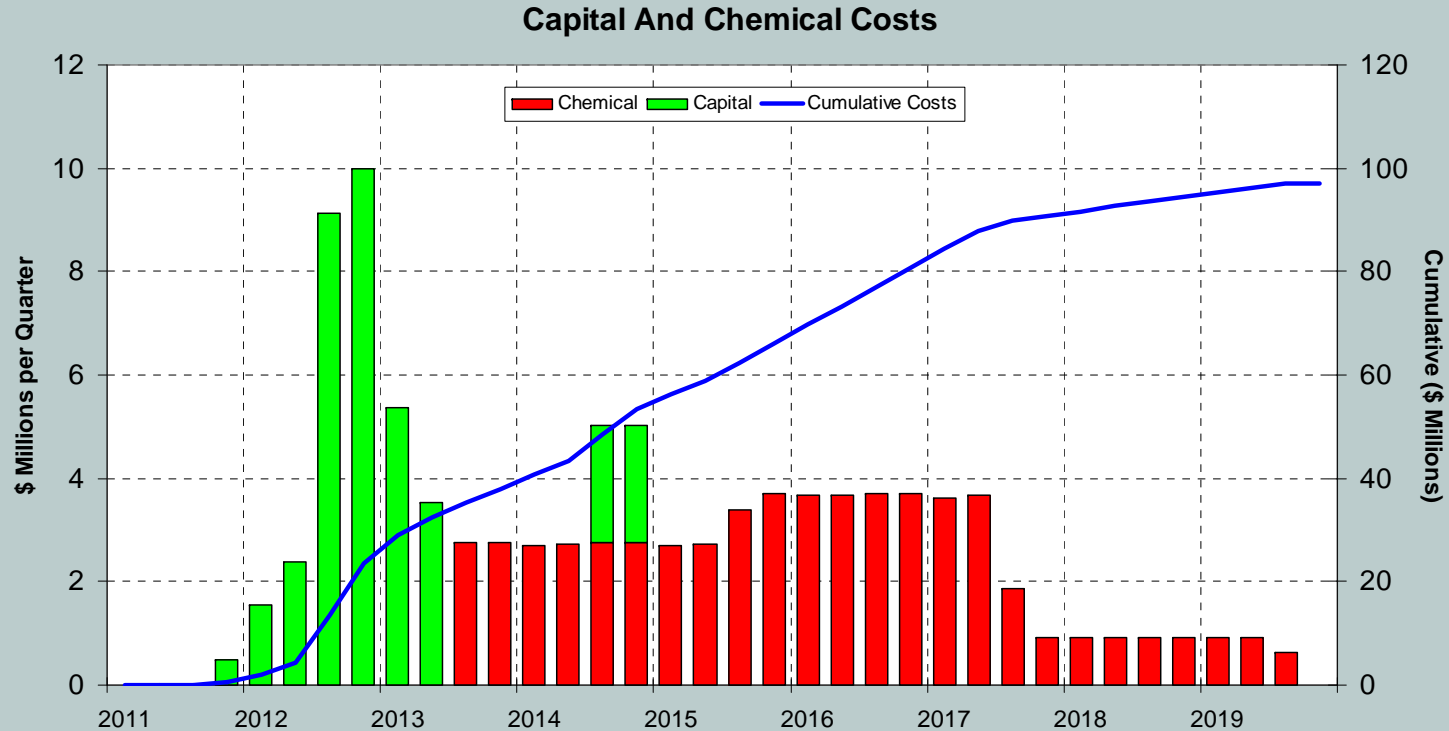
Zargon ASP Followup Targets



	ZAR W.I. (%)	W.I. OOIP* (mmbbl)
<u>Phase 1 & 2</u>		
Little Bow "I" Pool	100	31
Little Bow "P" Pool	100	8
<u>Followup</u>		
U&W Unit	68	19
MM Unit	100	5
C8C / X8X	81	7
Total	70	

