CALGARY, ALBERTA--(Marketwired - Aug 13, 2015) - Zargon Oil & Gas Ltd. ("Zargon" or the "Company") (TSX:ZAR)(TSX:ZAR.DB)

FINANCIAL AND OPERATING HIGHLIGHTS (THREE MONTHS ENDED JUNE 30, 2015)

- Funds flow from operating activities of $10.0 million were 39 percent higher than the $7.2 million recorded in the prior quarter due to a combination of higher oil prices, lower operating expenses and decreased general and administrative expenses, and 16 percent lower than the $11.9 million reported in the second quarter of 2014. Funds flow from operating activities for the 2015 second quarter included reductions of $0.3 million of asset retirement expenses.

- Reflecting the prior year's dispositions, second quarter 2015 production averaged 3,720 barrels of oil and liquids per day, a five percent decrease from the preceding quarter and second quarter 2015 natural gas production averaged 5.3 million cubic feet per day, a two percent increase from the preceding quarter. Total production averaged 4,607 barrels of oil equivalent per day, a four percent decrease from the preceding quarter. During the quarter, oil and liquids production represented 81 percent of total production based on a 6:1 equivalent basis. The oil volumes are comprised of (low decline) waterflood and water drive production that is beginning to be augmented by ASP tertiary recovery oil volumes.

- Three monthly cash dividends of $0.03 per common share were declared in the second quarter of 2015 for a total of $2.7 million. These cash dividends were equivalent to a payout ratio of 27 percent of funds flow from operating activities. As previously reported, Zargon has set the monthly dividend at $0.01 per common share commencing with the July 2015 dividend that is payable in August 2015.

- Second quarter 2015 exploration and development capital expenditures (excluding property acquisitions and dispositions) were $5.4 million and included $3.5 million of expenditures related to the Little Bow ASP project ($0.6 million exploitation and $2.9 million chemical costs). No wells were drilled in the quarter.

- On June 18, 2015, Zargon amended and renewed its syndicated committed credit facilities of $110 million, a reduction from the previous facilities of $130 million. At June 30, 2015, Zargon had outstanding bank debt of $51 million which represents 46 percent of the $110 million credit facilities' borrowing base. As of June 30, 2015, Zargon had $112 million of total 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, which matures in June 2017.

	Three Months Ended June 30,			Six Months Ended June 3		
2015		2014	Percent Change	2015	2014	Percen
Financial Highlights						
Income and Investments ($ millions)						
Gross petroleum and natural gas sales	20.32	40.86	(50)	36.73	81.12	(55
Funds flow from operating activities	9.99	11.88	(16)	17.23	27.18	(37
Cash flows from operating activities	6.98	10.03	(30)	13.65	24.89	(45
Cash dividends	2.73	5.42	(50)	5.45	10.84	(50
Net loss	(3.76)	(2.02)	(86)	(8.64)	(1.85)	(367
Field capital and administrative asset expenditures	5.40	16.57	(67)	10.80	33.51	(68
Net property and corporate dispositions	(0.05)	(3.20)	98	(0.05)	(4.66)	99
Net capital expenditures	5.35	13.37	(60)	10.75	28.85	(63
Per Share, Basic						
Funds flow from operating activities ($/share)	0.33	0.39	(15)	0.57	0.90	(37
Net loss ($/share)	(0.12)	(0.07)	(71)	(0.29)	(0.06)	(383
Cash Dividends ($/common share)	0.09	0.18	(50)	0.18	0.36	(50
Balance Sheet at Period End ($ millions)						
Property and equipment (D&P)				333.58	414.08	(19
Exploration and evaluation assets (E&E)				6.44	12.25	(47
Total assets				369.47	461.70	(20
Working capital deficiency				3.70	15.01	(75
Long term bank debt				50.80	56.37	(10
Convertible debentures at maturity				57.50	57.50	-
Shareholders' equity				149.19	161.75	(8
Weighted Average Shares Outstanding for the Period (millions) - Basic	30.28	30.13	-	30.26	30.11	-
Total Common Shares Outstanding at Period End (millions)				30.28	30.13	-

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.

