

HIGHLIGHTS FROM THE FOURTH QUARTER AND YEAR ENDED DECEMBER 31, 2016

- For calendar 2016, funds flow from operating activities of \$3.50 million (\$0.11 per basic share) was 86 percent lower than the \$24.14 million (\$0.80 per basic share) recorded in the prior year. For the fourth quarter 2016, funds flow from operating activities were \$0.86 million (\$0.03 per basic share) compared with the \$0.61 million of negative funds flow recorded in the prior quarter.
- Oil and liquids production averaged 2,943 barrels of oil and liquids per day in 2016, a 21 percent decrease from the preceding year, reflecting \$92.04 million of third quarter 2016 Southeast Saskatchewan and Killam, Alberta property sales. Natural gas production averaged 3.50 million cubic feet per day in 2016, a 30 percent decrease from 2015, primarily due property dispositions and natural declines. Total 2016 production averaged 3,526 barrels of oil equivalent per day, a 23 percent decrease from the prior year. Reflecting a full quarter post the dispositions, fourth quarter 2016 production averaged 2,449 barrels of oil equivalent per day and was comprised of 1,952 barrels of oil per day and 2.98 million cubic feet per day.
- Zargon's 2016 net loss was \$18.09 million, which compares to a net loss of \$106.14 million in 2015 and \$5.95 million net earnings in 2014. 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 2016 were primarily related to a gain on disposal of properties, impairment losses, depletion and depreciation, unrealized derivative losses and exploration and evaluation expense.
- Net capital dispositions for the year totalled \$85.13 million; consisting of \$7.04 million of exploitation, development and facility programs which were offset by \$92.05 million of net property dispositions and \$0.12 million of administrative assets dispositions. The \$7.04 million of exploitation, development and facility programs include \$4.76 million of Alkaline Surfactant Polymer ("ASP") project costs. The ASP costs included \$0.55 million of exploitation costs and \$4.21 million of chemical costs. During the year, Zargon did not drill any wells. For the 2016 fourth quarter, net capital expenditures totaled \$1.43 million and included \$0.37 million of ASP chemical costs.
- Reflecting the year's \$85.13 million of net capital dispositions, Zargon's total debt net of working capital (excluding unrealized derivative assets/liabilities and using the full \$57.50 million face value of the convertible debentures) as of December 31, 2016 totalled \$33.51 million, an \$87.55 million (72 percent) reduction from the prior year end total debt net of working capital balance of \$121.06 million.
- Subsequent to year end in a February 14, 2017 special meeting, Zargon's convertible debenture holders approved a modified indenture agreement that extends the debenture maturity date to December 31, 2019, increases the debenture interest rate to 8.00% per annum and permits Zargon to redeem up to an aggregate \$19.00 million of the debentures through a March 31, 2017 "Dutch Auction" process.

	Three Months Ended December 31,			Year Ended December 31,		
	2016 (unaudited)	2015 (unaudited)	Percent Change	2016	2015	Per Share
Financial Highlights						
Income and Investments (\$ millions)						
Gross petroleum and natural gas sales	9.24	14.40	(36)	44.72	67.35	(36)
Funds flow from operating activities	0.86	3.62	(76)	3.50	24.14	(86)
Cash flows from operating activities	(1.77)	(1.05)	(69)	4.66	20.25	(77)
Cash dividends	-	0.30	(100)	-	6.66	(100)
Net loss	(17.81)	(56.34)	68	(18.09)	(106.14)	83
Field capital and administrative asset expenditures	1.42	7.72	(82)	6.92	25.37	(73)
Net property acquisitions/(dispositions)	0.01	0.03	(67)	(92.05)	0.51	(100)
Net capital expenditures/(dispositions)	1.43	7.75	(82)	(85.13)	25.88	(41)
Per Share, Basic						
Funds flow from operating activities (\$/share)	0.03	0.12	(75)	0.11	0.80	(86)
Net loss (\$/share)	(0.58)	(1.86)	69	(0.59)	(3.50)	83
Cash Dividends (\$/common share)	-	0.01	(100)	-	0.22	(100)
Balance Sheet at Period End (\$ millions)						
Property and equipment (D&P)				137.48	230.54	(41)
Exploration and evaluation assets (E&E)				2.23	5.71	(61)
Total assets				169.39	263.66	(36)
Working capital/(deficiency)				24.00	(3.32)	(87)
Long term bank debt				-	60.24	(100)
Convertible debentures at maturity				57.50	57.50	-
Shareholders' equity				34.34	52.58	(35)
Weighted Average Shares Outstanding for the Period (millions) - Basic	30.58	30.33	1	30.50	30.29	1
Weighted Average Shares Outstanding for the Period (millions) - Diluted	30.89	30.33	2	30.50	30.29	1
Total Common Shares Outstanding at Period End (millions)				30.61	30.37	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,			Year Ended December 31,	
	2016 (unaudited)	2015 (unaudited)	Percent Change	2016	2015
Operating Highlights					
Average Daily Production					
Oil and liquids (bbl/d)	1,952	3,635	(46)	2,943	3,721
Natural gas (mmcf/d)	2.98	4.23	(30)	3.50	5.02
Equivalent (boe/d)	2,449	4,340	(44)	3,526	4,561
Average Selling Price (before the impact of financial risk management contracts)					
Oil and liquids (\$/bbl)	46.82	40.19	16	39.19	45.9
Natural gas (\$/mcf)	3.03	2.46	2	1.95	2.68
Netback (\$/boe)					
Gross petroleum and natural gas sales	41.01	36.05	14	34.65	40.4
Royalties	(4.54)	(5.00)	(9)	(4.02)	(5.7)
Realized gain/(loss) on derivatives	-	7.94	(100)	1.75	11.1
Operating expenses	(21.18)	(21.32)	(1)	(18.37)	(20.9)
Transportation expenses	(0.45)	(0.56)	(20)	(0.46)	(0.6)
Operating netback	14.84	17.11	(13)	13.55	24.2
Wells Drilled, Net	-	3.0	(100)	-	6.0
Undeveloped Land at Period End (thousand net acres)				45	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 2016 and the fourth quarter of 2016 are provided in this press release. Previously, Zargon provided 2016 year end reserves, production updates and 2017 production/capital guidance in our February 23, 2017 and December 12, 2016 press releases. A brief summary/update of these materials is provided below:

