

Clerk's Stamp

COURT FILE NO. 25-2670585

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

IN THE MATTER OF THE BANKRUPTCY AND INSOLVENCY ACT
IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A
PROPOSAL OF ZARGON OIL & GAS LTD.; ZARGON OIL & GAS
PARTNERSHIP; AND ZARGON U.S. HOLDINGS LTD.

DOCUMENT **FIRST REPORT OF MNP LTD., PROPOSAL TRUSTEE**

ADDRESS FOR
SERVICE AND
CONTACT
INFORMATION OF
PARTY FILING
THIS DOCUMENT

PROPOSAL TRUSTEE
MNP LTD.
1500, 640 – 5 AVENUE SW
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APPENDICES

- APPENDIX A Zargon Oil & Gas Ltd. et al 's Projected Statement of Cash Flow for the period
September 18, 2020 to November 27, 2020
- APPENDIX B Debtor's Report on the cash flow projection and Trustee's Report on cash flow

INTRODUCTION

1. On September 8, 2020, Zargon Oil & Gas Ltd., Zargon Oil & Gas Partnership and Zargon US Holdings Ltd. (collectively the "Company" or "Zargon") filed a Notice of Intention to Make a Proposal ("NOI") pursuant to Part III, Division I of the *Bankruptcy and Insolvency Act* ("BIA"). The NOI was accepted by the Office of the Superintendent of Bankruptcy on September 8, 2020, which resulted in an automatic 30 day stay of proceedings. MNP Ltd. (the "Trustee") has consented to act as Trustee in the NOI proceedings.
2. This is the Trustee's first report (the "First Report") to the Court of Queen's Bench of Alberta (the "Court"). All references to currency are in Canadian dollars unless otherwise stated.
3. A copy of the First Report and other relevant documents in the Company's restructuring proceedings will also be available on the Trustee's website at <https://mnpdebt.ca/en/corporate/Engagements/zargon-oil-gas>

NOTICE TO READER

4. In preparing the First Report and making comments herein, the Trustee has relied upon, certain unaudited, draft or internal financial information, including the Company's books and records, and information from other third-party sources (collectively, the "Information"). The Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with generally accepted assurance standards or other standards established by the Chartered Professional Accountants of Canada (the "Standards"). Additionally, none of the Trustee's procedures were intended to disclose defalcations or other irregularities. If the Trustee were to perform additional procedures or to undertake an audit examination of the Information in accordance with the Standards, additional matters may have come to the Trustee's attention. Accordingly, the Trustee does not express an opinion, nor does it provide any other form of assurance on the financial or other information presented herein. The Trustee may refine or alter its observations as further information is obtained or brought to its attention after the date of this report.

PURPOSE OF THE REPORT

5. The purpose of the First Report is to provide the Court and other interested parties with:
 - a. Background information on Zargon, its operations, creditors, current financial state and restructuring efforts to date;
 - b. The Trustee's position with respect to the following applications to the Court by Zargon to be heard at a hearing scheduled for October 1, 2020;
 - c. Approval for an interim financing facility; and
 - d. Approval for an extension of the period of time within which Zargon is required to file a proposal to its creditors.

BACKGROUND

6. Zargon, headquartered in Calgary, Alberta, is a publicly traded company, incorporated under the *Business Corporations Act (Alberta)*. Mr. Craig Hansen, President of Zargon (“Hansen”), was authorized in a meeting of Zargon’s board of directors held on September 7, 2020 to sign the NOI documents.
7. The Company is engaged in exploration and exploitation of petroleum within Western Canada. The Company had held properties in the United States; however, those properties were sold in January 2020.
8. According to the Company, it has been experiencing financial difficulty since 2018 when oil and gas exploration in North America significantly declined.
9. Prior to the filing of the NOI, the Company took steps to restructure its financial affairs, including implementing administrative expense reductions by way of reducing personnel and the reduction of other administrative expenses. The Company is also working to preserve its interest in certain intellectual property.

