ZARGON OIL & GAS LTD.

2015 Q1 FINANCIAL REPORT

FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended March 31,		
(unaudited)	**2015**	2014	Percent Change
Financial			
Income and Investments ($ millions)			
Gross petroleum and natural gas sales	**16.41**	40.26	(59)
Funds flow from operating activities	**7.24**	15.30	(53)
Cash flows from operating activities	**6.67**	14.86	(55)
Cash dividends	**2.72**	5.42	(50)
Net earnings/(loss)	**(4.88)**	0.17	(2,971)
Net capital expenditures	**5.40**	15.48	(65)
Per Share, Basic			
Funds flow from operating activities ($/share)	**0.24**	0.51	(53)
Cash flows from operating activities ($/share)	**0.22**	0.49	(55)
Net earnings/(loss) ($/share)	**(0.16)**	0.01	(1,700)
Cash Dividends ($/common share)	**0.09**	0.18	(50)
Balance Sheet at Period End ($ millions)			
Property, plant and equipment	**337.45**	414.85	(19)
Exploration and evaluation assets	**6.75**	13.29	(49)
Long term bank debt	**49.91**	50.55	(1)
Convertible debentures at maturity	**57.50**	57.50	–
Shareholders' equity	**155.67**	169.56	(8)
Total Common Shares Outstanding at Period End (millions)	**30.27**	30.12	–
Operating			
Average Daily Production			
Oil and liquids (bbl/d)	**3,928**	4,320	(9)
Natural gas (mmcf/d)	**5.24**	14.05	(63)
Equivalent (boe/d)	**4,802**	6,662	(28)
Average Selling Price (before the impact of financial risk management contracts)			
Oil and liquids ($/bbl)	**42.26**	86.71	(51)
Natural gas ($/mcf)	**3.12**	5.18	(40)
Wells Drilled, Net	**–**	3.7	(100)
Undeveloped Land at Period End (thousand net acres)	**85**	202	(58)

Throughout this report, 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. For a further discussion about this term, refer to the Management's Discussion and Analysis section in this report.

Funds flow from operating activities is an additional GAAP term that represents net earnings/(loss) and asset retirement expenditures except for non-cash items. For a further discussion about this term, refer to the Management's Discussion and Analysis section in this report.

Message to Shareholders [1]

Zargon Oil & Gas Ltd. has released financial and operating results for the first quarter of 2015. Specific financial and operating highlights in the first quarter of 2015 include:

- Funds flow from operating activities of $7.2 million were 43 percent lower than the $12.6 million recorded in the prior quarter, and 53 percent lower than the $15.3 million reported in first quarter of 2014. Funds flow from operating activities for the 2015 first quarter included reductions of $0.6 million of one-time general & administration costs and $1.5 million of asset retirement expenses.
- Reflecting the prior year's dispositions, first quarter 2015 production averaged 3,928 barrels of oil and liquids per day, a five percent decrease from the preceding quarter and first quarter 2015 natural gas production averaged 5.2 million cubic feet per day, a 19 percent decrease from the preceding quarter. Total production averaged 4,802 barrels of oil equivalent per day, an eight percent decrease from the preceding quarter. During the quarter, oil and liquids production represented 82 percent of total production based on a 6:1 equivalent basis. The oil volumes are comprised of (low decline) waterflood and water drive production that is beginning to be augmented by ASP tertiary recovery oil volumes.
- Three monthly cash dividends of $0.03 per common share were declared in the first quarter of 2015 for a total of $2.7 million. These cash dividends were equivalent to a payout ratio of 38 percent of funds flow from operating activities.
- First quarter 2015 exploration and development capital expenditures (excluding property acquisitions and dispositions) were $5.4 million and included $4.3 million of expenditures related to the Little Bow ASP project ($1.4 million exploitation and $2.9 million chemical costs). No wells were drilled in the quarter.
- Zargon's March 31, 2015 debt, net of working capital (excluding unrealized derivative assets/liabilities) and the convertible debenture of $57.5 million, was $113.8 million. At March 31, 2015, Zargon had approximately $75 million of available credit facilities remaining on its $130 million borrowing base.

In the recent April 16, 2015 press release, Zargon provided updated information about the Little Bow ASP tertiary recovery project, the 2015 capital budget and 2015 production guidance. These materials plus additional information regarding recent Little Bow ASP project production rates and improving oil cuts may be found in our updated corporate presentation, which is available at www.zargon.ca.

(1) Please see comments on "Forward-Looking Statements" in the Management's Discussion and Analysis section in this report.

Production

(boe/d)

Oil and Liquids Production

(bbl/d)

Natural Gas Production

(mmcf/d)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") is a review of Zargon Oil & Gas Ltd.'s 2015 first quarter financial results and should be read in conjunction with the unaudited interim consolidated financial statements and related notes for the three months ended March 31, 2015 and the audited consolidated financial statements and related notes for the year ended December 31, 2014. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), which are also generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada. All amounts are in Canadian dollars unless otherwise noted. All references to "Zargon" or the "Company" refer to Zargon Oil & Gas Ltd.

