

Zargon Oil & Gas Ltd. Announces Q4 2017 Production Volumes and 2017 Year End Reserves

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CALGARY, Alberta, Feb. 12, 2018 (GLOBE NEWSWIRE) -- Zargon Oil & Gas Ltd. (the "Company" or "Zargon") (TSX:ZAR) (TSX:ZAR.DB.A) announces fourth quarter 2017 production volumes and announces 2017 year end reserves. Zargon intends to release its 2017 audited financial results on March 15, 2018, after market close.

2017 FOURTH QUARTER PRODUCTION VOLUMES:

Fourth quarter 2017 production averaged 2,416 barrels of oil equivalent per day, slightly lower than the fourth quarter 2016 rate of 2,449 barrels of oil equivalent per day and 2017 production guidance of 2,500 barrels of oil equivalent per day. The reduced volumes were primarily due to the shut-in of uneconomic gas production resulting from low field prices.

Fourth quarter 2017 oil and liquids production averaged 1,924 barrels per day, and compares to rates of 2,037 barrels of oil and liquids per day in the preceding quarter and 1,952 barrels of oil and liquids per day in the fourth quarter of 2016. Fourth quarter 2017 natural gas production averaged 2.95 million cubic feet per day, and compares to rates of 3.55 million cubic feet per day in the preceding quarter and 2.98 million cubic feet per day in the fourth quarter of 2016.

For calendar 2017, Zargon's production averaged 2,531 barrels of oil equivalent per day, and was comprised of 1,974 barrels of oil and liquids per day and 3.34 million cubic feet per day of natural gas. With the natural gas shut-ins, we are now forecasting first half 2018 production to average 2,525 barrels of oil and liquids per day, which is comprised of 2,050 barrels of oil and liquids per day and 2.85 million cubic feet of natural gas per day. Additional details regarding guidance, capital budgets, oil exploitation opportunities, hedging and corporate outlook are provided in our updated presentation and previous press releases that are located on our website at www.zargon.ca.

2017 YEAR END RESERVES:

- Zargon's reserves have been appraised by our independent reserves evaluator McDaniel & Associates Consultants Ltd. ("McDaniel") and are effective as of December 31, 2017. Zargon's 2017 year end proved and probable total reserves totalled 12.45 million barrels of oil equivalent, a four percent decrease from the 2016 year end reserves of 12.91 million barrels of oil equivalent. Total proved and probable oil and liquid reserves are 10.82 million barrels and represent 87 percent of Zargon's total reserves. These results were delivered with Zargon's restricted exploitation focused capital program of approximately \$8.9 million (unaudited) and did not include the drilling of any wells.
- Zargon's 2017 year end proved developed producing reserves decreased two percent to 6.93 million barrels of oil equivalent and included 6.00 million barrels of oil and liquids. Zargon's proved developed producing reserve totals represent 56 percent of the Zargon's total proved and probable reserves. In 2017, Zargon's restricted capital programs delivered proved developed producing reserve additions that replaced 84 percent of Zargon's 2017 production.

- Zargon's 2017 year end proved and probable developed producing reserves decreased three percent to 9.12 million barrels of oil equivalent and included 7.95 million barrels of oil and liquids. Zargon's proved and probable developed producing reserve totals represent 73 percent of the Zargon's total proved and probable reserves. In 2017, Zargon's restricted capital programs delivered proved and probable developed producing reserve additions that replaced 71 percent of Zargon's 2017 production.
- Zargon's oil properties are characterized by pressure supported reservoirs (waterflood, tertiary schemes or natural aquifers) that provide long-life, low-decline oil production. Consequently, Zargon's proved developed producing oil and liquids reserve life index is 8.5 years and Zargon's proved and probable producing oil and liquids reserve life index is 11.3 years. Finally, Zargon's total proved and probable oil and liquids reserve life index is 15.4 years. The relatively large developed producing reserve life indices are indicative of low decline oil production from relatively mature properties.
- Zargon's year end 2017 "produce-out" proved and probable net asset value is calculated to be \$2.69 per basic share. On a proved developed producing basis the "produce out" net asset value is calculated to be \$1.40 per basic share. These calculations reflect McDaniel's estimate of the Zargon properties' 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 less an allowance for the full future face value of the \$41.9 million convertible debenture and working capital. These net asset value estimates do not include site reclamation and abandonment costs for non-producing assets.

DETAILED RESERVE INFORMATION:

Reserves included herein are stated on a gross company working interest basis unless otherwise noted. All reserves information has been prepared in accordance with National Instrument 51-101 Standards of Disclosure ("NI 51-101"). In addition to the detailed information disclosed in this press release, more detailed information will be included in Zargon's 2017 Annual Information Form to be filed on SEDAR (www.sedar.com) and posted on our website (www.zargon.ca) in March 2018.

Based on the independent reserves evaluation conducted by McDaniel effective December 31, 2017, and prepared in accordance with NI 51-101, Zargon had proved and probable reserves of 12.45 million barrels of oil equivalent.

