

CALGARY, ALBERTA--(Marketwired - Feb 23, 2017) - Zargon Oil & Gas Ltd. (the "Company" or "Zargon") (TSX:ZAR)(TSX:ZAR.DB) announces fourth quarter 2016 production volumes and announces 2016 year end reserves. Zargon intends to release its 2016 audited financial results on March 15, 2017, after market close.

## 2016 FOURTH QUARTER PRODUCTION VOLUMES:

Fourth quarter 2016 production averaged 1,952 barrels of oil and liquids per day, a 33 percent decrease from the preceding quarter rate of 2,915 barrels of oil and liquids per day, reflecting \$92.1 million of third quarter 2016 Southeast Saskatchewan and Killam, Alberta property sales. Similarly, fourth quarter 2016 natural gas production declined 12 percent from the preceding quarter's rate of 3.39 million cubic feet per day, to 2.98 million cubic feet per day.

Total fourth quarter 2016 production averaged 2,449 barrels of oil equivalent per day, and compares with fourth quarter 2016 and calendar 2017 production guidance levels of 2,500 barrels of oil equivalent per day. The 2017 guidance levels are based on a \$7.8 million 2017 capital budget that is fully funded by corporate cash flows (after hedging) based on a \$52 US per barrel (West Texas Intermediate) oil price. Additional details regarding guidance, capital budgets, oil exploitation opportunities, hedging and corporate outlook are provided in Zargon's December 12, 2016 press release and our website at [www.zargon.ca](http://www.zargon.ca).

## 2016 YEAR END RESERVES:

- Reflecting the 2016 property sales, Zargon's 2016 year end proved and probable total reserves decreased 38 percent to 12.91 million barrels of oil equivalent. These reserves were appraised by Zargon's independent reserves evaluator McDaniel & Associates Consultants Ltd. ("McDaniel") and are effective as of December 31, 2016. On a 6:1 equivalency basis, oil and liquids comprised 87 percent (11.18 million barrels) of Zargon's total proved and probable reserves at year end 2016, down slightly from an 89 percent weighting at the end of 2015. Zargon did not drill any wells in 2016, and did not acquire reserves in 2016; and consequently did not calculate finding, development and acquisition costs.
- Similarly, Zargon's 2016 year end proved developed producing reserves decreased 32 percent to 7.08 million barrels of oil equivalent and included 6.28 million barrels of oil and liquids. Zargon's proved developed producing reserve totals represent 55 percent of the Zargon's total proved and probable reserves.
- Zargon's oil properties are characterized by pressure supported reservoirs (waterflood, tertiary schemes or natural aquifers) that provide long-life, low-decline oil production, and consequently the McDaniel proved developed producing oil and liquids first year predicted decline is only 8 percent (11 percent excluding the Little Bow Alkaline Surfactant Polymer "ASP" project). Zargon's proved developed producing oil and liquids reserve life index is 8.8 years and Zargon's proved and probable producing oil and liquids reserve life index is 11.7 years. Finally, Zargon's total proved and probable oil and liquids reserve life index is 15.6 years. The relatively large developed producing reserve life indices are indicative of low decline oil production from relatively mature properties.
- Excluding the conversion provisions of Zargon's recently amended convertible debentures, Zargon's year end 2016 "produce-out" proved and probable net asset value is calculated to be \$3.27 per basic share. On a proved developed producing basis the "produce out" net asset value is calculated to be \$1.70 per basic share. These calculations reflect McDaniel's estimate of the Zargon properties' 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 full future face value of the \$57.5 million convertible debenture and working capital. The estimates do not include the potential conversion of \$57.5 million of debentures into common shares at a price of \$1.25 per share. Assuming the entire \$57.5 million of debentures are converted into common shares, the "produce out" net asset values are \$1.44 and \$2.07 per basic share, for the respective proved developed producing and proved and probable reserve cases.

## DETAILED RESERVE INFORMATION:

Reserves included herein are stated on a gross company working interest basis unless otherwise noted. All reserves information has been prepared in accordance with National Instrument 51-101 Standards of Disclosure ("NI 51-101"). In addition to the detailed information disclosed in this press release, more detailed information will be included in Zargon's 2016 Annual Information Form to be filed on SEDAR ([www.sedar.com](http://www.sedar.com)) and posted on our website ([www.zargon.ca](http://www.zargon.ca)) in March 2017.

Based on the independent reserves evaluation conducted by McDaniel effective December 31, 2016, and prepared in accordance with NI 51-101, Zargon had proved and probable reserves of 12.91 million barrels of oil equivalent.