CREDITOR CLAIMS

10. The potential creditor claims against the Company, based on the NOI filing documents, are summarized as follows:

Secured debt \$Nil
Unsecured debt: \$9,485,132

11. Based on Hansen’s affidavit, Zargon had engaged Scotia Waterous Inc in 2016 to sell its South East Saskatchewan assets along with its Killam, Alberta assets, the proceeds of which were used to repay its secured lender at the time and terminate its credit facility.
12. Zargon also restructured its capital structure in April of 2017 by amending the redemption provisions of its convertible debentures, which were ultimately converted into common shares of Zargon in January 2019.
13. The unsecured debt primarily consists of amounts due to trade vendors.
14. The Company has advised that Canada Revenue Agency (“CRA”) is current in both source deduction remittances for the former employees and Goods & Services Tax (“GST”). Other potential priority creditors such as unpaid employee claims, the Alberta Energy Regulator (the “AER”), municipal districts and counties for property taxes, mineral, surface lease, or royalty claimants are included in

the list of unsecured creditors as there has not been a formal assessment of the potential claims involved.

CASH FLOW STATEMENT AND VARIANCE ANALYSIS

15. The Company prepared its projected statement of cash flow (the "Cash Flow Statement") for the period from September 8, 2020 to November 27, 2020 (the "Period") The Debtor's Report on Cash Flow Statement and the Trustee's Report on the cash flow projections are attached as Appendix "A" and Appendix "B" respectively.
16. The Trustee has monitored the Company's actual cash receipts and disbursements for the two-weeks ending September 11 and 18, 2020 and provides the following variance analysis:

	For the 2 weeks ending Sept. 18/2020			
	Budget	Actual	Variance	
Opening Balance	\$ 450,000	\$ 488,555	\$ 38,555	
Cash inflows				
Other	0	7,841	7,841	Roy income deposit & Sask Gov't deposit
Total inflows	\$ -	\$ 7,841	\$ 7,841	
Cash outflows				
Contract Labour	16,000	7,040	-8,960	Perm difference
Other Field Operating costs (incl. trucking)	26,000	13,500	-12,500	Temporary timing
Inactive Field Costs (Compliance etc.)	8,000	0	-8,000	Temporary timing
Crown Rentals (P&NG and Surface)	11,000	10,612	-388	Perm difference
Contingency	12,000	0	-12,000	Temporary timing
Non-operated Operating costs	0	0	0	
Total Field Operations & Related	\$ 73,000	\$ 31,152	\$ (41,848)	
Software & Computer	13,000	1,736	-11,265	Temporary timing
Management Fees	0	0	0	
Office Consultants	34,000	15,338	-18,663	Perm difference
Office Rent Only	10,000	0	-10,000	Temporary timing
Storage, Phones, Supplies, etc.	5,000	0	-5,000	Temporary timing
GST Receivable/payable	0	1,783	1,783	Temporary timing / w ill off set w ith GST Payable
Contingency	4,000	0	-4,000	Temporary timing
Total Office & Related	\$ 66,000	\$ 18,856	\$ (47,144)	
Restructuring costs	50,000	0	-50,000	Temporary timing
Truck Finance Charges	0	0	0	
Total Other	\$ 50,000	\$ -	\$ (50,000)	
Total outflows	\$ 189,000	\$ 50,008	\$ (138,992)	
Closing Balance	\$ 261,000	\$ 446,388	\$ 185,388	

17. Certain of Zargon's cash balances are still denominated in foreign currency. Actual cash balances are based on the applicable foreign exchange rate calculation, which fluctuates daily.

18. Specific notes to the Variance Analysis for variances over \$1,000.
- a. Other – Permanent difference Royalty income deposit and Saskatchewan Government refund.
 - b. Other Field Operating Costs (including trucking) -Timing difference as invoices have not yet been provided to the Company.
 - c. Inactive field costs – Timing difference as invoices have not yet been provided to the Company.
 - d. Contingency – Not required during this period.
 - e. Software & Computer – Timing difference as invoices have not yet been received.
 - f. Office Consultants - Timing difference as invoices have not yet been received.
 - g. Office Rent Only – Timing difference as renegotiation with landlord is currently undergoing.
 - h. GST Receivable/Payable – Timing difference. ITCs will offset GST payable.
 - i. Restructuring cost – Timing difference fees will be paid in due course as invoices are received.