Company Reserves ⁽¹⁾

	Oil and Liquids (mmbbl)	Natural Gas (bcf)	Barrels of Oil Equivalent ⁽²⁾ (mmboe)
At December 31, 2017			
Proved producing	6.00	5.52	6.93
Proved non-producing	0.49	1.03	0.66
Proved undeveloped	0.35	-	0.35
Total proved	6.84	6.55	7.94
Probable additional producing	1.95	1.49	2.19
Probable non-producing and undeveloped	2.03	1.75	2.32
Total probable additional	3.98	3.24	4.51
Total proved and probable producing	7.95	7.01	9.12
Total proved and probable	10.82	9.79	12.45
Proved producing reserve life index, years ⁽³⁾	8.5	5.1	7.9
Proved reserve life index, years ⁽³⁾	9.7	6.1	9.0
Proved and probable producing reserve life index, years ⁽³⁾	11.3	6.5	10.3
Proved and probable reserve life index, years ⁽³⁾	15.4	9.1	14.1

¹. Company working interest reserves are gross reserves before deduction of royalties, boe (6:1).

². Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

3. Reserve life is calculated using annualized fourth quarter 2017 production.

A reconciliation summary of the 2017 year end reserve assignments with the reserves reported in the 2016 year end report based on McDaniel's forecast prices and costs is presented below:

Reserve Reconciliation (All Categories)

	Oil and Liquids (mmbbl)			Natural Gas (bcf)			Equivalents (mmboe)		
	Proved	Probable	Proved & Prob.	Proved	Probable	Proved & Prob.	Proved	Probable	Proved & Prob.
December 31, 2016	7.15	4.03	11.18	6.38	3.98	10.36	8.22	4.69	12.91
Discoveries and extensions	-	-	-	-	-	-	-	-	-
Revisions	0.39	(0.06)	0.33	1.38	(0.74)	0.64	0.62	(0.19)	0.43
Acquisitions and dispositions	0.02	0.01	0.03	-	-	-	0.02	0.01	0.03
Production	(0.72)	-	(0.72)	(1.21)	-	(1.21)	(0.92)	-	(0.92)
December 31, 2017	6.84	3.98	10.82	6.55	3.24	9.79	7.94	4.51	12.45

In calendar 2017, Zargon's capital program totaled \$8.9 million (unaudited) and did not include the drilling of any wells. On a total proved basis, Zargon added 0.41 million barrels of oil and liquids from revisions due mainly to successful oil exploitation and field optimization activities. For total proved natural gas reserves, Zargon added 1.38 billion cubic feet from revisions. On a combined basis, Zargon's 2017 total proved net reserve additions increased by 0.64 million barrels of oil equivalent. The McDaniel year over year change in the future proved development capital was a \$3.3 million reduction (\$15.6 million at December 31, 2017, compared to \$18.9 million at December 31, 2016).

On a total proved and probable basis, Zargon added 0.36 million barrels of oil and liquids and 0.64 billion cubic feet of natural gas reserves. On a combined basis, Zargon's 2017 total proved and probable net reserves additions resulted in an increase of 0.46 million barrels of oil equivalent. The McDaniel year over year changes in the future proved and probable development capital was a \$3.1 million decrease (\$61.2 million at December 31, 2017, compared with \$64.3 million at December 31, 2016).

Reserve Reconciliation (Developed Producing)

	Oil and Liquids (mmbbl)			Natural Gas (bcf)			Equivalents (mmboe)		
	Proved	Probable	Proved & Prob.	Proved	Probable	Proved & Prob.	Proved	Probable	Proved & Prob.
December 31, 2016	6.28	2.08	8.36	4.75	1.43	6.18	7.08	2.31	9.39
Discoveries and extensions	-	-	-	-	-	-	-	-	-
Revisions	0.43	(0.13)	0.30	1.98	0.06	2.04	0.76	(0.12)	0.64
Acquisitions and dispositions	0.01	-	0.01	-	-	-	0.01	-	0.01
Production	(0.72)	-	(0.72)	(1.21)	-	(1.21)	(0.92)	-	(0.92)
December 31, 2017	6.00	1.95	7.95	5.52	1.49	7.01	6.93	2.19	9.12

Zargon's reserves are characterized by long-life, low-decline oil production with a high producing developed component that provides a corresponding high confidence level. In calendar 2017, net positive reserve additions of 0.77 and 0.65 million barrels of oil equivalents were booked for the proved developed producing and proved and probable developed producing cases. Respectively, these reserve additions replaced 84 and 71 percent of Zargon's 2017 production. As of December 31, 2017, proved developed producing reserves represent 87 percent of total proved reserves and 56 percent of the total proved and probable reserves.

NET ASSET VALUE:

Zargon's oil, liquids and natural gas reserves were evaluated using McDaniel's price forecasts effective January 1, 2018, prior to provisions for income taxes, interest, debt service charges, transaction costs and general and administrative expenses. The estimated values of future net revenue disclosed do not represent the fair market value of the reserves.

