

FINANCIAL AND OPERATING HIGHLIGHTS (THREE MONTHS ENDED JUNE 30, 2016)

- Funds flow from operating activities of \$3.5 million were higher than the \$0.3 million loss recorded in the prior quarter due to a combination of higher oil prices, lower operating expenses and decreased general and administrative expenses.
- With the continuation of restricted conventional capital investment programs, second quarter 2016 production averaged 3,413 barrels of oil and liquids per day, a three percent decrease from the preceding quarter rate of 3,503 barrels of oil and liquids per day and an eight percent decline from the second quarter 2015 production rate of 3,720 barrels of oil and liquids per day. Zargon's Little Bow Alkaline Surfactant Polymer ("ASP") tertiary project continues to show good oil banking with second quarter 2016 average rates of 530 barrels of oil and liquids per day, up from first quarter 2016 and second quarter 2015 rates of 479 and 288 barrels of oil and liquids per day, respectively.
- Due to the shut-in of selected uneconomic properties, second quarter 2016 natural gas production averaged 3.58 million cubic feet per day, an 11 percent decrease from the preceding quarter and a 33 percent decline from the 2015 second quarter natural gas rate. Total production averaged 4,010 barrels of oil equivalent per day, a four percent decrease from the preceding quarter. During the quarter, oil and liquids production represented 85 percent of total production based on a 6:1 equivalent basis.
- Second quarter 2016 operating and transportation costs totaled \$6.43 million (\$17.63 per barrel of oil equivalent), down 26 percent from the 2015 second quarter cost of \$8.67 million (\$20.68 per barrel of oil equivalent) and down 10 percent from the 2016 first quarter cost of \$7.12 million (\$18.75 per barrel of oil equivalent). The 2016 cost savings reflect Zargon's continued cost containment focus and in particular incorporate lower electricity costs, lower field contractor costs and reduced Little Bow ASP facility and field pumping costs due to the polymer only streamlined facility operations and improved well pumping designs.
- Second quarter 2016 general and administrative ("G&A") costs totaled \$1.38 million (\$3.77 per barrel of oil equivalent), down 28 percent from the 2015 second quarter cost of \$1.91 million (\$4.55 per barrel of oil equivalent) and down 19 percent from the 2016 first quarter cost of \$1.70 million (\$4.48 per barrel of oil equivalent).
- Second quarter 2016 capital expenditures were \$1.26 million and included \$0.90 million of expenditures related to the Little Bow ASP project (\$0.16 million exploitation and \$0.74 million chemical costs). No wells were drilled in the quarter.
- On June 21, 2016, Zargon amended and renewed its syndicated committed credit facilities of \$70.0 million, a reduction from the previous facilities of \$88.0 million. At June 30, 2016, Zargon's outstanding bank debt and net working capital totaled \$64.8 million. Including \$57.5 million of convertible unsecured subordinate debentures, Zargon had \$122.3 million of net debt at June 30, 2016.
- On July 25, 2016, subsequent to quarter end, Zargon announced that it had entered into a purchase and sale agreement for the sale of all of its Southeast Saskatchewan assets for cash consideration of \$89.5 million, subject to normal closing adjustments. The effective date of the transaction is July 1, 2016 and the transaction is expected to close in early September. The assets include 1,211 barrels of oil equivalent per day of low decline production - 95 percent oil and liquids (first half 2016 rates) and proven plus probable reserves of 5.14 million barrels of oil equivalent - 96 percent oil and liquids (McDaniel & Associates Consultants Ltd. - Dec. 31, 2015). Initially, the proceeds of the transaction will be used to eliminate Zargon's bank debt. Zargon's net debt (including debentures) will be approximately \$35.0 million following the transaction.

Strategic Alternatives Process Update

Last year, Zargon announced the formation of a Special Board Committee (the "Committee") to examine alternatives that would maximize stakeholder 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. ("Scotia") is the financial adviser for the Committee.

The July 2016 announced sale of Zargon's Southeast Saskatchewan assets for \$89.5 million is a significant step in this process. The strategic alternatives process is continuing and may 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 our business plan.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Percent Change	2016	2015	Percent Change
Financial Highlights						
Income and Investments (\$ millions)						
Gross petroleum and natural gas sales	13.53	20.32	(33	) 23.15	36.73	(37
Funds flow from operating activities	3.53	9.99	(65	) 3.25	17.23	(81
Cash flows from operating activities	1.18	6.98	(83	) 3.25	13.65	(76

Cash dividends	-	2.73	(100	) -	5.45	(100
Net loss	(5.27	) (3.76	) (40	) (14.09	) (8.64	) (63
Field capital and administrative asset expenditures	1.31	5.40	(76	) 3.74	10.80	(65
Net property dispositions	(0.05	) (0.05	) -	(0.01	) (0.05	) 80
Net capital expenditures	1.26	5.35	(76	) 3.73	10.75	(65
Per Share, Basic						
Funds flow from operating activities (\$/share)	0.12	0.33	(64	) 0.11	0.57	(81
Net loss (\$/share)	(0.17	) (0.12	) (42	) (0.46	) (0.29	) (59
Cash Dividends (\$/common share)	-	0.09	(100	) -	0.18	(100
Balance Sheet at Period End (\$ millions)						
Property and equipment (D&P)				224.73	333.58	(33
Exploration and evaluation assets (E&E)				5.49	6.44	(15
Total assets				253.94	369.47	(31
(Working capital)/ working capital deficiency				(0.32	) 3.70	(109
Bank debt				65.08	50.80	28
Convertible debentures at maturity				57.50	57.50	-
Shareholders' equity				38.18	149.19	(74
Weighted Average Shares Outstanding for the Period (millions) - Basic	30.47	30.28	1	30.46	30.26	1
Total Common Shares Outstanding at Period End (millions)				30.47	30.28	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 June 30,			Six Months Ended	
	2016	2015	Percent Change	2016	2015
Operating Highlights					
Average Daily Production					
Oil and liquids (bbl/d)	3,413	3,720	(8	) 3,458	3,824
Natural gas (mmcf/d)	3.58	5.32	(33	) 3.81	5.28
Equivalent (boe/d)	4,010	4,607	(13	) 4,093	4,704
Average Selling Price (before the impact of financial risk management contracts)					
Oil and liquids (\$/bbl)	42.36	56.55	(25	) 35.22	49.25
Natural gas (\$/mcf)	1.16	2.42	(52	) 1.41	2.77
Netback (\$/boe)					
Gross petroleum and natural gas sales	37.09	48.46	(23	) 31.07	43.14
Royalties	(4.31	) (6.30	) (32	) (3.62	) (6.03
Realized gain on derivatives	2.35	11.37	(79	) 3.08	15.38
Operating expenses	(17.00	) (20.10	) (15	) (17.77	) (20.70
Transportation expenses	(0.63	) (0.58	) 9	(0.42	) (0.66
Operating netback	17.50	32.85	(47	) 12.34	31.13
Wells Drilled, Net	-	-	-	-	-
Undeveloped Land at Period End (thousand net acres)				66	82

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.

Forward-Looking Statements

This press release offers our assessment of Zargon's future plans and operations as at August 10, 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: our expected closing date, intended use of proceeds and net debt estimate following the transaction with respect to the sale of our Southeast Saskatchewan assets and our strategic alternatives process under the heading "Strategic Alternatives Process Update".

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 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, 2016 and 2015 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 unaudited financial statements for the three and six months ended June 30, 2016 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 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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