Three Months Ended June 30, Six Months E

2015		2014	Percent Change	2015	2014
Operating Highlights					
Average Daily Production					
Oil and liquids (bbl/d)	3,720	4,096	(9)	3,824	4,208
Natural gas (mmcf/d)	5.32	14.77	(64)	5.28	14.41
Equivalent (boe/d)	4,607	6,558	(30)	4,704	6,610
Average Selling Price (before the impact of financial risk management contracts)					
Oil and liquids ($/bbl)	56.55	93.26	(39)	49.25	89.92
Natural gas ($/mcf)	2.42	4.54	(47)	2.77	4.85
Netback ($/boe)					
Gross petroleum and natural gas sales	48.46	68.46	(29)	43.14	67.81
Royalties	(6.30)	(13.73)	(54)	(6.03)	(12.4
Realized gain/(loss) on derivatives	11.37	(6.25)	282	15.38	(5.05
Operating expenses	(20.10)	(19.07)	5	(20.70)	(18.0
Transportation expenses	(0.58)	(0.63)	(8)	(0.66)	(0.74
Operating netback	32.85	28.78	14	31.13	31.50
Wells Drilled, Net	-	8.0	(100)	-	11.7
Undeveloped Land at Period End (thousand net acres)				82	183

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 its financial and operating results for the second quarter of 2015.

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

In March 2014, Zargon commenced chemical injection of large volumes of dilute chemical solution into the partially depleted Little Bow Mannville I pool to recover incremental oil reserves. To date, 5.1 million barrels of ASP solution has been injected into the first phase of the project. This injection volume is equal to about 16 percent of the targeted reservoir pore volume, and represents 23 percent of the total chemical bank (ASP and polymer only) scheduled to be injected in the phase 1 operation.

For the 2015 second quarter, incremental Little Bow ASP production volumes averaged 80 barrels of oil per day, up from the 2015 first quarter average of 50 barrels of oil per day. Oil cuts from the ASP project have shown encouraging increases from 1.3 percent to 3.4 percent. However, the oil production response while evident, is delayed relative to original project forecasts. Based on diagnostic studies and field work we believe that these delays are attributable to: 1) unbalanced distribution of ASP injection fluids; and 2) higher than anticipated surfactant losses due to adsorption on the rock.

Other contributing operational factors include higher than anticipated well servicing requirements and June/July injection pipeline failures related to specific pipeline material and installation defects. The necessary pipeline repairs and replacements will be completed by the end of September. These pipeline outages have caused a significant reduction in ASP injection rates and correspondingly, a reduction of incremental ASP oil production rates.

Zargon has commenced a remedial program to address the above noted oil production response delays. The key facets of the program are: 1) increasing oil productive capability (drill two wells and supplementary perforations at four producers); 2) increasing and rebalancing injection capability (drill one injector, convert one flank water injector into ASP injection service, replace selected ASP injection lines, plus a number of selective solvent stimulations); and 3) increase surfactant concentrations to allay surfactant adsorption concerns. This previously announced program is expected to be completed by the end of October 2015 at a total remaining (2015 second half) cost of $4 million. 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 second quarter's $3.5 million of ASP exploitation and chemical capital expenditures, Zargon executed a $1.9 million capital program in the 2015 second quarter on conventional oil exploitation assets. The 2015 second quarter capital program focused on exploitation projects and no wells were drilled during the quarter. Zargon's non-ASP conventional properties tend to be pressure supported by water injections or natural reservoir aquifers and consequently provide long-life low-decline oil volumes. In aggregate, these properties bring more than 65 horizontal locations that can be methodically drilled to maintain stable non-ASP oil production volumes for many years.