PROJECTED STATEMENT OF CASH FLOW

19. The Statement of Cash Flow (the "Projection") has been prepared by the Company's management team pursuant to Section 50.4(2) of the BIA. Below is a summary of the cash flow projection.
20. A summary of the Projection is below. As noted above, the full week, by week, cash flow projection is attached hereto as Appendix A.

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Zargon Oil & Gas Ltd. (the "Company")	
Statement of Weekly Projected Cash Flow	
For the period from September 11, 2020 to November 27, 2020	
	Total
Estimated Opening Cash Balance	\$ 489,000
Cash inflows	
Operated revenue (after royalties)	390,000
Non-Operated revenue (after royalties)	40,000
DIP Financing	700,000
Other	30,000
Total inflows	\$ 1,160,000
Cash outflows	
Contract Labour	88,000
Other Field Operating costs (incl. trucking)	176,000
Inactive Field Costs (Compliance etc.)	88,000
Crown Rentals (P&NG and Surface)	30,000
Contingency	66,000
Non-operated Operating costs	60,000
Total Field Operations & Related	\$ 508,000
Software & Computer	39,000
Management Fees	46,000
Office Consultants	187,000
Office Rent Only	30,000
Storage, Phones, Supplies, etc.	30,000
GST Receivable/payable	0
Contingency	22,000
Total Office & Related	\$ 354,000
Insurance Premiums	60,000
Surface Leases Paid	120,000
Municipal Taxes Paid	230,000
AER Levies Paid	60,000
Total Other	\$ 470,000
Restructuring costs (trustee and legal)	250,000
Truck Finance Charges	12,000
Total Other	\$ 262,000
Total outflows	\$ 1,594,000
Estimated Closing Cash Balance	\$ 55,000

21. The Trustee has reviewed the Projection and has the following comments:

- a. The Company maintains Canadian and US dollar bank accounts in order to pay its US vendors in USD versus Canadian dollars. The USD accounts contained sale proceeds from the sale of US assets and are converted into CDN dollars as necessary.
- b. Fluctuations in the in the Company's USD bank accounts USD/CAD exchange rates could adversely affect the cash balances resulting in a lower than expected balance.
- c. Operating revenue is subject to oil prices and market fluctuations associated with the commodity.
- d. DIP Financing as outlined in the interim financing section above will be required in order to allow the Company to continue operations until it is able to provide a proposal to its creditors.
- e. AER levies had been invoiced but the obligation for pre and post NOI periods is yet to be determined.
- f. Expenses or cash outflows are based on recent historical information from the Company.
- g. Contract labor expenses relate to the former Zargon employees that have been retained to assist the Company until its proposal is filed.

INTERIM FINANCING

22. As shown in the Projection, Zargon requires interim financing to assist in its ongoing restructuring efforts by paying the Company's operations expenses, and restructuring costs incurred throughout the NOI period. Zargon has entered into a financing agreement with Blue Sky Resources Ltd. ("BSR") to borrow funds, subject to BSR obtaining a interim financing charge (the "Interim Lender's Charge") in the amount of \$700,000 (the "Interim Financing Facility") from this Honourable Court.
23. An additional priority charge is being sought in the amount of \$200,000, in accordance with the section 64.2 of the BIA in respect of the fees and disbursements of Zargon's legal counsel, Burnet Duckworth & Palmer LLP ("BD&P") and the Trustee (including the professional fees and disbursements of the Trustee's legal counsel, McMillan LLP), ranking ahead of all other creditors (the "Administration Charge") including the Interim Lender's Charge.
24. The Interim Financing Facility will allow Zargon to continue operations by funding working capital and other corporate expenses, as well as cover its restructuring costs.

25. Based on the Company's cash flow projections, the financing is required to allow the Company to continue operations and fund its restructuring costs during the extension of time discussed below.

CONTINUING OPERATIONS

26. The Company has continued operations as a going concern since filing the NOI, which it believes is essential to preserving the Company's value. Funding of the operations will be provided by BSR. This funding is represented as a "DIP Financing" in the Zargon's cash flow projections.

