

Zargon Oil & Gas Ltd. Provides 2013 Fourth Quarter and Full Year Financial Results

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CALGARY, ALBERTA--(Marketwired - Mar 11, 2014) - Zargon Oil & Gas Ltd. ("Zargon" or the "Company") (TSX:ZAR)(TSX:ZAR.DB)

HIGHLIGHTS FROM THE FOURTH QUARTER AND YEAR ENDED DECEMBER 31, 2013

- Fourth quarter 2013 funds flow from operating activities of \$12.15 million (\$0.40 per basic share) were 26 percent lower than the \$16.45 million (\$0.55 per basic share) recorded in the prior quarter due primarily to significantly lower oil field price realizations from unfavourable Edmonton Par to West Texas Intermediate ("WTI") oil price differentials. As a result, Zargon's fourth quarter oil field price realizations of \$73.40 per barrel were down 22 percent from the third quarter 2013 realized oil field price of \$94.10 per barrel.
- Fourth quarter oil production averaged 4,625 barrels of oil and liquids per day, down four percent from the preceding quarter. Fourth quarter natural gas production averaged 15.90 million cubic feet per day, a three percent decrease from the prior quarter. Reflecting our ongoing property disposition program, total fourth quarter production averaged 7,276 barrels of oil equivalent per day, a four percent decrease from the prior quarter.
- Monthly cash dividends of \$0.06 per common share were declared in the fourth quarter of 2013 for a total of \$5.42 million. These cash dividends were equivalent to a payout ratio of 45 percent of funds flow from operating activities.
- During the quarter, exploration and development capital expenditures (excluding property acquisitions and dispositions) were \$24.26 million for field related programs and included \$11.65 million of Alkaline Surfactant Polymer ("ASP") project spending. Zargon drilled 8.5 net wells which resulted in 5.5 net oil wells and 3.0 net ASP related service wells.
- Property dispositions in the fourth quarter totalled \$18.64 million and included the sale of 360 barrels of oil per day, and 0.68 million cubic feet of natural gas per day. These property sales were generally higher cost assets that do not conform with Zargon's focused oil exploitation strategy.
- For calendar 2013, funds flow from operating activities of \$58.48 million (\$1.95 per basic share) were three percent higher than the \$56.66 million (\$1.91 per basic share) recorded in the prior year.
- Oil and liquids production averaged 4,870 barrels of oil and liquids per day in 2013, a seven percent decrease from the preceding year as production additions from our 2013 drilling and exploitation activities were offset by property dispositions. Natural gas production averaged 15.59 million cubic feet per day in 2013, a nine percent decrease from 2012 reflecting natural occurring production declines and the continued curtailment of natural gas capital programs. Total 2013 production averaged 7,468 barrels of oil equivalent per day, an eight percent decrease from the prior year, a level that reflected significant property sales, a modest focused oil exploitation capital program, an ASP facility construction project that provides for significant future production growth and the beneficial effect of our low decline property base.
- Zargon declared cash dividends totalling \$0.72 per common share during 2013 for a total of \$21.61 million (\$20.35 million net of the Dividend Reinvestment Plan ("DRIP")). These cash dividends (net of the DRIP) were equivalent to a payout ratio of 35 percent of funds flow from operating activities. As previously reported, Zargon has suspended the DRIP until further notice starting with the September 2013 dividend.

- Net capital expenditures for the year totalled \$41.74 million; consisting of \$76.16 million of exploitation, development and facility programs and \$0.03 million of administrative assets which was offset by \$34.45 million of net property dispositions. The \$76.16 million of exploitation, development and facility programs include \$35.33 million of ASP project costs, which will provide significant oil production gains in 2015 and beyond. During the year, Zargon drilled 16.6 net wells yielding 13.6 net oil wells and 3.0 net ASP related service wells. Excluding the ASP project, Zargon's 2014 net capital expenditures were a modest \$6.41 million.
- Zargon's December 31, 2013 debt, net of working capital (excluding unrealized derivative assets/liabilities) and using the full future face value of the convertible debenture of \$57.50 million, of \$116.24 million, was approximately 1.99 times 2013 funds flow from operating activities, and was up three percent from the 2012 year end net debt of \$113.18 million. At December 31, 2013, Zargon had approximately \$125 million of unutilized credit facilities available.

