# Zargon Oil & Gas Ltd. Provides 2013 Second Quarter Results, Provides a Little Bow Alkaline Surfactant Polymer Construction Project Update and Announces the Suspension of the DRIP

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CALGARY, ALBERTA -- (Marketwired - Aug. 8, 2013) - Zargon Oil & Gas Ltd. ("Zargon" or the "Company") (TSX:ZAR) (TSX:ZAR.DB).

**FINANCIAL & OPERATING HIGHLIGHTS (THREE MONTHS ENDED JUNE 30, 2013)**

- Second quarter 2013 production averaged 4,930 barrels of oil and liquids per day, a four percent decrease from the preceding quarter and second quarter 2013 natural gas production averaged 14.8 million cubic feet per day, a three percent decrease from the preceding quarter. Total production averaged 7,392 barrels of oil equivalent per day, a three percent decrease from the preceding quarter. During the quarter, oil and liquids production represented 67 percent of total production based on a 6:1 equivalent basis.

- Funds flow from operating activities of $16.0 million were 15 percent higher than the $13.9 million recorded in the prior quarter, and 29 percent higher than the $12.4 million reported in the second quarter of 2012. Funds flow from operating activities for the 2013 second quarter included reductions of $1.1 million of asset retirement expenditures.

- Three monthly cash dividends of $0.06 per common share were declared in the second quarter of 2013 for a total of $5.4 million ($5.0 million after accounting for the common shares issued under the Dividend Reinvestment Plan ("DRIP") in lieu of cash dividends). These cash dividends (net of the DRIP) were equivalent to a payout ratio of 31 percent of funds flow from operating activities.

- Second quarter 2013 exploration and development capital expenditures (excluding property acquisitions and dispositions) were $14.0 million and included $7.3 million of expenditures related to the Little Bow ASP tertiary oil recovery project.

- Zargon's June 30, 2013 debt, net of working capital (excluding unrealized derivative assets/liabilities) and using the full future face value of the convertible debenture of $57.5 million, was $111.3 million and is approximately 1.8 times the annualized 2013 first half funds flow from operating activities. At June 30, 2013, Zargon had more than $110 million of available credit facilities remaining on its $165 million borrowing base.

- During the 2013 second quarter, Zargon disposed of assets in the Elswick and Workman, Saskatchewan area for total proceeds of approximately $11.6 million. The assets were producing 130 barrels of oil per day.

| (unaudited) | Three Months Ended June 30, 2013 | 2012 | Percent Change | Six Months Ended June 30, 2013 | 2012 | Percent Change |
|---|---|---|---|---|---|---|
| Financial Highlights | | | | | | |
| Income and Investments ($ millions) | | | | | | |
| Gross petroleum and natural gas sales | 40.59 | 38.52 | 5 | 77.67 | 83.16 | (7) |
| Funds flow from operating activities | 15.99 | 12.37 | 29 | 29.89 | 25.89 | 15 |
| Cash flows from operating activities | 14.68 | 18.00 | (18) | 27.14 | 29.86 | (9) |
| Cash dividends (net of Dividend Reinvestment Plan) | 5.01 | 7.45 | (33) | 9.76 | 14.90 | (34) |
| Net earnings | 1.13 | 10.54 | (89) | 1.35 | 8.53 | (84) |
| Field capital and administrative asset expenditures | 13.96 | 9.22 | 51 | 33.24 | 30.07 | 11 |
| Net property and corporate acquisitions/(dispositions) | (11.54) | (36.07) | 68 | (14.63) | (35.97) | 59 |
| Net capital expenditures/(dispositions) | 2.42 | (26.85) | 109 | 18.61 | (5.90) | 415 |
| Per Share, Basic | | | | | | |
| Funds flow from operating activities ($/share) | 0.53 | 0.42 | 26 | 0.99 | 0.88 | 13 |
| Net earnings ($/share) | 0.04 | 0.36 | (89) | 0.05 | 0.29 | (83) |
| Cash Dividends ($/common share) | 0.18 | 0.30 | (40) | 0.36 | 0.60 | (40) |
| Balance Sheet at Period End ($ millions) | | | | | | |
| Property and equipment (D&P) | 386.37 | 386.81 | - | | | |
| Exploration and evaluation assets (E&E) | 17.92 | 23.25 | (23) | | | |
| Total assets | 437.88 | 446.41 | (2) | | | |
| Working capital deficiency | 11.76 | 13.56 | (13) | | | |
| Long term bank debt | 42.06 | 24.14 | 74 | | | |
| Convertible debentures at maturity | 57.50 | 57.50 | - | | | |
| Shareholders' equity | 190.07 | 222.22 | (14) | | | |
| Weighted Average Shares Outstanding for the Period (millions) - Basic | 30.00 | 29.52 | 2 | 29.95 | 29.46 | 2 |
| Weighted Average Shares Outstanding for the Period (millions) - Diluted | 30.21 | 32.62 | (7) | 30.11 | 32.65 | (8) |
| Total Common Shares Outstanding at Period End (millions) | 30.04 | 29.64 | 1 | | | |

