

FINANCIAL AND OPERATING HIGHLIGHTS (THREE MONTHS ENDED MARCH 31, 2015)

- Funds flow from operating activities of \$7.2 million were 43 percent lower than the \$12.6 million recorded in the prior quarter, and 53 percent lower than the \$15.3 million reported in first quarter of 2014. Funds flow from operating activities for the 2015 first quarter included reductions of \$0.6 million of one-time general & administration costs and \$1.5 million of asset retirement expenses.
- Reflecting the prior year's dispositions, first quarter 2015 production averaged 3,928 barrels of oil and liquids per day, a five percent decrease from the preceding quarter and first quarter 2015 natural gas production averaged 5.2 million cubic feet per day, a 19 percent decrease from the preceding quarter. Total production averaged 4,802 barrels of oil equivalent per day, an eight percent decrease from the preceding quarter. During the quarter, oil and liquids production represented 82 percent of total production based on a 6:1 equivalent basis. The oil volumes are comprised of (low decline) waterflood and water drive production that is beginning to be augmented by ASP tertiary recovery oil volumes.
- Three monthly cash dividends of \$0.03 per common share were declared in the first quarter of 2015 for a total of \$2.7 million. These cash dividends were equivalent to a payout ratio of 38 percent of funds flow from operating activities.
- First quarter 2015 exploration and development capital expenditures (excluding property acquisitions and dispositions) were \$5.4 million and included \$4.3 million of expenditures related to the Little Bow ASP project (\$1.4 million exploitation and \$2.9 million chemical costs). No wells were drilled in the quarter.
- Zargon's March 31, 2015 debt, net of working capital (excluding unrealized derivative assets/liabilities) and the convertible debenture of \$57.5 million, was \$113.9 million. At March 31, 2015, Zargon had approximately \$75 million of available credit facilities remaining on its \$130 million borrowing base.

	Three Months Ended March 31,		
	2015	2014	Percent Change
Financial Highlights			
Income and Investments (\$ millions)			
Gross petroleum and natural gas sales	16.41	40.26	(59)
Funds flow from operating activities	7.24	15.30	(53)
Cash flows from operating activities	6.67	14.86	(55)
Cash dividends	2.72	5.42	(50)
Net earnings/(loss)	(4.88)	0.17	(2,971)
Field capital and administrative asset expenditures	5.40	16.94	(68)
Net property and corporate dispositions	-	(1.46)	100
Net capital expenditures	5.40	15.48	(65)
Per Share, Basic			
Funds flow from operating activities (\$/share)	0.24	0.51	(53)
Net earnings/(loss) (\$/share)	(0.16)	0.01	(1,700)
Cash Dividends (\$/common share)	0.09	0.18	(50)
Balance Sheet at Period End (\$ millions)			
Property and equipment (D&P)	337.45	414.85	(19)
Exploration and evaluation assets (E&E)	6.75	13.29	(49)
Total assets	377.16	462.66	(18)
Working capital deficiency	6.39	13.68	(53)
Long term bank debt	49.91	50.55	(1)
Convertible debentures at maturity	57.50	57.50	-
Shareholders' equity	155.67	169.56	(8)
Weighted Average Shares Outstanding for the Period (millions) - Basic	30.25	30.10	-
Total Common Shares Outstanding at Period End (millions)	30.27	30.12	-

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 March 31,
2015 2014 Percent Change

Operating Highlights

Average Daily Production				
Oil and liquids (bbl/d)	3,928	4,320	(9)
Natural gas (mmcf/d)	5.24	14.05	(63)
Equivalent (boe/d)	4,802	6,662	(28)
Average Selling Price (before the impact of financial risk management contracts)				
Oil and liquids (\$/bbl)	42.26	86.71	(51)
Natural gas (\$/mcf)	3.12	5.18	(40)
Netback (\$/boe)				
Gross petroleum and natural gas sales	37.98	67.15	(43)
Royalties	(5.78) (11.21) (48)
Realized gain/(loss) on derivatives	19.28	(3.84) 602	
Operating expenses	(21.29) (17.04) 25	
Transportation expenses	(0.73) (0.85) (14)
Operating netback	29.46	34.21	(14)
Wells Drilled, Net	-	3.7	(100)
Undeveloped Land at Period End (thousand net acres)	85	202	(58)

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 first quarter of 2015.

In the recent April 16, 2015 press release, Zargon provided updated information about the Little Bow ASP tertiary recovery project, the 2015 capital budget and 2015 production guidance. These materials plus additional information regarding recent Little Bow ASP project production rates and improving oil cuts may be found in our updated corporate presentation, which is available at www.zargon.ca.

Little Bow ASP Royalty Approvals

In late April 2015, Zargon received formal approval from the Alberta Department of Energy for royalty relief under the Enhanced Oil Recovery Royalty Regulations for the Little Bow ASP Project. With this approval, the project will receive a five percent Alberta Crown oil royalty rate for a period of 10 years. It is Zargon's intent to commence the project's royalty relief period in the 2015 third quarter.

Chief Financial Officer Appointment

Finally, Zargon is pleased to announce that Jeffrey Post has been promoted to the position of Chief Financial Officer effective May 14, 2015. Mr. Post has served as Zargon's Corporate Controller since February 2014. He joined Zargon in 2009, graduated from the University of Saskatchewan with a Bachelor of Commerce degree in 2006 and has been a Chartered Accountant since 2009.

Forward-Looking Statements

This press release offers our assessment of Zargon's future plans and operations as at May 13, 2015, 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 royalties, including the Alkaline Surfactant Polymer ("ASP") Project, under the heading "Little Bow ASP Royalty Approvals".

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 March 31, 2015 and 2014 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 mcfs 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 months ended March 31, 2015 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 30.274 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 recently tertiary ASP) that profitably increase oil production and recovery factors from existing oil reservoirs. Ultimately, these projects will provide a long-life low-decline oil production that will support many years of stable dividends.

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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