

HIGHLIGHTS FROM THE FOURTH QUARTER AND YEAR ENDED DECEMBER 31, 2015

- For calendar 2015, funds flow from operating activities of \$24.14 million (\$0.80 per basic share) was 52 percent lower than the \$50.67 million (\$1.68 per basic share) recorded in the prior year.
- Oil and liquids production averaged 3,727 barrels of oil and liquids per day in 2015, an 11 percent decrease from the preceding year as production additions from the 2015 drilling and exploitation activities were more than offset by natural production declines and property dispositions that occurred in the second half of 2014. Natural gas production averaged 5.02 million cubic feet per day in 2015, a 57 percent decrease from 2014, primarily due to property dispositions that occurred in the second half of 2014. Total 2015 production averaged 4,564 barrels of oil equivalent per day, a 25 percent decrease from the prior year.
- Zargon's 2015 net loss was \$106.14 million, which compares to net earnings of \$5.95 million in 2014 and a \$5.90 million net loss in 2013. The net earnings/loss track the funds flow from operating activities for the respective periods modified by asset retirement expenditures and non-cash charges, which in 2015 were primarily related to impairment losses, depletion and depreciation, unrealized derivative losses and exploration and evaluation expense. On a per diluted share basis, the 2015 net loss was \$3.50 compared to net earnings of \$0.19 in 2014 and a net loss of \$0.20 in 2013.
- Zargon declared cash dividends totalling \$0.22 per common share during 2015 for a total of \$6.66 million. These cash dividends were equivalent to a payout ratio of 28 percent of funds flow from operating activities. As previously reported, Zargon's Board of Directors have suspended the Company's monthly dividend until further notice.
- Net capital expenditures for the year totalled \$25.88 million; consisting of \$25.45 million of exploitation, development and facility programs and \$0.51 million of net property acquisitions which were offset by \$0.08 million of administrative assets dispositions. The \$25.45 million of exploitation, development and facility programs include \$19.48 million of Alkaline Surfactant Polymer ("ASP") project costs. The ASP costs included \$7.36 million of exploitation costs and \$12.12 million of chemical costs. During the year, Zargon drilled 6.0 net wells yielding 6.0 net oil ASP wells.

	Three Months Ended December 31,			Year Ended December 31,		
	2015 (unaudited)	2014 (unaudited)	Percent Change	2015	2014	P C
Financial Highlights						
Income and Investments (\$ millions)						
Gross petroleum and natural gas sales	14.40	27.35	(47)	67.35	145.89	(5)
Funds flow from operating activities	3.62	12.63	(71)	24.14	50.67	(5)
Cash flows from operating activities	(1.05	) 13.15	(108)	20.25	50.40	(6)
Cash dividends	0.30	5.43	(94)	6.66	21.70	(6)
Net earnings/ (loss)	(56.34	) 7.70	(832)	(106.14)	5.95	(1)
Field capital and administrative asset expenditures	7.72	13.71	(44)	25.37	59.97	(5)
Net property acquisitions/ (dispositions)	0.03	(22.38	) 100	0.51	(33.70)	1
Net capital expenditures/ (dispositions)	7.75	(8.67	) 189	25.88	26.27	(1)
Per Share, Basic						
Funds flow from operating activities (\$/share)	0.12	0.42	(71)	0.80	1.68	(5)
Net earnings/ (loss) (\$/share)	(1.86	) 0.26	(815)	(3.50)	0.20	(1)
Cash Dividends (\$/common share)	0.01	0.18	(94)	0.22	0.72	(6)
Balance Sheet at Period End (\$ millions)						
Property and equipment (D&P)				230.54	337.45	(3)
Exploration and evaluation assets (E&E)				5.71	6.61	(1)
Total assets				263.66	382.71	(3)
Working capital deficiency				3.32	13.16	(7)
Long term bank debt				60.24	42.77	4
Convertible debentures at maturity				57.50	57.50	-
Shareholders' equity				52.58	161.34	(6)
Weighted Average Shares Outstanding for the Period (millions) - Basic	30.33	30.18	-	30.29	30.14	-
Weighted Average Shares Outstanding for the Period (millions) - Diluted	30.33	30.70	(1)	30.29	30.68	(1)
Total Common Shares Outstanding at Period End (millions)				30.37	30.18	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.

Cash dividends were suspended after the October 2015 dividend paid on November 16, 2015.

	Three Months Ended December 31,		Percent Change	Year Dec
	2015 (unaudited)	2014 (unaudited)		2015
Operating Highlights				
Average Daily Production				
Oil and liquids (bbl/d)	3,635	4,150	(12	) 3,72
Natural gas (mmcf/d)	4.23	6.43	(34	) 5.02
Equivalent (boe/d)	4,340	5,222	(17	) 4,56
Average Selling Price (before the impact of financial risk management contracts)				
Oil and liquids (\$/bbl)	40.19	66.96	(40	) 45.9
Natural gas (\$/mcf)	2.46	3.03	(19	) 2.68
Netback (\$/boe)				
Gross petroleum and natural gas sales	36.05	56.93	(37	) 40.4
Royalties	(5.00)	(10.46)	(52	) (5.7)
Realized gain/(loss) on derivatives	7.94	11.47	(31	) 11.1
Operating expenses	(21.32)	(20.50)	) 4	(20.1)
Transportation expenses	(0.56)	(0.63)	(11	) (0.6)
Operating netback	17.11	36.81	(54	) 24.2
Wells Drilled, Net	3.0	4.8	(38	) 6.0
Undeveloped Land at Period End (thousand net acres)				75

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.'s financial and operating results for calendar 2015 and the fourth quarter of 2015 are provided in this press release. Previously, Zargon provided 2015 year end reserves, Little Bow ASP tertiary oil recovery project updates, conventional property updates and 2016 production/capital guidance in our January 21, 2016 press release. A brief summary/update of these materials is provided below:

Year End 2015 Reserves

Zargon's year end 2015 proved and probable reserves total 20.90 million barrels of oil equivalent and were appraised by Zargon's independent reserves evaluator, McDaniel & Associates Consultants. On a six-to-one equivalency basis, oil and liquids comprised 89 per cent of Zargon's total proved and probable reserves.