Company Reserves <sup>(1)</sup>	Barrels of Oil		
	Oil and Liquids (mmbbl)	Natural Gas (bcf)	Equivalent <sup>(2)</sup> (mmbbl)
At December 31, 2016			
Proved producing	6.28	4.75	7.08
Proved non-producing	0.51	1.62	0.78
Proved undeveloped	0.36	0.01	0.36
Total proved	7.15	6.38	8.22
Probable additional producing	2.08	1.43	2.31
Probable non-producing and undeveloped	1.95	2.55	2.38

Total probable additional	4.03	3.98	4.69
Total proved and probable producing	8.36	6.18	9.39
Total proved and probable	11.18	10.36	12.91
Proved producing reserve life index, years <sup>(3)</sup>	8.8	4.4	7.9
Proved reserve life index, years <sup>(3)</sup>	10.0	5.8	9.2
Proved and probable producing reserve life index, years <sup>(3)</sup>	11.7	5.7	10.5
Proved and probable reserve life index, years <sup>(3)</sup>	15.6	9.5	14.4

1. Company working interest reserves are gross reserves before deduction of royalties, boe (6:1).

2. Boes 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.

3. Reserve life is calculated using annualized fourth quarter 2016 production.

A reconciliation summary of the 2016 year end reserve assignments with the reserves reported in the 2015 year end report based on McDaniel's forecast prices and costs is presented below:

#### Reserve Reconciliation (All Categories)

	Oil and Liquids (mmbbl)			Natural Gas (bcf)			Equivalents (mmboe)		
	Proved	Probable	Proved & Prob.	Proved	Probable	Proved & Prob.	Proved	Probable	Proved & Prob.
December 31, 2015	11.67	6.91	18.58	8.45	5.45	13.90	13.08	7.82	20.90
Discoveries and extensions	-	-	-	-	-	-	-	-	-
Revisions	0.20	(1.43)	(1.23)	0.87	(0.57)	0.30	0.34	(1.53)	(1.19)
Acquisitions and dispositions	(3.64)	(1.45)	(5.09)	(1.66)	(0.90)	(2.56)	(3.91)	(1.60)	(5.51)
Production	(1.08)	-	(1.08)	(1.28)	-	(1.28)	(1.29)	-	(1.29)
December 31, 2016	7.15	4.03	11.18	6.38	3.98	10.36	8.22	4.69	12.91

In calendar 2016, Zargon's net dispositions totaled 5.51 million barrels of proved and probable reserves and realized net proceeds of \$92.1 million (unaudited). Excluding acquisitions and dispositions, Zargon's 2016 capital program totaled \$6.9 million (unaudited) and did not include the drilling of any wells. During the year, probable reserves for the peripheral regions of the Little Bow Phase 2 ASP project were removed which were partially responsible for a \$47.8 million reduction in a McDaniel future proved and probable development capital from \$112.1 million at December 31, 2015 to \$64.3 million at December 31, 2016.

#### Reserve Reconciliation (Developed Producing)

	Oil and Liquids (mmbbl)			Natural Gas (bcf)			Equivalents (mmboe)		
	Proved	Probable	Proved & Prob.	Proved	Probable	Proved & Prob.	Proved	Probable	Proved & Prob.
December 31, 2015	9.41	2.81	12.22	6.14	2.18	8.32	10.44	3.16	13.60
Discoveries and extensions	-	-	-	-	-	-	-	-	-
Revisions	0.96	0.23	1.19	1.26	(0.25)	1.01	1.17	0.19	1.36
Acquisitions and dispositions	(3.01)	(0.96)	(3.97)	(1.37)	(0.50)	(1.87)	(3.24)	(1.04)	(4.28)
Production	(1.08)	-	(1.08)	(1.28)	-	(1.28)	(1.29)	-	(1.29)
December 31, 2016	6.28	2.08	8.36	4.75	1.43	6.18	7.08	2.31	9.39

Zargon's reserves are characterized by long-life, low-decline oil production with a high producing developed component that provides a corresponding high confidence level. In calendar 2016, net positive reserve revisions of 1.17 and 1.36 million barrels of oil equivalents were booked for the respective proved developed producing and proved and probable developed producing cases. As of December 31, 2016, proved developed producing reserves represent 86 percent of total proved reserves and 55 percent of the total proved and probable reserves.

#### NET ASSET VALUE:

Zargon's oil, liquids and natural gas reserves were evaluated using McDaniel's price forecasts effective January 1, 2017, prior to provisions for income taxes, interest, debt service charges, transaction costs and general and administrative expenses. The estimated values of future net revenue disclosed do not represent the fair market value of the reserves.