REQUEST FOR EXTENSION

27. Pursuant to the BIA, the Company must file a Proposal no later than October 8, 2020 unless an application is made to the Court for an extension.
28. Since the date of the NOI, the Company has been taking steps towards its restructuring efforts, including contacting creditors to outline the insolvency process, the Company's plan to make a proposal to its creditors and the expected outlook if a proposal is not accepted by the creditors.
29. The Company has received a conditional proposal to fund the Proposal. The Company is required to obtain the consent of creditors by October 6, 2020, with accumulated claims totaling in excess of \$3,000,000, for this conditional proposal to be formalized.
30. The Company is requesting an extension of the stay of proceedings until November 16, 2020.

CONCLUSION

31. The Trustee is of the view that the actions of the Company and the request for the Interim Financing Facility will allow the Company to prepare the necessary information to make a proposal to its creditors, and more generally, are in the best interest of all of the Company's stakeholders.
32. The Trustee is also of the view that the Company is acting in good faith and with due diligence in order that it might be in a position to make a proposal to its creditors.
33. The Trustee supports the request for approval of the Interim Financing Facility and the extension of the period of time within which Zargon is required to file a proposal to its creditors to November 16, 2020, subject to the approval of this Honourable Court.
34. The Trustee believes that no creditor would be materially prejudiced if the Interim Financing Facility and the extension were granted

All of which is respectfully submitted this 25th of September of 2020

MNP Ltd. in its capacity as Proposal Trustee in the Notice of Intention to Make a Proposal of Zargon Oil & Gas Inc., Zargon Oil & Gas Partnership and Zargon U.S. Holdings Ltd. and not in its personal or corporate capacity.

Per: _____

Victor P. Kroeger CPA, CA, LIT, CIRP, CFE
Senior Vice President

APPENDIX A

Zargon Oil & Gas Ltd. (the "Company")
Statement of Weekly Projected Cash Flow
For the period from September 11, 2020 to November 27, 2020