* Alberta Energy Resources
Conservation Board Original
Oil-In-Place Data

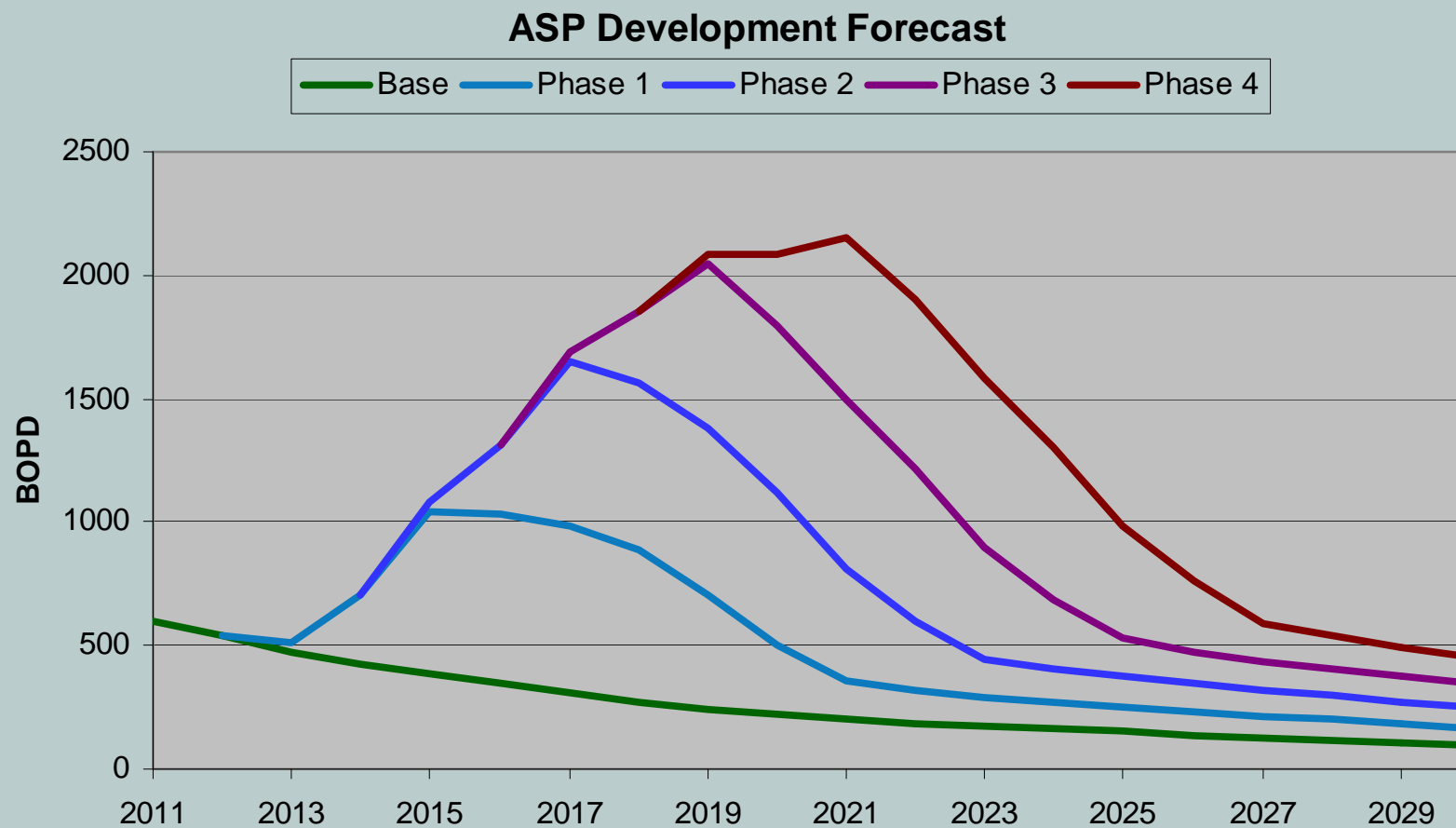
Little Bow ASP: Capital and Chemical Cost



ASP Project Capital Costs (Constant 2011 \$ - Millions)

	<u>Phase 1</u>	<u>Phase 2</u>	<u>Total</u>
Facilities and Batteries	29.6	1.0	30.6
Pipelines	1.0	1.7	2.7
Subsurface	1.8	1.8	3.5
Chemical	<u>30.0</u>	<u>30.0</u>	<u>60.0</u>
Total	62.4	34.5	96.8

Zargon ASP – Future Phases





Corporate Presentation
November 9, 2011