*Funds flow from operating activities is an additional GAAP term that represents net earnings/loss and asset retirement expenditures except for non-cash items.*
*Working capital deficiency excludes derivative assets/liabilities.*

| (unaudited) | Three Months Ended June 30, 2013 | 2012 | Percent Change | Six Months Ended June 30, 2013 | 2012 | Percent Change |
|---|---|---|---|---|---|---|
| Operating Highlights | | | | | | |
| Average Daily Production | | | | | | |
| Oil and liquids (bbl/d) | 4,930 | 5,384 | (8) | | | |
| Natural gas (mmcf/d) | 14.77 | 17.44 | (15) | | | |
| Equivalent (boe/d) | 7,392 | 8,290 | (11) | 7,519 | 8,562 | (12) |
| Average Selling Price (before the impact of financial risk management contracts) | | | | | | |
| Oil and liquids ($/bbl) | 80.44 | 73.17 | 10 | 75.97 | 77.59 | (2) |
| Natural gas ($/mcf) | 3.35 | 1.68 | 99 | 3.18 | 1.86 | 71 |
| Netback ($/boe) | | | | | | |
| Gross petroleum and natural gas sales | 60.34 | 51.06 | 18 | 57.07 | 53.37 | 7 |
| Royalties | (10.51) | (9.90) | 6 | (10.09) | (10.22) | (1) |
| Realized gain/(loss) on derivatives | 1.43 | (0.92) | 255 | 1.64 | (2.42) | 168 |
| Operating expenses | (18.10) | (16.29) | 11 | (17.68) | (16.43) | 8 |
| Transportation expenses | (0.66) | (0.51) | 29 | (0.66) | (0.49) | 35 |
| Operating netback | 32.50 | 23.44 | 39 | 30.28 | 23.81 | 27 |
| Wells Drilled, Net | - | 0.2 | (100) | 5.1 | | |
| Undeveloped Land at Period End (thousand net acres) | | | | | | |

*The calculation of barrels of oil equivalent ("boe") is based on the conversion ratio that six thousand cubic feet of natural gas is equivalent to one barrel of oil.*

**Message to Shareholders**

Zargon Oil & Gas Ltd. has released financial and operating results for the second quarter of 2013 that demonstrated continued progress in our drive to deliver our long term sustainable, dividend-paying energy producer objectives. The quarter was highlighted by an ongoing successful property disposition program and by the initiation of field construction of our Little Bow Alkaline Surfactant Polymer ("ASP") tertiary oil recovery project in Southern Alberta.

Zargon's sustainability model entails the balancing of cash inflows and outflows, the maintenance of a stable dividend, the eventual generation of meaningful free cash flow per share growth, while continuing the shift toward oil and liquids production. Zargon believes that the Little Bow ASP tertiary oil recovery production provides the foundation for these sustainability objectives by delivering a substantial low-decline, low-sustaining capital, high-netback and long-life project to the Company.

The Company's focus for the remainder of 2013 will be to:

- Deliver the Little Bow ASP project on-time and on-budget, with first chemical injections to occur in January 2014;

- Deliver a consistent dividend of $0.06 per common share per month;

- Continue with an ongoing property divestiture program designed to high grade and concentrate the company's asset portfolio; and

- Maintain a strong balance sheet through substantial oil hedging programs while limiting drilling capital to high-graded projects offering the most attractive risk adjusted returns.

