

FINANCIAL & OPERATING HIGHLIGHTS (THREE MONTHS ENDED SEPTEMBER 30, 2016)

- Pursuant to Zargon's strategic alternatives process, Zargon closed the sale of all its Southeast Saskatchewan and its Killam, Alberta properties in the third quarter. Total cash proceeds from the dispositions (after adjustments) was \$92.04 million.
- Funds flow from operating activities of a negative \$0.61 million compare to the positive \$3.53 million recorded in the prior quarter, and the positive \$3.29 million reported in the third quarter of 2015. The reduction in funds flow is primarily due to one-time employee severance costs of \$1.72 million and transaction costs of \$0.92 million relating to the sale of Zargon's Southeast Saskatchewan and Killam, Alberta properties.
- As a result of previously announced third quarter property sales, third quarter 2016 oil and liquids production averaged 2,915 barrels per day, a 15 percent decrease from the preceding quarter rate of 3,413 barrels of oil and liquids per day. Third quarter 2016 natural gas production averaged 3.39 million cubic feet per day, a five percent decrease from the preceding quarter. Total production averaged 3,480 barrels of oil equivalent per day, a 13 percent decrease from the preceding quarter. During the quarter, oil and liquids production represented 84 percent of total production based on a 6:1 equivalent basis.
- Third quarter 2016 operating and transportation costs totaled \$5.87 million (\$18.33 per barrel of oil equivalent), down 36 percent from the 2015 third quarter cost of \$9.11 million (\$21.95 per barrel of oil equivalent) and down nine percent from the 2016 second quarter cost of \$6.43 million (\$17.63 per barrel of oil equivalent).
- Third quarter 2016 general and administrative ("G&A") costs totaled \$3.22 million up 81 percent from the 2015 third quarter cost of \$1.78 million (\$4.28 per barrel of oil equivalent) and up 133 percent from the 2016 second quarter cost of \$1.38 million (\$3.77 per barrel of oil equivalent). Excluding one-time employee severance costs, third quarter 2016 G&A costs were \$1.50 million (\$4.67 per barrel of oil equivalent).
- Third quarter 2016 capital expenditures (excluding property dispositions) were \$1.90 million and included \$1.36 million of expenditures related to the Little Bow ASP project (\$0.08 million exploitation and \$1.28 million chemical costs). No wells were drilled in the quarter.
- At the end of the third quarter, Zargon had \$32.99 million in net debt, net of working capital. This total includes \$24.51 million in net cash balances offset by \$57.50 million of convertible debentures. The convertible debentures (TSX: ZAR.DB) bear interest at a rate of six percent per annum, and mature on June 30, 2017, at which time Zargon may redeem the debentures with cash or through the issuance of Zargon common shares priced at 95 percent of the then current Zargon share price.

2016	Three Months Ended September 30,			Nine Months Ended September 30,					
	2015	Percent Change		2016	2015	Pe			
Financial Highlights									
Income and Investments (\$ millions)									
Gross petroleum and natural gas sales	12.33	16.23	(24	)	35.47	52.96	(3	
Funds flow from/(used in) operating activities	(0.61)	3.29	(119)	2.64	20.52	(8	
Cash flows from operating activities	3.19	7.65	(58	)	6.44	21.30	(7	
Cash dividends	-	0.91	(100	)	-	6.36	(1	
Net earnings/(loss)	13.81	(41.16)	134	(0.28)	(49.81)	99
Field capital and administrative asset expenditures	1.76	6.85	(74	)	5.50	17.65	(6	
Net property acquisitions/ (dispositions)	(92.05)	0.53	-	(92.06)	0.48	-	
Net capital expenditures/ (dispositions)	(90.29)	7.38	(1323)	(86.56)	18.13	(5
Per Share, Basic									
Funds flow from/(used in) operating activities (\$/share)	(0.02)	0.11	(118)	0.09	0.68	(8	
Net earnings/(loss) (\$/share)	0.45	(1.36)	133	(0.01)	(1.65)	99
Cash Dividends (\$/common share)	-	0.03	(100	)	-	0.21	(1	
Balance Sheet at Period End (\$ millions)									
Property and equipment (D&P)					151.98	277.76	(4		
Exploration and evaluation assets (E&E)					3.12	6.33	(5		
Total assets					218.38	325.64	(3		
Net debt					32.99	116.96	(7		

Shareholders' equity				51.86	108.39	(5)
Weighted Average Shares Outstanding for the Period (millions) - Basic	30.50	30.29	1	30.47	30.27	1
Total Common Shares Outstanding at Period End (millions)				30.56	30.30	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.

Net debt is a non-GAAP measure that represents bank debt plus the convertible debenture of \$57.50 million and any working capital excluding unrealized derivative assets/liabilities.

Cash dividends were suspended after the October 2015 dividend paid on November 16, 2015.

	Three Months Ended September 30,			Percent Change		Nine Month September
2016	2015			2016	2015	2016
Operating Highlights						
Average Daily Production						
Oil and liquids (bbl/d)	2,915	3,633	(20	)	3,275	3,7
Natural gas (mmcf/d)	3.39	5.28	(36	)	3.67	5.2
Equivalent (boe/d)	3,480	4,513	(23	)	3,887	4,6
Average Selling Price (before the impact of financial risk management contracts)						
Oil and liquids (\$/bbl)	43.41	44.67	(3	)	37.76	47
Natural gas (\$/mcf)	2.20	2.66	(17	)	1.66	2.7
Netback (\$/boe)						
Gross petroleum and natural gas sales	38.50	39.08	(1	)	33.31	41
Royalties	(4.60	)	(5.91	)	(3.91)
Realized gain/(loss) on derivatives	(0.13	)	5.60	(102	)	2.12
Operating expenses	(17.79	)	(21.15	)	(17.78)
Transportation expenses	(0.54	)	(0.80	)	(0.46)
Operating netback	15.44	16.82	(8	)	13.28	26
Wells Drilled, Net	-	3.0	(100	)	-	3.0
Undeveloped Land at Period End (thousand net acres)					48	78

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 its financial and operating results for the third quarter of 2016.

