

CALGARY, ALBERTA--(Marketwired - Dec 12, 2016) - Zargon Oil & Gas Ltd. (the "Company" or "Zargon") (TSX:ZAR) (TSX:ZAR.DB) announces its 2017 capital budget.

With Zargon's recently announced 2017 oil hedges (November 30), Zargon's Board of Directors has approved a 2017 capital budget of \$7.8 million. This budget is projected to maintain production at stable Q4 2016 guidance levels of 2,500 barrels of oil equivalent per day (82% oil and liquids), and is expected to be fully funded out of 2017 corporate funds flow at oil prices of \$52 US per barrel (WTI) or better. The components of the budget include:

- Little Bow Polymer Costs: \$2.7 million

Last fall, Zargon's Little Bow ASP tertiary recovery project was placed on "idle mode" by shutting in higher water cut producers in under-treated areas, which in turn reduced polymer consumption required for the reinjection of the produced water into the reservoir. This strategy will maintain and produce the oil banks that have already been formed in the reservoir while preserving our ability to re-initiate the alkaline surfactant injections in the under treated areas, once higher oil prices and improved financial conditions permit.

- Land retention and other costs: \$1.5 million

These non-discretionary costs are required to maintain Zargon's asset base.

- Discretionary oil and natural gas exploitation costs: \$3.6 million

Over the last 18 months of very low oil and natural gas prices, Zargon has deferred all but the most essential non-ASP capital projects. These deferred projects vary from oil and natural gas property/well reactivations to waterflood modification and enhancement projects that are in Alberta and North Dakota. In aggregate we have identified \$6.7 million of these low risk projects. In 2017, Zargon plans to high grade this inventory and execute \$3.6 million of the highest return projects.

In Alberta, we will initially focus on the Highvale gas plant reactivation and two Highvale Glauconite gas recompletions and a Carrot Creek oil recompletion. In our Little Bow non-ASP property the consolidation of batteries, reactivation of oil producers/injectors and waterflood modifications will be implemented. In North Dakota we will focus on the Truro waterflood reactivation and related modifications along with Mackabee Coulee (Frobisher/Sherwood) and Haas (Alida/Wayne) well recompletions which could ultimately provide material reserve additions.

At the present time this proposed budget does not contemplate the drilling of any of the 11 oil exploitation undeveloped locations assigned in the McDaniel & Associates Consultants Ltd. 2015 year end reserve review. Furthermore, this program does not incorporate the reactivation of Alkaline Surfactant injections at the Little Bow Phase 1 project or further tertiary projects utilizing the existing Little Bow ASP infrastructure, all of which would provide significant upside in future higher oil price environments. These additional projects will be considered as oil prices improve. With current hedges, Zargon estimates that its 2017 corporate funds flow will increase approximately \$0.6 million for every \$1 US per barrel (WTI) increase in oil price.

Additional information regarding Zargon's low decline, oil exploitation properties and related opportunities are available on our website at www.zargon.ca.

Forward-Looking Statements

This press release offers our assessment of Zargon's future plans and operations as at December 12, 2016, and contains forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. Such statements are generally identified by the use of words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "plan", "intend", "believe" and similar expressions (including the negatives thereof). In particular, this press release contains forward-looking statements pertaining to the following:

- *Production guidance levels for Q4 2016.*
- *Our 2017 capital expenditure plans and the ability to finance and execute the capital program at the projected costs.*
- *The results from the 2017 capital program.*
- *The 2017 corporate production volumes and the related 2017 corporate funds flows, including the sensitivity to changes in oil prices.*
- *Our inventory of exploitation projects.*

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including such as 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 sedar and our website. Forward-looking statements are provided to allow investors to have a greater understanding of our business.

You are cautioned that the assumptions, including, among other things, future oil and natural gas prices; future capital expenditure levels (including ASP); 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; our ability to obtain financing on acceptable terms; and our ability to add production and reserves through our development and acquisition activities used in the preparation of such information, 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 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.

Other Advisories - Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, 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. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

FURTHER INFORMATION

Based in Calgary, Alberta, Zargon's securities trade on the Toronto Stock Exchange and there are currently approximately 30.607 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 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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