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**ZARGON OIL & GAS LTD. ANNOUNCES PROPOSAL TO AMEND ITS CONVERTIBLE
UNSECURED SUBORDINATED DEBENTURES**

CALGARY, ALBERTA — Zargon Oil & Gas Ltd. (the "Company" or "Zargon") announced today that it will seek the approval of holders (the "Debentureholders") of its 6.00% convertible unsecured subordinated debentures due June 30, 2017 (the "Debentures") to amend certain terms of the Debentures at a meeting of Debentureholders expected to be held in February of 2017 (the "Meeting").

Debenture Amendments:

The proposed amendments (the "Amendments") to the Debentures will consist of:

- extending the maturity date of the Debentures from June 30, 2017 to December 31, 2019;
- increasing the interest rate of the Debentures from 6.00% per annum to 8.00% per annum effective April 1, 2017;
- reducing the conversion price in effect for each common share of Zargon ("Common Share") to be issued upon the conversion of the Debentures from \$18.80 to \$1.25 per share;
- amending the redemption provisions of the Debentures to provide Debentureholders with a right (the "Put Right") to require Zargon to redeem, for up to \$19 million, Debentures at a cash price to be determined by a "Dutch auction" process described below; and
- amending the redemption provisions of the Debentures to provide that (other than in connection with the Put Right) the Debentures will not be redeemable by the Company before January 1, 2019 and for the 12 months following January 1, 2019, the Debentures may only be redeemed by the Company if the Current Market Price (as defined in the indenture governing the debentures (the "Indenture") of the Common Shares exceeding 125% of the reduced conversion price (in both instances except pursuant to change of control as outlined in Indenture).

At the Meeting, Debentureholders will be asked to approve the Amendments by an extraordinary resolution authorizing Zargon and the trustee of the Debentures to enter into a supplemental indenture (the "Supplemental Indenture") to give effect to the Amendments. For the Amendments to be approved, holders of not less than 25% of the principal amount of the Debentures outstanding must be represented in person or by proxy at the Meeting, and the extraordinary resolution must be passed by Debentureholders' votes representing no less than 66 2/3% of the principal amount of the Debentures represented at the

Meeting. A proxy form and a management information circular is expected to be mailed to Debentureholders in connection with the Meeting in January of 2017.

Following the Meeting and provided the Debentureholders approve the Amendments, Debentureholders will have the benefit of the Put Right pursuant to which Debentureholders may tender their Debentures for redemption at a price per \$1,000 principal amount of Debentures specified by the Debentureholder, which price may be not less than \$890 per \$1,000 principal amount of Debentures. The Put Right will expire at 5:00 p.m. (Eastern time) on the date that is 45 days from the date of the Supplemental Indenture unless terminated, extended or varied by Zargon (such time and date, the "Expiration Time"). Promptly following the Expiration Time, Zargon will redeem the Debentures tendered, starting with those tendered at the lowest price, and continuing with those tendered at increasing prices, until it has redeemed not more than \$19 million in total of tendered Debentures.

Macquarie Capital Markets Canada Ltd. ("Macquarie Capital") is acting as exclusive financial advisor to Zargon in connection with the previously announced strategic alternatives process, which includes the proposed Amendments. Macquarie Capital has provided the Board of Directors of Zargon (the "Zargon Board") with a verbal fairness opinion that, subject to review of the final form of documents affecting the Amendments, as of the date hereof, the Amendments are fair to the Debentureholders, from a financial point of view.

The Zargon Board believes the Amendments are advantageous to Debentureholders and recommends that Debentureholders vote in favour of the Amendments for the following reasons:

- the Amendments provide Debentureholders with a significantly enhanced value proposition to both the underlying bond value (increased interest rate) and the embedded conversion option value (the lower conversion price, extended term, and extended call protection mechanisms);
- the Amendments provide Debentureholders with a security priced in the context of the current market environment, rather than an instrument based on historical market conditions and dynamics;
- the increased interest rate represents an attractive yield to Debentureholders;
- the decrease in the conversion price of the Debentures increases the number of Common Shares underlying each \$1,000 of principal amount of the Debentures by approximately 1,409% from 53 Common Shares to 800 Common Shares, affording Debentureholders a more attractive price if the conversion option is exercised and provide Debentureholders with a better opportunity to benefit from potential future increases in the Company's share price;
- the Amendments giving the Debentureholders the Put Right to have their Debentures redeemed through the auction process will provide tendering Debentureholders with immediate liquidity and certainty of value; and
- the Amendments will provide the Company with financing on acceptable terms, thereby avoiding the need to allocate existing cash or raise additional capital to repay the Debentures in 2017 at a time when commodity markets may continue to be depressed and such cash could be better applied to the Company's operating and development activities. Extending the maturity date will also avoid the possibility that the Company will elect to issue Common Shares to satisfy the repayment of principal and will allow the Company to defer the repayment of principal to a time when the commodity markets may be improved.

FURTHER INFORMATION

Based in Calgary, Alberta, Zargon's securities trade on the Toronto Stock Exchange and there are currently approximately 30.607 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. For further information please contact:

C.H. Hansen
President and Chief Executive Officer

Zargon Oil & Gas Ltd.
Telephone: 403-264-9992
E-mail: zargon@zargon.ca
Website: www.zargon.ca

ADVISORY ON FORWARD-LOOKING STATEMENTS

This press release contains forward-looking statements. More particularly, this press release contains statements concerning, but not limited to: the proposed Amendments; the timing for mailing of the information circular, the anticipated Meeting date; the benefits of the Amendments to Debentureholders; and the effect of the Amendments on the Company's financial position. Although management believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, performance or achievement since such expectations are inherently subject to significant business, economic, operational, competitive, political and social uncertainties and contingencies. As a consequence, actual results may differ materially from those anticipated in the forward looking statements. These forward-looking statements involve substantial known and unknown risks and uncertainties, certain of which are beyond Zargon's control, and many factors could cause Zargon's actual results to differ materially from those expressed or implied in any forward-looking statements made by the Company, including, but not limited to: changes to the Meeting, including anticipated dates; the benefits of the Amendments to the Debentures; the impact of the Amendments to the Debentures on the Company's stakeholders and on the Company and its financial position, liquidity and outlook; ability to obtain approval of the Amendments to the Debentures by extraordinary resolution; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by the Company. Readers are cautioned that the foregoing list of important factors is not exhaustive.

Such forward-looking statements are based on certain assumptions made by Zargon in light of its experience and perception of current conditions and expected future developments, as well as other factors the Company believes are appropriate in the circumstances, including, but are not limited to: that Zargon will have the financial ability to satisfy its Put Right obligations; that Debentureholders will approve the Amendments; and other matters.

The forward-looking statements contained in this press release are made as of the date hereof and Zargon undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.