Production Update, Capital Budget and Production Guidance

Zargon's fourth quarter 2016 production volumes averaged 2,449 barrels of oil equivalent per day which was two percent lower than Zargon's fourth quarter 2016 and calendar 2017 guidance levels of 2,500 barrels of oil equivalent per day.

Zargon's 2017 capital budget has been set at \$7.8 million and is projected to maintain production at stable 2017 guidance levels of 2,500 barrels of oil equivalent per day, and is expected to be fully financed out of 2017 corporate funds flow. The capital budget allocates \$2.7 million for Little Bow ASP polymer chemical costs, \$1.5 million for land retention and other development costs and \$3.6 million for oil and natural gas exploitation expenditures that were deferred due to the financial and pricing considerations over the last two years. For the first half of 2017, the exploitation projects include well recompletions, reactivations and optimizations at the Little Bow non-ASP and ASP projects, North Dakota properties and the Highvale natural gas property which are providing immediate production gains. These projects are augmented by waterflood modification and enhancement projects for the Little Bow non-ASP and Truro, North Dakota pools which will provide long term reserves and production.

For further information regarding Zargon's production volumes and capital programs, please refer to the Company's updated corporate presentation, which is available at www.zargon.ca.

Year End 2016 Reserves

Zargon's year end 2016 proved and probable reserves total 12.91 million barrels of oil equivalent and were appraised by Zargon's independent reserves evaluator, McDaniel & Associates Consultants Ltd. On a six-to-one equivalency basis, oil and liquids comprised 87 per cent of Zargon's total proved and probable reserves. Zargon's year end 2016 proved and probable, total proved and proved developed producing oil and liquids reserves are 11.18 million barrels, 7.15 million barrels and 6.28 million barrels, respectively.

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 developed 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.

Zargon's year end 2016 produce-out 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. This calculation 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 and working capital less the full future face value of the \$57.5 million convertible debentures. These 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.

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.

Hedging Update

Zargon has entered into a significant oil hedging program to improve the stability and predictability to cash flows. For January 2017, Zargon has entered into hedges to fix the West Texas Intermediate ("WTI") price of oil on 650 barrels per day of oil production at an average price of \$66.98 (Canadian). Similarly for the February 2017 through December 2017 period, Zargon's WTI hedges total 1,300 barrels of oil per day at a price of \$69.24 (Canadian). Additionally, Zargon has entered into a hedge to fix the differential between WTI and WCS (Western Canadian Select) prices at \$19.50 Canadian dollars for 1,300 barrels of oil per day for the period April to December 2017.

Strategic Alternatives Process Update

In third quarter 2015, Zargon announced the formation of a special board 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 oil assets and their related oil exploitation upside. To this end, the third quarter 2016 southeast Saskatchewan asset sale eliminated all of Zargon's bank debt. Earlier this year, Zargon's convertible unsecured subordinated debentures were successfully restructured to provide for a December 31, 2019 maturity date.

With the elimination of the company's bank debt and the restructuring of the debentures, Zargon will continue with its strategic alternatives process, which may include, among other alternatives, the addition of capital to further develop the potential of the company's assets, a merger, a farm-in or joint venture, the sale of the company or a portion of the company's assets, or other such options as may be determined by the company's board of directors to be in the best interests of the company's stakeholders. Macquarie Capital Markets Canada Ltd. is Zargon's exclusive financial adviser related to this component of its strategic alternatives process. The company has not set a definitive schedule to complete this process, and there are no guarantees that the process will result in a transaction of any form or, if a transaction is entered into, as to its terms or timing.

Forward-Looking Statements

This press release offers our assessment of Zargon's future plans and operations as at March 15, 2017, 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 2017 production and capital budget, including the allocation thereof and the sources of funding and various plans, other operational forecasts and plans and results therefrom under the headings "Production Update, Capital Budget and Production Guidance"; our reserves and future production referred to under the headings "Year End 2016 Reserves"; our strategic alternatives process under the heading "Strategic Alternatives Process Update". 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.

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, 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 financial statements for the year ended December 31, 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

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 (water floods 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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