Zargon's year end 2015 proved and probable, total proved and proved developed producing oil and liquids reserves are 18.58 million barrels, 11.67 million barrels and 9.41 million barrels, respectively. Zargon's oil properties are characterized by pressure-supported reservoirs (water flood or natural aquifers) that provide long-life, low-decline oil production. Consequently, Zargon's proved developed producing oil and liquids reserve life index is 7.1 years, and Zargon's proved and probable producing oil and liquids reserve life index is 9.2 years. Zargon's total proved and probable oil and liquids reserve life index is 14.0 years.

Zargon's year end 2015 produce-out net asset value is calculated to be \$4.84 per basic share. This reflects McDaniel's estimate of the Zargon properties' proved and probable future cash flow using a before tax 10 percent discount rate and forecast prices and costs plus an independent appraisal of Zargon's undeveloped land less an allowance for the year end bank debt, the full future face value of the \$57.5 million convertible debentures and working capital deficiencies.

For further information regarding Zargon's reserves and net asset values, please refer to the Company's updated corporate presentation, which is available at www.zargon.ca.

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, 7.0 million barrels of ASP solution has been injected into the first phase of the project. This injection volume is equal to about 21 percent of the targeted reservoir pore volume and represents 31 percent of the total chemical bank (ASP and polymer only) scheduled to be injected in the phase 1 operation.

Recent production trends have met expectations and are consistent with the Company's November 2015 production forecast in which that the ASP project's production is forecast to exceed 600 barrels of oil per day by the end of second quarter 2016 (400 barrels per day of incremental ASP production plus 200 barrels per day of base water flood production).

Although the Company is encouraged by the recent Little Bow technical performance, field oil prices have continued to deteriorate, and as a cost saving measure this February, Zargon has suspended the project's alkaline and surfactant ("AS") injections while continuing polymer injections in order to move the formed oil banks to the producing wells. Our technical work indicates that suspending AS injections for a few months will not materially impact ultimate oil recoveries. In the short term, due to reservoir transit time, the suspension of AS injections will not have an impact on the ASP project's production trends, but after six months, the Company anticipates ASP production growth will subside, resulting in stable production volumes until AS injections are recommenced.

For further information regarding the Little Bow ASP project, please refer to the Company's updated corporate presentation, which is available at www.zargon.ca.

2016 Capital Budget

Zargon's 2016 capital budget continues to be set at \$9 million and will comprise \$3 million of conventional expenditures, \$1 million of ASP exploitation expenditures and \$5 million for ASP chemical (mostly polymer) costs, of which \$2 million was spent in January-February. Due to financial constraints, the 2016 budget assumes that all conventional drilling projects will be deferred until 2017.

Zargon's non-ASP conventional properties tend to be pressure supported by water flood injections or natural reservoir aquifers and consequently provide long-life low-decline oil volumes. Approximately half of these production volumes are produced from Mississippian (Midale, Frobisher, Alida equivalent and Tilston) horizons in the Williston basin core area. In aggregate, the conventional properties bring more than 75 horizontal locations that can be methodically drilled when oil prices improve.

For further information regarding Zargon's conventional drilling inventory, please refer to the Company's updated corporate presentation, which is available at www.zargon.ca.

2016 Production Guidance

Zargon's 2016 oil and liquids production guidance remains unchanged at 3,550 barrels of oil per day. This rate incorporates the previously referenced 600 barrels of per day of Little Bow Phase 1 oil production and 2,950 barrels of oil per day of conventional production that reflects no drilling budgets (2015 and 2016) and a 13 percent base annual decline for the conventional oil properties. Significant oil production growth could be obtained in 2016 if a drilling budget was implemented.

Zargon's 2016 natural gas volume production guidance is now set at 3.60 million cubic feet per day (down from 3.90 million cubic feet per day) to reflect economic shut-ins from selected properties. For the 2015 fourth quarter, natural gas revenues represented only seven percent of the Zargon total revenue stream.

Strategic Alternatives Process Update

Last year, Zargon announced the formation of a Special Board Committee (the "Committee") to examine alternatives that would maximize shareholder value in a manner that would recognize the company's fundamental inherent value related to Zargon's long-life, low-decline conventional oil assets and the significant long-term oil potential related to the Little Bow ASP project. Scotia Waterous Inc. is the financial adviser for the Committee.

This continuing financial review might include, but is not limited to, a 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. The ongoing review has incorporated an analysis of market trends and tone. With the 2015 year end reserves and financial reports now completed, the Board of Directors, on the recommendation of the Special Committee, has decided to proceed with a broad marketing process that will commence in April.

Forward-Looking Statements

This press release offers our assessment of Zargon's future plans and operations as at March 7, 2016, 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 2016 capital budget, 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 headings "Little Bow Alkaline Surfactant Polymer ("ASP") Project Update" and "2016 Capital Budget"; 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", "2016 Production Guidance" and "Strategic Alternatives Process Update"; our strategic alternatives process under the heading "Strategic Alternatives Process Update"; and all matters, including guidance as to our estimated 2016 production and production mix, under the heading "2016 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 December 31, 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 ("mcf") 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 financial statements for the year ended December 31, 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 30.470 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.

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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