

*FINANCIAL AND OPERATING HIGHLIGHTS (THREE MONTHS ENDED MARCH 31, 2017)*

- Funds flow from operating activities of \$1.50 million compare to \$0.92 million recorded in the prior quarter, and the negative \$0.40 million reported in first quarter of 2016. The year over year increase in funds flow is primarily due to Zargon's sharply higher first quarter 2017 field oil price of \$49.30 per barrel, up 74 percent from the first quarter 2016 field oil price of \$28.27 per barrel.
- First quarter 2017 production averaged 2,579 barrels of oil equivalent per day, a five percent increase from the preceding quarter rate of 2,449 barrels of oil equivalent per day, and a 38 percent decrease from the 2016 first quarter rate of 4,176 barrels of oil equivalent per day that had included our Southeast Saskatchewan and selected Alberta assets that were sold in the third quarter of 2016. During the 2017 first quarter, oil and liquids production represented 78 percent of Zargon's total production based on a 6:1 equivalent basis.
- First quarter 2017 field operating netbacks defined as sales (excluding hedges) less royalties and operating/transportation costs were \$15.44 per barrel of oil equivalent up four percent from the fourth quarter 2016 field operating netback of \$14.84 per barrel of oil equivalent. The corresponding first quarter 2017 field operating cash flow was \$3.58 million, a seven percent gain from the prior quarter's \$3.34 million.
- For the 2017 first quarter, field revenues (unhedged) were \$41.74 per barrel of oil equivalent per day (\$41.01 per barrel of equivalent per day in Q4 2016), royalties were \$4.29 per barrel of oil equivalent per day (\$4.54 per barrel of equivalent per day in Q4 2016) and operating (including transportation) costs were \$22.01 per barrel of oil equivalent per day (\$21.63 per barrel of equivalent per day in Q4 2016). The operating costs were higher than budget due to higher workover and winter related surface access costs than anticipated. We are continuing to budget operating costs of \$20.96 per barrel of oil equivalent for the remainder of the year.
- First quarter 2017 capital expenditures were \$2.51 million and were primarily allocated to oil exploitation costs relating to recompletions, reactivations and waterflood/ASP optimizations. These first quarter expenditures included \$0.89 million of Little Bow ASP project costs (\$0.35 million exploitation and \$0.54 million chemical costs). No wells were drilled in the quarter.
- For the remainder of 2017, Zargon is budgeting \$5.29 million of capital expenditures that is anticipated to completely offset the impact of Zargon's base production decline rate of less than 10 percent per year. The capital program will be focused on Little Bow non-ASP waterflood modifications and reactivations, Bellshill Lake pumping oil well optimizations, a Highvale Glauconite gas recompletion, Little Bow ASP project polymer costs and North Dakota Frobisher (Bluell) recompletions. The remaining 2017 capital program does not include the drilling of any of the 11 undeveloped oil exploitation wells recognized in our McDaniel 2016 year end reserve report, or the recommencement of Little Bow alkaline and surfactant injections. These growth capital expenditures will require additional funding, pursuant to our strategic alternatives initiative.
- First quarter 2017 abandonment and reclamation costs totaled \$0.14 million and are forecast to total \$1.50 million in 2017.
- On February 14, 2017, Zargon received the approval of amendments to the convertible debentures which extended the maturity date to December 31, 2019 from June 30, 2017, increased the interest rate to eight percent from six percent, and reduced the conversion price on conversion of the debentures to \$1.25 from \$18.80 per share. Zargon redeemed \$15.56 million face value of debentures for \$14.84 million of cash on March 31, 2017, leaving a remaining \$41.94 million of convertible debentures outstanding. As of March 31, 2017, Zargon had no bank debt and positive working capital (excluding the impact of unrealized derivatives) of \$6.85 million, which resulted in net debt of \$35.09 million
- Zargon has entered into a significant oil hedging program to improve the stability and predictability to cash flows. Zargon's WTI hedges total 1,300 barrels of oil per day at a price of \$69.24 Canadian for the period from April to December 2017. Additionally, Zargon has entered into a hedge to fix the differential between WTI and WCS (Western Canadian Select) prices at \$19.50 Canadian for 1,300 barrels of oil per day for the period from April to December, 2017.
- On March 24, 2017, Zargon granted an aggregate of 1.34 million stock options to our directors, officers and certain employees at an exercise price of \$0.72 per share, under a proposed plan that will be voted upon at our May 30, 2017 Annual and Special General Meeting.