**Little Bow Alkaline Surfactant Polymer ("ASP") Project**

Zargon continues to make good progress with the Little Bow ASP project. This ASP project entails the injection of a dilute chemical solution into a partially depleted reservoir to recover incremental oil reserves. In its 2012 year end review, McDaniel and Associates Consultants Ltd. assigned 4.4 million barrels of probable undeveloped oil equivalent reserves to Zargon's working interest in phases 1 and 2 of the project.

In the three months since the last report, Zargon has advanced the ASP project on many fronts. At the site of the new ASP injection facility, civil construction activities including earthworks and piling are essentially complete. Mechanical field construction is underway. Long lead time equipment is being delivered and packaged into pre-fabricated buildings for delivery to site through the remainder of the summer.

Construction of the backbone of a new pipeline system for the ASP project has been completed, and tie in of remaining project wells to this new system will commence in the fall. The ASP project well workover program is also nearing completion.

Chemical supply contracts have been negotiated. Operator training activities are proceeding with the expectations of first chemical injections in January 2014 and incremental oil production by the second quarter of 2014.

The total construction capital cost of phases 1 and 2 of the Little Bow ASP project is unchanged at approximately $60 million (as spent dollars). Of this total, $6.5 million of expenditures were incurred in 2012, $5.0 million were incurred in the 2013 first quarter and $7.3 million were incurred in the 2013 second quarter. For the remainder of 2013, an additional $30 million (inclusive of $1 million for the first delivery of chemicals) is forecast to be spent. The estimated total phase 1 and 2 chemical cost for the 2014-2019 chemical injection period will be capitalized and remains at $66 million (as spent dollars). The implementation of phase 2 of the project is scheduled for 2015 and is estimated to cost $12 million.

Based on the current construction schedule, we forecast that the Little Bow ASP project will provide 250 barrels of oil per day of incremental production in 2014, which will be comprised of an initial production response in the 2014 second quarter and a 2014 year end rate of 500 barrels of oil per day. Phase 1 and 2 incremental production rates are forecast to exceed 1,350 barrels of oil per day in 2016. Using these rates with an estimated field oil price of $68 Cdn. per barrel (assuming an Edmonton par price of $85 Cdn. per barrel), a 12 percent incremental tertiary royalty rate (internal estimate of 4.9 million barrels of incremental oil reserves), and operating costs of $12 per barrel of incremental oil, the project is forecast to provide a field netback of approximately $50 per barrel of incremental oil production volumes and deliver a property recycle ratio of about 2.0 times.

Follow-on capital expenditures (including chemical costs) for phases 3 and 4 of the Little Bow ASP project are expected to be completed by 2019 with forecasted total combined phases 1 to 4 project peak production rates of 2,300 barrels of oil per day expected to occur in 2020. For further information regarding the Little Bow ASP project, please refer to our updated corporate presentation, which is available at www.zargon.ca.

**Other Field Activities**

In addition to the $7.3 million of ASP capital expenditures, Zargon executed a $6.7 million capital program in the 2013 second quarter on conventional oil exploitation assets. This conventional capital program did not entail the drilling of any wells and was focused on the final tie-ins for the 5.1 net wells drilled in the first quarter and on long term infrastructure projects.

For the remainder of the year, Zargon is planning on drilling an additional 10 net high-graded oil exploitation wells, roughly equally divided between our Taber South Sunburst, Bellshill Lake drainage and Little Bow acceleration wells. In aggregate, Zargon has identified more than 85 horizontal locations in six conventional (non-ASP) oil exploitation projects, which will provide a high-graded drilling inventory for many years. Each of these six oil exploitation projects are (or will be) pressure supported by water injections or natural reservoir aquifers and consequently provide long-life low-decline oil volumes that will support future dividends. For further information regarding Zargon's conventional oil exploitation projects, please refer to our updated corporate presentation, which is available at www.zargon.ca.

**Property Dispositions Update**

During the 2013 second quarter, property dispositions of $11.6 million were concluded, which related to the sale of 130 barrels of oil per day from the Workman and Elswick, Saskatchewan properties in the Williston Ba sin core area. With these second quarter dispositions concluded, Zargon has sold $15.1 million of the $20 million of property dispositions that were budgeted for 2013.