	Three Months Ended December 31,			Year Ended December 31,		
	2013 (unaudited)	2012 (unaudited)	Percent Change	2013	2012	Percent Change
Financial Highlights						
Income and Investments (\$ millions)						
Gross petroleum and natural gas sales	35.84	37.88	(5)	158.65	157.95	-
Funds flow from operating activities	12.15	16.42	(26)	58.48	56.66	3
Cash flows from operating activities	13.56	16.85	(20)	57.00	58.87	(3)
Cash dividends (net of Dividend Reinvestment Plan)	5.42	4.70	15	20.35	27.35	(26)
Net loss	(4.91)	(9.88)	50	(5.90)	(5.38)	(10)
Field capital and administrative asset expenditures	24.27	25.59	(5)	76.19	64.75	18
Net property and corporate acquisitions/ (dispositions)	(18.68)	0.20	(9,440)	(34.45)	(34.50)	-
Net capital expenditures	5.59	25.79	(78)	41.74	30.25	38
Per Share, Basic						
Funds flow from operating activities (\$/share)	0.40	0.55	(27)	1.95	1.91	2
Net loss (\$/share)	(0.16)	(0.33)	52	(0.20)	(0.18)	(11)
Cash Dividends (\$/common share)	0.18	0.18	-	0.72	1.08	(33)
Balance Sheet at Period End (\$ millions)						
Property and equipment (D&P)				408.72	389.97	5
Exploration and evaluation assets (E&E)				13.33	19.97	(33)
Total assets				452.98	445.11	2
Working capital deficiency				18.77	19.94	(6)
Long term bank debt				39.97	35.74	12
Convertible debentures at maturity				57.50	57.50	-
Shareholders' equity				173.55	196.58	(12)
Weighted Average Shares Outstanding for the Period(millions) - Basic	30.09	29.81	1	30.02	29.61	1
Weighted Average Shares Outstanding for the Period(millions) - Diluted	30.09	29.81	1	30.02	29.61	1
Total Common Shares Outstanding at Period End (millions)				30.09	29.87	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.

	Three Months Ended December 31,			Year Ended December 31,		
	2013 (unaudited)	2012 (unaudited)	Percent Change	2013	2012	Percent Change
Operating Highlights						
Average Daily Production						
Oil and liquids (bbl/d)	4,625	5,065	(9)	4,870	5,255	(7)
Natural gas (mmcf/d)	15.90	15.93	-	15.59	17.17	(9)
Equivalent (boe/d)	7,276	7,720	(6)	7,468	8,117	(8)

Average Selling Price (before the impact of financial risk management contracts)						
Oil and liquids (\$/bbl)	73.40	72.06	2	79.88	75.07	6
Natural gas (\$/mcf)	3.15	2.93	8	2.93	2.16	36
Netback (\$/boe)						
Gross petroleum and natural gas sales	53.55	53.33	-	58.20	53.16	9
Royalties	(10.14)	(9.94)	2	(10.76)	(10.14)	6
Realized gain/(loss) on derivatives	(0.22)	3.70	(106)	(0.16)	(0.05)	(220)
Operating expenses	(15.93)	(15.79)	1	(16.96)	(15.92)	7
Transportation expenses	(0.57)	(0.70)	(19)	(0.65)	(0.52)	25
Operating netback	26.69	30.60	(13)	29.67	26.53	12
Wells Drilled, Net	8.5	15.0	(43)	16.6	27.8	(40)
Undeveloped Land at Period End (thousand net acres)				230	337	(32)

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. has released financial and operating results for the fourth quarter of 2013 that have demonstrated significant progress in the company's drive to become a long-term sustainable, dividend-paying energy producer. The quarter was highlighted by a continuing successful property disposition program and by the ongoing field construction of the company's Little Bow ASP tertiary oil recovery project in Southern Alberta.