2015 & 2016 Outlook

Zargon's 2015 total capital budget continues to be set at $25 million (before dispositions) of which approximately $14 million remains to be spent in the second half of the year. The remaining 2015 capital budget will be allocated $3 million to conventional expenditures, $7 million for ASP chemicals and $4 million for ASP remedial and optimization expenditures. For 2016, we are currently forecasting a $22 million capital budget which is comprised of $6 million of conventional expenditures, $14 million for ASP chemical costs and $2 million of ASP exploitation costs that will complete the alkaline and surfactant stage for the Little Bow phase 1 project. The follow-on polymer injection costs for phase 1 are expected to average $4 million per year during the 2017 through 2019 period. Phase 2 expansion capital will be deferred until realized field oil prices increase from the current depressed levels.

Zargon has entered into an oil hedging program to provide a measure of stability and predictability to cash flows as we wait for the ASP production volumes to ramp up and oil prices to improve. For the remainder of 2015, Zargon has hedged 1,417 barrels per day at $79.81 Cdn/bbl WTI, while for the first half of 2016 an average of 500 barrels per day is hedged at $79.30 Cdn/bbl WTI.

Production Guidance

In the April 16, 2015 Little Bow ASP project results press release, Zargon provided 2015 year average oil and liquids production rate guidance of 3,700 barrels of oil and liquids per day (excluding incremental ASP volumes) plus 150 barrels of oil and liquids per day of 2015 second quarter incremental ASP volumes. Actual combined second quarter volumes were 3,720 barrels of oil and liquids per day and included 80 barrels of oil and liquids per day of incremental ASP volumes. The April press release also set Zargon's 2015 year average natural gas production guidance of 4.9 million cubic feet per day. Second quarter actual volumes were 5.3 million cubic feet per day and exceeded the year average guidance by eight percent.

Combined oil and liquids production for the 2015 third quarter is forecast at 3,650 barrels of oil per day and the magnitude of the 2015 fourth quarter production gains will depend on the results of the upcoming $4 million Little Bow ASP remedial and optimization capital program. Third quarter natural gas production guidance is forecast at 5.0 million cubic feet per day.

Zargon Board Initiates a Strategic Alternatives Process

Zargon's Board of Directors (the "Board") and management of the Company believe Zargon's share price has not been reflective of the fundamental value inherent in the Company and the Board has determined that it is timely to review the Company's alternatives in light of its long-life, low-decline conventional assets and the significant long term potential related to the Little Bow ASP project. Consequently, the Board has initiated a process to identify and consider strategic and financial alternatives available to the Company with the ultimate goal of maximizing shareholder value. The Company has established a Special Committee that will be comprised of independent directors to oversee the strategic review process. Strategic and financial alternatives may include, but are not limited to a strategic financing, merger or other business combination, sale of the Company or a portion of the Company's business or assets or any combination thereof, as well as the continued execution of its business plan.

Mr. Harrison will be chairing the Special Committee of the Board. Scotia Waterous Inc. will be advising the Special Committee in a comprehensive analysis of potential alternative transactions. Although the Company has initiated a strategic review process, there is no certainty that any transaction or alternative will be undertaken. The Company does not intend to make further announcements or disclose developments with respect to this process unless the evaluation has been completed and the Board has approved a definitive transaction and the Company has entered into a definitive agreement or unless otherwise required by law or regulation or disclosure of which is deemed appropriate.

Forward-Looking Statements

This press release offers our assessment of Zargon's future plans and operations as at August 13, 2015, 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 2015 and 2016 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 Update", "Other Field Activities" and "2015 & 2016 Outlook"; our plans with respect to our Little Bow ASP project and the results therefrom referred to under the headings "Little Bow Alkaline Surfactant Polymer ("ASP") Project Update" and "Production Guidance"; our plans for our hedges under the heading "2015 & 2016 Outlook"; our strategic alternatives process under the heading "Zargon Board Initiates a Strategic Alternatives Process"; and all matters, including guidance as to our estimated 2015 production and production mix, 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, 2015 and 2014 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, 2015 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 30.281

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 and is focused on oil exploitation projects (waterfloods and recently tertiary ASP) that profitably increase oil production and recovery factors from existing oil reservoirs. Ultimately, these projects will provide a long-life low-decline oil production that will support many years of stable dividends.

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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