For the remainder of the year, Zargon will continue to actively pursue property dispositions that reduce our property footprint by selling (or trading) our very large non-strategic property inventory. Over time, we anticipate that these dispositions will enable Zargon to realize a lower cost structure through a disciplined focus on our growing tertiary ASP oil recovery business and the stable production volumes coming from the measured exploitation of our core, conventional long-life low-decline oil properties.

**2013 and 2014 Outlook**

Zargon's 2013 non-ASP field capital budget has been set at $40 million (before dispositions) of which approximately $19 million remains to be spent in the remaining two quarters. Additionally, our 2013 capital budget included $20 million of property dispositions, of which $15.1 million have been completed by the end of the second quarter.

ASP capital expenditures in the second half of 2013 to complete phase 1 of the project are budgeted at $30 million, and include $1 million for the initial charge of ASP chemicals. For 2014, ASP capital expenditures will be limited to $10 million of chemical costs. Combined with our initial estimate of the 2014 conventional program of $35 million, the total 2014 capital program is forecast to be $45 million. Based on this 2014 capital program, we expect oil production to steadily grow from first quarter levels throughout 2014 as stable conventional oil production volumes are augmented by growing Little Bow ASP oil production volumes.

Also, Zargon has entered into a significant oil hedging program to provide a measure of stability and predictability to cash flows during the ASP construction and early production phase. For the remainder of 2013, Zargon has hedged 3,000 barrels per day at $97.06 US/bbl WTI, while for 2014 an average of 2,600 barrels per day is hedged at $91.90 US/bbl WTI and for the first quarter of 2015 an average of 400 barrels per day is hedged at $91.73 US/bbl WTI.

**Production Guidance**

In the May 14, 2013 first quarter results press release, Zargon provided updated second quarter 2013 oil production rate guidance of 4,800 barrels of oil and liquids per day. Actual second quarter volumes were 4,930 barrels of oil and liquids per day or about three percent above guidance. The May press release also set Zargon's second quarter 2013 natural gas production guidance of 15.0 million cubic feet per day. Second quarter actual volumes were 14.8 million cubic feet per day or about one percent below guidance.

For the remainder of the year, production volumes will continue to depend on the magnitude and timing of our property disposition programs along with related timing of our conventional property drilling programs. For the 2013 third quarter, oil and liquids production guidance is set at 4,650 barrels of oil per day and includes the second quarter dispositions of 130 barrels of oil and liquids per day. Third quarter natural gas production guidance is set at 14.7 million cubic feet per day.

Full-year 2013 average oil and liquids production is now expected to range between 4,750 to 4,850 barrels of oil per day, with exit rates ranging from 4,500 to 4,650 barrels of oil per day. Full-year 2013 average natural gas production is now expected to range from 14.7 to 14.9 million cubic feet per day, with exit rates ranging from 14.4 to 14.7 million cubic feet per day. Looking forward, we expect that first quarter 2014 production volumes will represent both an oil production low and a turning point for Zargon, as in subsequent quarters, significant production volumes will begin to materialize from the ASP project which will augment stable production volumes from conventional oil exploitation properties.

**Suspension of Dividend Reinvestment Plan ("DRIP")**

Commencing with Zargon's September 2013 dividend payable on October 15, 2013 Zargon's Board of Directors has suspended Zargon's Dividend Reinvestment Plan until further notice. The DRIP had permitted shareholders to apply their cash dividends to the purchase of Zargon common shares at 95 percent of the average market price. Shareholders who had elected to participate in the DRIP will now receive cash dividends on the payment date. At such time as the Corporation elects to reinstate the DRIP, shareholders that were enrolled at suspension and remain enrolled at reinstatement will automatically resume participation in the DRIP.