Zargon's sustainability model entails the balancing of cash inflows and outflows, the maintenance of a stable dividend, the eventual generation of meaningful free cash flow per share growth, while continuing the shift toward oil and liquids production. Zargon believes that the Little Bow ASP tertiary oil recovery production provides the foundation for these sustainability objectives by delivering a substantial low-decline, low-sustaining-capital, high-netback and long-life project to the Company.

The Company's focus for 2014 will be to:

- Finish the commissioning of the Little Bow ASP project on budget, with first chemical injections occurring by the end of the 2014 first quarter. Deliver Little Bow Phase 1 ASP operational and production targets of an incremental 350 barrels of oil per day by year end (increasing to a 2015 average rate of 900 barrels of oil per day);
- Finalize the design of the Little Bow Phase 2 ASP project and advance the Little Bow Phase 3 and 4 ASP engineering studies;
- Deliver a consistent dividend of \$0.06 per common share per month;
- Execute a continuing property divestiture program designed to high-grade and concentrate the Company's asset portfolio on our core oil exploitation projects;
- Direct a high-graded oil exploitation program focused on our five long-life low-decline oil exploitation properties (Williston Basin, Taber, Bellshill Lake, Little Bow non-ASP and Hamilton Lake); and
- Maintain a strong balance sheet.

Recent Developments

- Construction of the Little Bow ASP tertiary oil recovery project is essentially complete and facility commissioning continues. Water softening and selected chemical mixing operations have commenced and first chemical injections are expected to occur by the end of this month (March 2014). This Little Bow ASP project entails the injection of large volumes of a dilute chemical solution into a partially depleted oil reservoir to recover incremental oil reserves. For further information regarding the Little Bow ASP project, please refer to Zargon's February 19, 2014 press release and Zargon's updated corporate presentation, which is available on our website at www.zargon.ca.

- In order to protect our balance sheet during the Little Bow ASP Phase 1 construction phase, Zargon sold a significant component of forward oil and natural gas production volumes. For 2014 oil, Zargon has entered into 2,600 barrels of oil per day of oil fixed price sales contracts at an average WTI price of \$91.90 US per barrel and for 2015, Zargon has entered into 100 barrels of oil per day of oil fixed price sales contracts at an average WTI price of \$91.73 US per barrel. For 2014 natural gas, Zargon has entered into 7,750 gigajoules of natural gas per day of natural gas fixed price sales contracts at an average AECO price of \$3.69 Cdn per gigajoule and for 2015, Zargon has entered into 1,500 gigajoules of natural gas per day of natural gas fixed price sales contracts at an average AECO price of \$4.25 Cdn per gigajoule. For further information regarding Zargon's oil and natural gas hedging program, please refer to Zargon's updated corporate presentation, which is available on our website at www.zargon.ca.

Operational Update and Production/Capital Guidance

- Zargon Oil & Gas Ltd. has recently provided a Little Bow alkaline surfactant polymer tertiary oil recovery project update, an operational update, and 2014 production/capital guidance in a February 19, 2014 press release, which is 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 March 11, 2014, 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: operational forecasts and plans and results therefrom under the heading "Message to Shareholders"; our plans with respect to our Little Bow ASP project and the results therefrom referred to under the heading "Message to Shareholders"; our plans for our hedges under the heading "Recent Developments"; and all matters, including guidance as to our production capital under the heading "Operational Update and Production/Capital 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, 2013 and 2012 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, 2013 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 30.095 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 that has delivered a long history of returns and dividends (distributions). Zargon's business is focused on oil exploitation projects 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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