Court No.: 25-2670585
Estate No.: 25-2670585

Notes	week 1 Thu Sept. 18	week 2 Thu Sept. 25	week 3 Thu Oct. 2	week 4 Thu Oct. 9	week 5 Thu Oct. 16	week 6 Thu Oct. 23	week 7 Thu Oct. 30	week 8 Thu Nov. 6	week 9 Thu Nov. 13	week 10 Thu Nov. 20	week 11 Thu Nov. 27	Total Total		
Opening Balance	1	\$ 489,000	\$ 343,000	\$ 412,000	\$ 204,000	\$ 177,000	\$ 94,000	\$ 133,000	\$ 101,000	\$ 114,000	\$ 48,000	\$ 37,000	\$ 489,000	\$ 489,000
Cash inflows														
Operated revenue (after royalties)	2		130,000				130,000					130,000	390,000	
Non-Operated revenue (after royalties)	3		20,000				20,000						40,000	
DIP Financing	4					100,000		100,000	200,000	100,000	200,000		700,000	
Other	5				30,000								30,000	
Total inflows		\$ -	\$ 150,000	\$ -	\$ 30,000	\$ 100,000	\$ 150,000	\$ 100,000	\$ 200,000	\$ 100,000	\$ 200,000	\$ 130,000	\$ 1,160,000	\$ 1,160,000
Cash outflows														
Contract Labour	6	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	88,000	
Other Field Operating costs (incl. trucking)	7	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	176,000	
Inactive Field Costs (Compliance etc.)	8	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	88,000	
Crown Rentals (P&NG and Surface)	9	11,000				8,000				11,000			30,000	
Contingency	10	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	66,000	
Non-operated Operating costs	11		20,000			20,000				20,000			60,000	
Total Field Operations & Related		\$ 49,000	\$ 58,000	\$ 38,000	\$ 38,000	\$ 66,000	\$ 38,000	\$ 38,000	\$ 38,000	\$ 69,000	\$ 38,000	\$ 38,000	\$ 508,000	\$ 508,000
Software & Computer Management Fees	12	13,000				13,000				13,000			39,000	
Office Consultants	13		17,000	26,000	17,000	17,000	17,000	17,000	20,000	17,000	17,000	17,000	187,000	
Office Rent Only	14	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	187,000	
Storage, Phones, Supplies, etc.	15	10,000		10,000				10,000					30,000	
GST Receivable/payable	16	5,000		5,000		5,000		5,000		5,000		5,000	30,000	
Contingency	17												0	
Contingency	18	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	22,000	
Total Office & Related		\$ 47,000	\$ 19,000	\$ 60,000	\$ 19,000	\$ 37,000	\$ 19,000	\$ 34,000	\$ 39,000	\$ 37,000	\$ 19,000	\$ 24,000	\$ 354,000	\$ 354,000
Insurance Premiums	19							60,000					60,000	
Surface Leases Paid	20			60,000			60,000						120,000	
Municipal Taxes Paid	21					80,000					150,000		230,000	
AER Levies Paid	22								60,000				60,000	
Total Other		\$ -	\$ -	\$ 60,000	\$ -	\$ 80,000	\$ -	\$ 60,000	\$ 60,000	\$ 60,000	\$ 150,000	\$ -	\$ 470,000	\$ 470,000
Restructuring costs (trustee and legal)	23	50,000		50,000			50,000		50,000			50,000	250,000	
Truck Finance Charges	24		4,000				4,000				4,000		12,000	
Total Other		\$ 50,000	\$ 4,000	\$ 50,000	\$ -	\$ -	\$ 54,000	\$ -	\$ 50,000	\$ -	\$ 4,000	\$ 50,000	\$ 262,000	\$ 262,000
Total outflows		\$ 146,000	\$ 81,000	\$ 208,000	\$ 57,000	\$ 183,000	\$ 111,000	\$ 132,000	\$ 187,000	\$ 166,000	\$ 211,000	\$ 112,000	\$ 1,594,000	\$ 1,594,000
Closing Balance		\$ 343,000	\$ 412,000	\$ 204,000	\$ 177,000	\$ 94,000	\$ 133,000	\$ 101,000	\$ 114,000	\$ 48,000	\$ 37,000	\$ 55,000	\$ 55,000	\$ 55,000

APPENDIX B

District of: Alberta
Division No. 02 - Calgary
Court No. 25-2670585
Estate No. 25-2670585

FORM 29
Trustee's Report on Cash-Flow Statement
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

The attached statement of projected cash flow of Zargon Oil & Gas Ltd., Zargon Oil & Gas Partnership and Zargon U.S. Holdings Ltd., as of the 25th day of September 2020, has been prepared by the management of the insolvent person (or the insolvent debtor) for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the notes attached.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by: the management and employees of the insolvent person or the insolvent person. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by: management or the insolvent person for the probable assumptions and preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects,

(a) the hypothetical assumptions are not consistent with the purpose of the projection;

(b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or

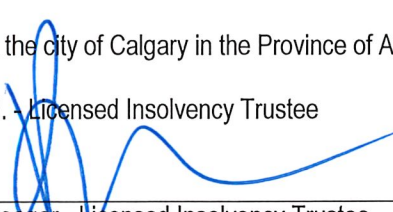
(c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in the notes attached, and readers are cautioned that it may not be appropriate for other purposes.

Dated at the city of Calgary in the Province of Alberta, this 25th day of September 2020.

MNP Ltd. - Licensed Insolvency Trustee
Per:



Victor Kroeger - Licensed Insolvency Trustee
1500, 640 - 5 Avenue SW
Calgary AB T2P 3G4
Phone: (403) 538-3187 Fax: (403) 537-8437

District of: Alberta
Division No. 02 - Calgary
Court No. 25-2670585
Estate No. 25-2670585

FORM 29 - Attachment
Trustee's Report on Cash-flow Statement
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

Purpose:

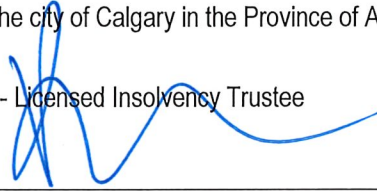
Section 50.4(2)

Projection Notes:

The statement of Projected Cash Flow has been prepared based on assumptions regarding future events, therefore actual results may vary from the estimates presented herein and these variances may be material.