**Forward-Looking Statements**

This press release offers our assessment of Zargon's future plans and operations as at August 8, 2013, and contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "plan", "intend", "believe" and similar expressions (including the negatives thereof) are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this news release contains forward-looking information and statements pertaining to the following: guidance as to our 2013 and 2014 capital budgets, including the allocation thereof and the sources of funding and various plans, forecasts and estimates as to drilling cost reduction initiatives, and other operational forecasts and plans and results therefrom under the heading "Little Bow Alkaline Surfactant Polymer ("ASP") Project", "Other Field Activities", "Property Dispositions Update" and "2013 and 2014 Outlook "; our plans with respect to our Little Bow ASP project and the results therefrom referred to under the heading "Little Bow Alkaline Surfactant Polymer ("ASP") Project"; our plans for our hedges under the heading "2013 and 2014 Outlook"; our plans for our DRIP program under the heading "Suspension of Dividend Reinvestment Plan ("DRIP")"; and all matters, including guidance as to our estimated 2013 and 2014 production and production mix, and anticipated decline rates, under the heading "Production Guidance".

The forward-looking information and statements included in this news release are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: 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 www.zargon.ca and on www.sedar.com. Forward-looking statements are provided to allow investors to have a greater understanding of our business.

You are cautioned that the assumptions used in the preparation of such information and statements, 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; the availability of adequate and acceptable debt and equity financing and funds from operations to fund our planned expenditures; and our ability to add production and reserves through our development and acquisition activities, 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 and statements contained in this document 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.

**Additional GAAP and Non-GAAP Financial Measures**

Zargon uses the following terms for measurement within this press release that do not have a standardized prescribed meaning under Canadian generally accepted accounting principles ("GAAP") and these measurements may not be comparable with the calculation of similar measurements of other entities.

The terms "funds flow from operating activities" and "operating netback per boe" in this press release are not recognized measures under GAAP. Management of Zargon believes that in addition to net earnings and cash flows from operating activities as defined by GAAP, these terms are useful supplemental measures to evaluate operating performance and assess leverage. Users are cautioned; however, that these measures should not be construed as an alternative to net earnings or cash flows from operating activities determined in accordance with GAAP as an indication of Zargon's performance.

Zargon considers funds flow from operating activities to be an important measure of Zargon's ability to generate the funds necessary to finance capital expenditures, pay dividends and repay debt. All references to funds flow from operating activities throughout this press release are based on cash provided by operating activities before the change in non-cash working capital since Zargon believes the timing of collection, payment or incurrence of these items involves a high degree of discretion and, as such, may not be useful for evaluating Zargon's operating performance. Zargon's method of calculating funds flow from operating activities may differ from that of other companies and, accordingly, may not be comparable to measures used by other companies. Funds flow from operating activities per basic share is calculated using the same weighted average basic shares outstanding as is used in calculating earnings per basic share. See Zargon's Management's Discussion and Analysis ("MD&A") as filed on www.zargon.ca and on www.sedar.com for the periods ended June 30, 2013 and 2012 for a discussion of cash flows from operating activities and funds flow from operating activities.

**51-101 Advisory**

In conformity with National Instrument 51-101, Standards for Disclosure of Oil and Gas Activities ("NI 51-101"), natural gas volumes have been converted to barrels of oil equivalent ("boe") using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. In certain circumstances, natural gas liquid volumes have been converted to a thousand cubic feet equivalent ("mcfe") on the basis of one barrel of natural gas liquids to six thousand cubic feet of gas. Boes and mcfes may be misleading, particularly if used in isolation. A conversion ratio of one barrel to six thousand cubic feet of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio on a 6:1 basis may be misleading as an indication of value.

**Filings**

Zargon has filed with Canadian securities regulatory authorities its unaudited financial statements for the three and six months ended June 30, 2013 and the accompanying MD&A. These filings are available on www.zargon.ca and under Zargon's SEDAR profile on www.sedar.com.

**About Zargon**

Based in Calgary, Alberta, Zargon's securities trade on the Toronto Stock Exchange and there are currently approximately 30.043 million common shares outstanding.

Zargon Oil & Gas Ltd. is a Calgary based oil and natural gas company working in the Western Canadian and Williston sedimentary basins that has delivered a long history of returns and dividends (distributions). Zargon's business is focused on oil exploitation projects that profitably increase oil production and recovery factors from existing oil reservoirs.

In order to learn more about Zargon, we encourage you to visit Zargon's website at www.zargon.ca where you will find a current shareholder presentation, financial reports and historical news releases.

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