Remaining Zargon Assets

With the completion of the Q3 2016 property sales, Zargon's remaining assets are highlighted by the Alberta Little Bow Alkaline Surfactant Polymer ("ASP") tertiary recovery project, the Alberta Taber and Bellshill Lake low decline oil properties and the remaining Williston Basin North Dakota properties, which are characterized by the following attributes:

- Proven developed producing reserves: 6.87 million barrels of oil equivalent - 89 percent oil and liquids (McDaniel & Associates Consultants Ltd. - Dec. 31, 2015).
- Proven plus probable reserves: 15.09 million barrels of oil equivalent - 88 percent oil and liquids (McDaniel & Associates Consultants Ltd. - Dec. 31, 2015).
- Undeveloped oil exploitation locations - 12 net locations (McDaniel & Associates Consultants Ltd. - Dec. 31, 2015).
- Little Bow ASP tertiary recovery project - In the third quarter, Zargon modified the ASP project's depletion strategy by shutting in higher water cut producers in under treated areas in order to reduce the polymer costs required to treat the re-injected water volumes. More importantly, by placing under treated areas of the ASP project on idle, Zargon can indefinitely defer the restart date for recommencing the Alkaline Surfactant injections in the Phase 1 area until Zargon's improved financial conditions can support the additional chemical capital expenditures. With these adjustments, the project's annual polymer chemical costs are reduced by approximately 25 percent from \$3.60 million to \$2.70 million per year. At higher oil prices, the existing ASP infrastructure can be utilized for multiple ASP phases and/or Polymer only projects that will target incremental oil recovery of approximately 10 percent on over 80 million barrels of working interest oil-in-place.

Q4 2016 Guidance

Fourth quarter 2016 production and cost guidance for Zargon's remaining assets are provided below:

- Oil and liquids production - 2,050 barrels per day, including 460 barrels of oil per day from the Little Bow ASP project and 380 barrels per day from the Williston Basin North Dakota properties.
- Total production - 2,500 barrels of oil equivalent per day.
- Base oil declines - Little Bow ASP: 10 percent, Other Alberta: 13 percent, North Dakota: 10 percent.
- Average royalties - Alberta including ASP: 8 percent, North Dakota: 24 percent.
- Operating Costs - \$19.20 million (annualized).
- G&A Budget - \$4.80 million (annualized).
- 2016 Q4 Capital Budget - ASP Polymer Injections: \$0.70 million, Other Oil Exploitation Projects: \$0.60 million, Abandonment and Site Reclamations: \$0.30 million.

We intend to set our 2017 capital budget in early January 2017 in the context of the business environment at that time. Our inventory of opportunities include reactivations, recompletions and facility upgrades that are projected to provide low cost production additions.

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

Strategic Alternatives Process Update

Last year, 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 conventional oil assets and the significant long term oil potential related to the Little Bow ASP project.

The realization of \$92.04 million of cash proceeds from the Q3 2016 property sales was a partial outcome of this process. With the elimination of the Company's bank debt, the strategic alternatives process is continuing, but has been refocused to include, among other alternatives, a restructuring of the Company's current capital structure, the addition of capital to further develop the potential of the assets, the sale of the Company or a portion of the Company's assets, a merger, a farm-in or joint venture, or other such options as may be determined by the Company's Board of Directors to be in the best interests of the Company and its stakeholders. Zargon's Special Board Committee has engaged Macquarie Capital Markets Canada Ltd. ("Macquarie") as its exclusive financial advisor related to this component of its strategic alternatives process. The Company has not set a definitive schedule to complete its evaluation and no decision on any particular alternative has been reached at this time. Zargon does not intend to disclose developments with respect to this process unless and until the Board of Directors has approved a definitive transaction or other course of action or otherwise deems disclosure of developments is appropriate or otherwise required by law. 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 November 14, 2016, 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 2016 capital budget, including the allocation thereof and the sources of funding and various plans, forecasts and estimates, and other operational forecasts and plans and results therefrom under the headings "Remaining Zargon Assets" and "Q4 2016 Guidance"; our expectations on operating, general and administrative, royalties, pricing and foreign exchange rates referred to under the heading "Q4 2016 Guidance"; our expectations on the release of the 2017 capital budget; our plans with respect to our Little Bow ASP project and the results therefrom referred to under the headings "Remaining Zargon Assets", "Q4 2016 Guidance" and "Strategic Alternatives Process Update"; our strategic alternatives process under the heading "Strategic Alternatives Process Update"; and all matters, including guidance as to our estimated 2016 production and production mix, under the heading "Q4 2016 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 "net debt", "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. The Company uses the term "debt net of working capital" or "net debt". Debt net of working capital, as presented, does not have any standardized meaning prescribed by IFRS and may not be comparable with the calculation of similar measures for other entities. Debt net of working capital, as used by the Company, is calculated as bank debt plus the convertible debenture of \$57.50 million and any working capital deficit excluding unrealized assets/liabilities. 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 September 30, 2016 and 2015 for a discussion of cash flows from operating activities, funds flow from operating activities and net debt.

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 mcfe 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 and nine months ended September 30, 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

Based in Calgary, Alberta, Zargon's securities trade on the Toronto Stock Exchange and there are currently approximately 30.558 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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