Dated at the city of Calgary in the Province of Alberta, this 25th day of September 2020.

MNP Ltd. - Licensed Insolvency Trustee
Per:



Victor Kroeger - Licensed Insolvency Trustee
1500, 640 - 5 Avenue SW
Calgary AB T2P 3G4
Phone: (403) 538-3187 Fax: (403) 537-8437

Zargon Oil & Gas Ltd. (the "Company")
Statement of Weekly Projected Cash Flow
For the period from September 11, 2020 to November 27, 2020

Court No.: 25-2670585
Estate No.: 25-2670585

Notes	week 1 Thu Sept. 18	week 2 Thu Sept. 25	week 3 Thu Oct. 2	week 4 Thu Oct. 9	week 5 Thu Oct. 16	week 6 Thu Oct. 23	week 7 Thu Oct. 30	week 8 Thu Nov. 6	week 9 Thu Nov. 13	week 10 Thu Nov. 20	week 11 Thu Nov. 27	Total Total		
Opening Balance	1	\$ 489,000	\$ 343,000	\$ 412,000	\$ 204,000	\$ 177,000	\$ 94,000	\$ 133,000	\$ 101,000	\$ 114,000	\$ 48,000	\$ 37,000	\$ 489,000	\$ 489,000
Cash inflows														
Operated revenue (after royalties)	2		130,000			130,000					130,000		390,000	
Non-Operated revenue (after royalties)	3		20,000			20,000							40,000	
DIP Financing	4				100,000		100,000	200,000	100,000	200,000			700,000	
Other	5			30,000									30,000	
Total inflows		\$ -	\$ 150,000	\$ -	\$ 30,000	\$ 100,000	\$ 150,000	\$ 100,000	\$ 200,000	\$ 100,000	\$ 200,000	\$ 130,000	\$ 1,160,000	\$ 1,160,000
Cash outflows														
Contract Labour	6	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000		88,000	
Other Field Operating costs (incl. trucking)	7	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000		176,000	
Inactive Field Costs (Compliance etc.)	8	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000		88,000	
Crown Rentals (P&NG and Surface)	9	11,000				8,000				11,000			30,000	
Contingency	10	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000		66,000	
Non-operated Operating costs	11		20,000			20,000				20,000			60,000	
Total Field Operations & Related		\$ 49,000	\$ 58,000	\$ 38,000	\$ 38,000	\$ 66,000	\$ 38,000	\$ 38,000	\$ 38,000	\$ 69,000	\$ 38,000	\$ 38,000	\$ 508,000	\$ 508,000
Software & Computer	12	13,000				13,000				13,000			39,000	
Management Fees	13			26,000					20,000				46,000	
Office Consultants	14	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000		187,000	
Office Rent Only	15	10,000		10,000				10,000					30,000	
Storage, Phones, Supplies, etc.	16	5,000		5,000		5,000		5,000		5,000			30,000	
GST Receivable/payable	17												0	
Contingency	18	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000		22,000	
Total Office & Related		\$ 47,000	\$ 19,000	\$ 60,000	\$ 19,000	\$ 37,000	\$ 19,000	\$ 34,000	\$ 39,000	\$ 37,000	\$ 19,000	\$ 24,000	\$ 354,000	\$ 354,000
Insurance Premiums	19							60,000					60,000	
Surface Leases Paid	20			60,000			60,000						120,000	
Municipal Taxes Paid	21					80,000					150,000		230,000	
AER Levies Paid	22								60,000				60,000	
Total Other		\$ -	\$ -	\$ 60,000	\$ -	\$ 80,000	\$ -	\$ 60,000	\$ 60,000	\$ 60,000	\$ 150,000	\$ -	\$ 470,000	\$ 470,000
Restructuring costs (trustee and legal)	23	50,000		50,000		50,000		50,000				50,000	250,000	
Truck Finance Charges	24		4,000			4,000				4,000			12,000	
Total Other		\$ 50,000	\$ 4,000	\$ 50,000	\$ -	\$ -	\$ 54,000	\$ -	\$ 50,000	\$ -	\$ 4,000	\$ 50,000	\$ 262,000	\$ 262,000
Total outflows		\$ 146,000	\$ 81,000	\$ 208,000	\$ 57,000	\$ 183,000	\$ 111,000	\$ 132,000	\$ 187,000	\$ 166,000	\$ 211,000	\$ 112,000	\$ 1,594,000	\$ 1,594,000
Closing Balance		\$ 343,000	\$ 412,000	\$ 204,000	\$ 177,000	\$ 94,000	\$ 133,000	\$ 101,000	\$ 114,000	\$ 48,000	\$ 37,000	\$ 55,000	\$ 55,000	\$ 55,000