Before Tax Present Value of Future Net Revenue
(Forecast Prices and Costs)

(\$ millions)	Discount Factor			
	0%	5%	10%	15%
Proved producing	115.1	94.6	79.2	67.9
Proved non-producing	6.8	5.4	4.1	3.0
Proved undeveloped	4.9	3.2	2.0	1.1
Total proved	126.8	103.2	85.3	72.0
Probable additional producing	57.1	32.6	21.0	14.8
Probable additional non-producing and undeveloped	44.8	24.9	13.1	5.8
Total probable additional	101.9	57.5	34.1	20.6
Total proved and probable producing	172.2	127.2	100.2	82.7
Total proved and probable	228.7	160.7	119.4	92.6

The following net asset value table shows what is customarily referred to as a "produce-out" net asset value calculation under which the current value of Zargon's reserves would be produced at McDaniel's forecast future prices and costs. The value is a snapshot in time as at December 31, 2017, and is based on various assumptions including commodity prices and foreign exchange rates that vary over time. In this analysis, the present value of the proved and probable reserves is calculated at a before tax 10 percent discount rate. In the net asset value calculation, Zargon's 32 thousand net acres of land is valued at \$1.8 million based on the independent firm of Seaton-Jordan & Associates Ltd. valuation as at December 31, 2017. These net asset value calculations do not include site reclamation and abandonment costs for non-producing assets.

Net Asset Value	Proved Developed and Producing Reserves	Proved and Probable Reserves
As at December 31, 2017 (\$ millions)		
Proved and probable reserves (PVBT 10%) ⁽¹⁾	79	119
Undeveloped land	2	2
Working capital (excluding unrealized derivative assets/liabilities) - unaudited	4	4
Convertible debenture – unaudited	(42)	(42)
Net asset value	43	83
Net asset value per share (\$/basic share) ⁽²⁾	1.40	2.69

1. McDaniel's estimate of future before tax cash flow discounted at PV 10 percent.

2. Calculated using basic total shares outstanding at December 31, 2017 of 30.801 million shares.

McDaniel & Associates Consultants Ltd. Price Forecast (effective January 1, 2018)

	WTI Crude Oil \$US/bbl	Edmonton Light Crude Oil \$C/bbl	Alberta Bow River Hardisty Crude Oil \$C/bbl	Western Canadian Select Crude Oil \$C/bbl	Alberta Heavy Crude Oil \$C/bbl	Sask Cromer Medium Crude Oil \$C/bbl	U.S. Henry Hub Gas Price \$US/MMBtu	Alberta AECO Spot Price \$C/MMBtu	US/CAN Exchange Rate \$US/\$CAN
2018	58.50	70.10	52.60	51.90	45.20	65.20	3.00	2.25	0.790
2019	58.70	71.30	57.80	57.00	49.60	66.30	3.05	2.65	0.790
2020	62.40	74.90	62.20	61.40	53.60	69.70	3.25	3.05	0.800
2021	69.00	80.50	66.80	66.00	57.60	74.90	3.55	3.40	0.825
2022	73.10	82.80	68.70	67.90	59.20	77.00	3.80	3.60	0.850
2023	74.50	84.40	70.10	69.20	60.30	78.50	3.85	3.65	0.850

2024	76.00	86.10	71.50	70.60	61.60	80.10	3.95	3.75	0.850
2025	77.50	87.80	72.90	72.00	62.80	81.70	4.00	3.80	0.850
2026	79.10	89.60	74.40	73.50	64.10	83.30	4.10	3.90	0.850
2027	80.70	91.40	75.90	74.90	65.40	85.00	4.15	3.95	0.850
2028	82.30	93.20	77.40	76.40	66.60	86.70	4.25	4.05	0.850
2029	83.90	95.00	78.90	77.90	67.90	88.40	4.35	4.15	0.850
2030	85.60	97.00	80.50	79.50	69.40	90.20	4.45	4.25	0.850
2031	87.30	98.90	82.10	81.10	70.70	92.00	4.50	4.30	0.850
2032	89.10	100.90	83.70	82.70	72.10	93.80	4.60	4.60	0.850
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	0.850

Forward-Looking Statements - This press release contains forward-looking statements relating to our plans and operations as at February 12, 2018. Forward-looking statements typically use words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "plan", "intend", "believe" and similar expressions (including the negatives thereof). In particular, this press release contains forward-looking statements relating, but not limited to: our business strategy, plans and management focus; the timing of release of our 2018 financial results and 2018 Annual Information Form, 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.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, such as 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 will be available on SEDAR and our website. Forward-looking statements are provided to allow investors to have a greater understanding of our business.

You are cautioned that the assumptions, including, among other things, future oil and natural gas prices; future capital expenditure levels (including ASP); 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; our ability to obtain financing on acceptable terms; and our ability to add production and reserves through our development and acquisition activities used in the preparation of such information, 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 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.

Other Advisories - Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, 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. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

FURTHER INFORMATION:

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

currently approximately 30.846 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 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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