Before Tax Present Value of Future Net Revenue  
(Forecast Prices and Costs)

Discount Factor

(\$ millions)	0%	5%	10%	15%
Proved producing	124.7	102.0	84.3	71.4
Proved non-producing	14.0	9.0	6.0	4.1
Proved undeveloped	7.1	4.6	2.9	1.7
Total proved	145.8	115.6	93.2	77.2
Probable additional producing	71.2	41.7	27.1	19.3
Probable additional non-producing and undeveloped	46.7	24.8	12.0	4.2
Total probable additional	117.9	66.5	39.1	23.5
Total proved and probable producing	195.9	143.7	111.4	90.7
Total proved and probable	263.7	182.1	132.3	100.7

The following net asset value table shows what is customarily referred to as a "produce-out" net asset value calculation under which the current value of Zargon's reserves would be produced at McDaniel's forecast future prices and costs. The value is a snapshot in time as at December 31, 2016, and is based on various assumptions including commodity prices and foreign exchange rates that vary over time. In this analysis, the present value of the proved and probable reserves is calculated at a before tax 10 percent discount rate. In the net asset value calculation, Zargon's 45 thousand net acres of land is valued at \$2.2 million based on the independent firm of Seaton-Jordan & Associates Ltd. valuation as at December 31, 2016.

Net Asset Value	Proved Developed Producing Reserves	Proved and Probable Reserves
As at December 31, 2016 (\$ millions)		
Proved and probable reserves (PVBT 10%) <sup>(1)</sup>	84	132
Undeveloped land	2	2
Working capital (excluding unrealized derivative assets/liabilities) - unaudited	24	24
Bank debt - unaudited		
Convertible debenture - unaudited	(58)	(58)
Net asset value	52	100
Net asset value per share (\$/basic share) <sup>(2)</sup>	1.70	3.27

1. McDaniel's estimate of future before tax cash flow discounted at PV 10 percent.

2. Calculated using basic total shares outstanding at December 31, 2016 of 30.607 million shares, but does not incorporate the dilutive effect of the potential conversion of some of the convertible debentures into equity at \$1.25 per share.

McDaniel & Associates Consultants Ltd. Price Forecast (effective January 1, 2017)

	WTI Crude Oil \$US/bbl	Edmonton Light Crude Oil \$C/bbl	Alberta Bow River Hardisty Crude Oil \$C/bbl	Western Canadian Select Crude Oil \$C/bbl	Alberta Heavy Crude Oil \$C/bbl	Sask Cromer Medium Crude Oil \$C/bbl	U.S. Henry Hub Gas Price \$US/MMBtu	Alberta AECO Spot Price \$C/MMBtu	US/CAN Exchange Rate \$US/\$CAN
2017	55.00	69.80	54.40	53.70	46.50	62.80	3.40	3.40	0.750
2018	58.70	72.70	58.90	58.20	50.50	67.60	3.20	3.15	0.775
2019	62.40	75.50	62.70	61.90	54.00	70.20	3.35	3.30	0.800
2020	69.00	81.10	67.30	66.50	58.00	75.40	3.65	3.60	0.825
2021	75.80	86.60	71.90	71.00	61.90	80.50	4.00	3.90	0.850
2022	77.30	88.30	73.30	72.40	63.10	82.10	4.05	3.95	0.850
2023	78.80	90.00	74.70	73.80	64.40	83.70	4.15	4.10	0.850
2024	80.40	91.80	76.20	75.30	65.60	85.40	4.25	4.25	0.850
2025	82.00	93.70	77.80	76.80	67.00	87.10	4.30	4.30	0.850
2026	83.70	95.60	79.30	78.40	68.40	88.90	4.40	4.40	0.850
2027	85.30	97.40	80.80	79.90	69.60	90.60	4.50	4.50	0.850
2028	87.00	99.40	82.50	81.50	71.10	92.40	4.60	4.60	0.850
2029	88.80	101.40	84.20	83.10	72.50	94.30	4.65	4.65	0.850
2030	90.60	103.50	85.90	84.90	74.00	96.30	4.75	4.75	0.850
2031	92.40	105.50	87.60	86.50	75.40	98.10	4.85	4.85	0.850
Thereafter +2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	0.825

Forward-Looking Statements - This press release contains forward-looking statements relating to our plans and operations as at

February 23, 2017. Forward-looking statements typically use 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 relating, but not limited to: our business strategy, plans and management focus; the timing of release of our 2016 financial results and 2016 Annual Information Form, plans with respect to our Little Bow ASP project, other costs associated with the ASP project and the anticipated results from this project, sources of funding for our conventional and ASP project capital expenditure program, plans with respect to our 2017 capital program, including ASP, our forecasted 2017 production guidance and our plans for our strategic alternatives process. In addition, all statements relating to reserves, including ASP reserves, in this press release are deemed to be forward-looking as they involve an implied assessment, based on certain assumptions and estimates, that the reserves described, can be properly produced in the future.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, 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 will be 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 30.670 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 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](http://www.zargon.ca) where you will find a current shareholder presentation, financial reports and historical news releases.

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