Purpose:

The Statement of Projected Cash Flow has been prepared by the Company's management pursuant to Section 50.4(2) of the *Bankruptcy and Insolvency Act* (the "BIA"). It is being filed specifically for the purposes contemplated in that section and readers are cautioned that it may not be appropriate for other purposes.

In addition, the Statement of Projected Cash Flow has been prepared based on assumptions regarding future events, therefore actual results may vary from the estimates presented herein and these variances may be material.

Zargon Oil & Gas Ltd.

Per: _____

MNP Ltd, in its capacity as Trustee under the Proposal of
Zargon Oil & Gas Ltd., and not in its personal capacity

Per: Victor P. Kroeger
Senior Vice President

Zargon Oil & Gas Ltd. (the "Company")
Statement of Weekly Projected Cash Flow
For the period from September 11, 2020 to November 27, 2020

Court No.: 25-2670585
Estate No.: 25-2670585

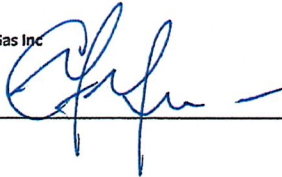
General Notes & Assumptions

- 1 Amounts are represented in Canadian dollars
- 2 As the Company is in the process of developing its proposal pursuant to the BIA (the "Proposal"), the Statement of Projected Cash Flow does not include any payments to the Company's creditors for pre filing amounts pursuant to this proposal

Specific Notes & Assumptions

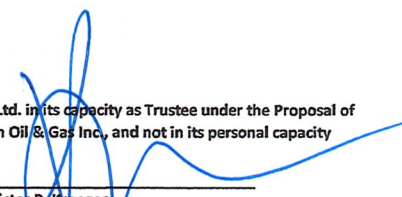
- 1 Updated opening balance
- 2 Revenues from 2 wells at 120 bbl/d using propane gensets (used August actuals)
- 3 Recent History
- 4 Adjusted to maintain positive cash balances
- 5 CEWS reimbursement for August salaries
- 6 Former field employees now providing contract services
- 7 Based on recent history for the two producers
- 8 Recent costs for AER compliance and SI costs for inactive wells
- 9 Crown automatically debits bank account
- 10 15% contingency
- 11 Recent History
- 12 Monthly costs for accounting, land, data, engineering, etc. programs
- 13 Monthly fees for CEO and CFO - retained to manage property restart
- 14 Weekly consultant costs, reflects detailed schedule plus \$1k/wk overtime
- 15 Current monthly lease is \$20k (to be renegotiated, we proposed \$5k)
- 16 Historical costs
- 17 Expenses exceed revenue; GST refund/payment is assumed to be nil
- 18 5% contingency
- 19 Premiums paid until November, assume 2 month first payment
- 20 Revised estimate for surface leases that will be placed on production upon reactivation
- 21 One third of 2020 costs for reactivated properties (assumes negotiated payment schedule)
- 22 Based on actual 2020 AER levies; assume 1/3 of annual payment
- 23 Revised estimate for remaining MNP and legal costs
- 24 Principal and interest payments on 3 field trucks

Zargon Oil & Gas Inc.



Per: _____

MNP Ltd. in its capacity as Trustee under the Proposal of
Zargon Oil & Gas Inc., and not in its personal capacity



Per: Victor P. Krueger
Senior Vice President