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ZARGON OIL & GAS LTD. ANNOUNCES SALE OF ZARGON'S SOUTHEAST SASKATCHEWAN ASSETS FOR \$89.5 MILLION

CALGARY, ALBERTA – Zargon Oil & Gas Ltd. (the “Company” or “Zargon”) has entered into a definitive agreement for the sale of all of its Southeast Saskatchewan assets for cash consideration of \$89.5 million, subject to normal closing adjustments. The effective date of the transaction is July 1, 2016 and the transaction is expected to close in early September. The assets have the following attributes:

- Production: 1,211 barrels of oil equivalent per day of low decline production – 95 percent oil and liquids (first half 2016 rates).
- Proven plus probable reserves: 5.14 million barrels of oil equivalent – 96 percent oil and liquids (McDaniel & Associates Consultants Ltd. – Dec. 31, 2015).

The proceeds of the transaction will initially be used to eliminate Zargon’s bank debt. As outlined below, Zargon’s net debt (including debentures) will be approximately \$35.0 million following the transaction:

- Bank debt and net working capital – \$65.0 million as of June 30, 2016.
- Net sale proceeds after closing adjustments – \$87.5 million.
- Outstanding June 2017 Convertible Debentures – \$57.5 million

Remaining Zargon Assets

With the completion of the Southeast Saskatchewan sale, Zargon’s remaining assets will be 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. The 2015 year end reserves and first half 2016 production rates for these properties are summarized below:

- Production: 2,882 barrels of oil equivalent per day of low decline production – 80 percent oil and liquids.
- Proven plus probable reserves: 15.76 million barrels of oil equivalent – 87 percent oil and liquids (McDaniel & Associates Consultants Ltd. – Dec. 31, 2015).
- Undeveloped oil exploitation locations – 17 net locations (McDaniel & Associates Consultants Ltd. – Dec. 31, 2015).

- Little Bow ASP tertiary recovery project – Currently, the ASP project is forecast to provide stable oil production for a few quarters. At higher oil prices, the existing ASP infrastructure can be utilized for multiple ASP phases and Polymer only projects seeking a 10 percent incremental oil recovery on over 80 million barrels of working interest oil-in-place.

Pro forma, upon successful completion of the sale of the Southeast Saskatchewan properties, Zargon's remaining assets are forecast to have the following attributes in the second half of 2016.

- Oil and liquids production – 2,240 barrels per day.
- Total production – 2,750 barrels of oil equivalent per day.
- Base oil declines – Little Bow ASP; no decline, stable rates at recent levels: Other Alberta; 14 percent: North Dakota: 6 percent.
- Average royalties – Alberta including ASP; 8 percent: North Dakota; 24 percent.
- Operating Costs – Alberta including ASP; \$18.0 million (annualized): North Dakota; \$2.0 million (annualized).
- 2016 second half Capital Budget – ASP Polymer Injections; \$1.8 million, Other Oil Exploitation Projects: \$0.6 million, Abandonments and Site Reclamations; \$0.3 million.
- 2017 Capital Budget – ASP Polymer Injections; \$3.6 million, Other Oil Exploitation Projects: \$1.5 million, Abandonments and Site Reclamations; \$1.5 million. If oil prices improve from current levels, this budget can be increased to incorporate high-graded oil exploitation locations and the resumption of Alkaline and Surfactant injections in high-graded areas of the Little Bow ASP project.

Additional information regarding Zargon's low decline, oil exploitation properties are available on our website at www.zargon.ca. Zargon intends to release its Q2 2016 unaudited financial results on August 10, 2016, after market close.

Ongoing strategic alternatives process

Last year, Zargon announced the formation of a special board committee to examine alternatives that would maximize stakeholder 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. Scotia Waterous Inc. is the financial adviser for the committee.

The sale of Zargon's Southeast Saskatchewan assets is a significant step in this process. The strategic alternatives process is continuing and may include but is not limited to, a financing, merger or other business combination, sale of the company or a portion of the company's business or assets, or any combination thereof, as well as the continued execution of our business plan.

Forward-Looking Statements

This press release contains forward-looking statements relating to our plans and operations as at July 25 2016. 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 2016 second quarter results; our expected oil decline rates, average royalties, operating costs and net debt; plans with respect to our remaining assets, plans with respect to our 2016 and 2017 capital programs, including ASP, our forecasted 2016 production guidance and our plans for our strategic alternatives process. 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.

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 30.470 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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