|                                                     | Three Months Ended March 31, |          |                |
|-----------------------------------------------------|------------------------------|----------|----------------|
|                                                     | 2017                         | 2016     | Percent Change |
| Financial Highlights                                |                              |          |                |
| Income and Investments (\$ millions)                |                              |          |                |
| Gross petroleum and natural gas sales               | 9.69                         | 9.61     | 1              |
| Funds flow from/(used in) operating activities      | 1.50                         | (0.40)   | ) 475          |
| Cash flows from/(used in) operating activities      | (1.57)                       | ) 2.07   | (176 )         |
| Net loss                                            | (0.54)                       | ) (8.82) | ) 94           |
| Field capital and administrative asset expenditures | 2.37                         | 2.43     | (2 )           |

|                                                                         |        |         |       |
|-------------------------------------------------------------------------|--------|---------|-------|
| Net property acquisitions                                               | 0.13   | 0.04    | 225   |
| Net capital expenditures                                                | 2.51   | 2.47    | 2     |
| Per Share, Basic                                                        |        |         |       |
| Funds flow from/(used in) operating activities (\$/share)               | 0.05   | (0.01   | ) 600 |
| Net loss (\$/share)                                                     | (0.02  | ) (0.29 | ) 93  |
| Balance Sheet at Period End (\$ millions)                               |        |         |       |
| Property and equipment (D&P)                                            | 136.09 | 225.28  | (40 ) |
| Exploration and evaluation assets (E&E)                                 | 2.30   | 5.66    | (59 ) |
| Total assets                                                            | 153.75 | 255.14  | (40 ) |
| Net debt                                                                | 35.09  | 124.37  | (72 ) |
| Convertible debentures at maturity                                      | 41.94  | 57.50   | (27 ) |
| Shareholders' equity                                                    | 33.70  | 43.28   | (22 ) |
| Weighted Average Shares Outstanding for the Period (millions) - Basic   | 30.67  | 30.44   | 1     |
| Weighted Average Shares Outstanding for the Period (millions) - Diluted | 30.81  | 30.44   | 1     |
| Total Common Shares Outstanding at Period End (millions)                | 30.72  | 30.47   | 1     |

*Funds flow from operating activities is an additional GAAP term that represents net earnings/loss except for non-cash items. As at March 31, 2017, it has been restated and no longer includes asset retirement expenditures.*

*Net debt is a non-GAAP measure that represents bank debt (if any) plus the convertible debenture of \$41.94 (as at March 31, 2017) or \$57.50 million (prior to March 31, 2017) and any working capital excluding unrealized derivative assets/liabilities.*

|                                                                                  | Three Months Ended March 31, |          |                |
|----------------------------------------------------------------------------------|------------------------------|----------|----------------|
|                                                                                  | 2017                         | 2016     | Percent Change |
| Operating Highlights                                                             |                              |          |                |
| Average Daily Production                                                         |                              |          |                |
| Oil and liquids (bbl/d)                                                          | 2,016                        | 3,503    | (42 )          |
| Natural gas (mmcf/d)                                                             | 3.38                         | 4.04     | (16 )          |
| Equivalent (boe/d)                                                               | 2,579                        | 4,176    | (38 )          |
| Average Selling Price (before the impact of financial risk management contracts) |                              |          |                |
| Oil and liquids (\$/bbl)                                                         | 49.30                        | 28.27    | 74             |
| Natural gas (\$/mcf)                                                             | 2.45                         | 1.64     | 49             |
| Netback (\$/boe)                                                                 |                              |          |                |
| Gross petroleum and natural gas sales                                            | 41.74                        | 25.30    | 65             |
| Royalties                                                                        | (4.29                        | ) (2.95  | ) 45           |
| Realized gain on derivatives                                                     | 0.13                         | 3.79     | (97 )          |
| Operating expenses                                                               | (21.86                       | ) (18.52 | ) 18           |
| Transportation expenses                                                          | (0.15                        | ) (0.23  | ) (35 )        |
| Operating netback                                                                | 15.57                        | 7.39     | 111            |
| Wells Drilled, Net                                                               | -                            | -        | -              |
| Undeveloped Land at Period End (thousand net acres)                              | 40                           | 71       | (44 )          |

*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 first quarter of 2017.

## Production Guidance

In a December 12, 2016 capital budget press release, Zargon provided 2017 guidance levels of 2,500 barrels of oil equivalent per day. Actual first quarter volumes of 2,579 barrels of oil equivalent per day exceeded guidance levels by three percent, and guidance levels are maintained at 2,500 barrels of oil equivalent per day for the remainder of the year. These guidance levels are predicated on our \$7.80 million 2017 capital program, of which \$2.51 million was spent in the 2017 first quarter.

## Strategic Alternatives Process Update

In 2015, Zargon announced the formation of a Special Board Committee (the "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.

Last year's \$92.04 million of property sales and this year's partial repayment and amendment of Zargon's convertible debentures were a partial outcome of this process. With the debenture restructuring and elimination of bank debt now completed, the strategic alternatives process is continuing, and may include a sale of the Company or a portion of the Company's assets, a restructuring of the Company's current capital structure, the addition of capital to further develop the potential of the 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 May 10, 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 operating costs, capital budget and abandonment and reclamation costs under the heading "Financial & Operating Highlights", and our 2017 production under the heading "Production Guidance"; 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](http://www.zargon.ca) and on [www.sedar.com](http://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 and asset retirement expenditures 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](http://www.zargon.ca) and on [www.sedar.com](http://www.sedar.com) for the periods ended March 31, 2017 and 2016 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 unaudited financial statements for the three months ended March 31, 2017 and the accompanying MD&A. These filings are available on [www.zargon.ca](http://www.zargon.ca) and under Zargon's SEDAR profile on [www.sedar.com](http://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](http://www.zargon.ca) where you will find a current shareholder presentation, financial reports and historical news releases.

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