In the MD&A, natural gas is converted to a barrel of oil equivalent ("Boe") using six thousand cubic feet of gas to one barrel of oil. In certain circumstances, natural gas liquid volumes have been converted to a thousand cubic feet equivalent ("Mcfe") 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.

The following are descriptions of additional GAAP measures used in this MD&A:

- *The MD&A contains the term "funds flow from operating activities" ("funds flow"), which should not be considered an alternative to, or more meaningful than, "cash flows from operating activities" as determined in accordance with IFRS as an indicator of the Company's financial performance. This term does not have any standardized meaning as prescribed by IFRS and, therefore, the Company's determination of funds flow from operating activities may not be comparable to that reported by other companies. The Company evaluates its performance based on net earnings and funds flow from operating activities. The Company considers funds flow from operating activities to be a key measure as it demonstrates the Company's ability to generate the cash necessary to pay dividends, repay debt and to fund future capital investment. It is also used by research analysts to value and compare oil and gas companies, and it is frequently included in published research when providing investment recommendations.*

The following are descriptions of non-GAAP measures used in this MD&A:

- *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 derivative assets/liabilities.*

- *Operating netbacks per boe equal total petroleum and natural gas sales per boe adjusted for realized derivative gains and/or losses per boe, royalties per boe, operating expenses per boe and transportation expenses per boe. Operating netbacks are a useful measure to compare the Company's operations with those of its peers.*

- *Funds flow netbacks per boe are calculated as operating netbacks less general and administrative expenses per boe, transaction costs per boe, interest and financing charges per boe, interest on the convertible debenture per boe, asset retirement expenditures per boe, cash portion of exploration and evaluation, other expense per boe and current income taxes per boe. Funds flow netbacks are a useful measure to compare the Company's operations with those of its peers.*

References to “production volumes” or “production” in this document refer to sales volumes.

Forward-Looking Statements – This document offers our assessment of Zargon’s future plans and operations as at May 13, 2015, and contains forward-looking statements including:

- *our expectations for our plans with respect to our Little Bow ASP project referred to under the headings “Financial & Operating Results” and “Outlook”;*
- *our expectations for operating expenses and transportation expenses referred to under the heading “Financial & Operating Results”;*
- *our expectations for general and administrative expenses referred to under the heading “Financial & Operating Results”;*
- *our expectations for abandonment retirement expenditures referred to un the heading “Financial & Operating Results”;*
- *our dividend policy referred to under the heading “Liquidity and Capital Resources”;*
- *our expected sources of funds for dividends referred to under the heading “Liquidity and Capital Resources”;*
- *our expected sources of funds for capital expenditures referred to under the heading “Liquidity and Capital Resources”;*
- *our expectations for our conventional oil exploitation assets capital program referred to under the heading “Outlook”; and*
- *our expectations for our production referred to under the heading “Outlook”.*

Such statements are generally identified by the use of words such as “anticipate”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “should”, “plan”, “intend”, “believe” and similar expressions (including the negatives thereof). By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including 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 is available on our website and at 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, 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 achievements 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.

This MD&A has been prepared as of May 13, 2015.

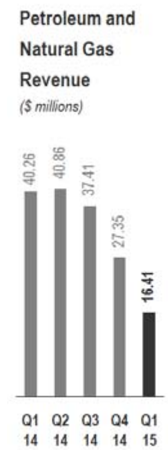
FINANCIAL & OPERATING RESULTS

Petroleum and Natural Gas Sales

	Three months ended March 31,		
($ millions)	**2015**	2014	Percent Change
Petroleum sales	**14.94**	33.72	(56)
Natural gas sales	**1.47**	6.54	(78)
Petroleum and natural gas sales	**16.41**	40.26	(59)

First quarter 2015 gross petroleum and natural gas sales of $16.41 million were 59 percent below the $40.26 million in the first quarter of 2014 due to significantly lower oil and natural gas prices.

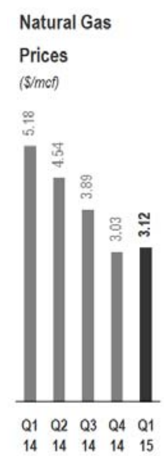
First quarter 2015 realized oil and liquids field prices averaged $42.26 per barrel before the impact of financial risk management contracts and were 51 percent lower than the $86.71 per barrel recorded in the 2014 first quarter. Zargon's crude oil field price differential from the Edmonton par price decreased to $10.46 per barrel in the first quarter of 2015 compared to $13.07 per barrel in the first quarter of 2014. Natural gas field prices received averaged $3.12 per thousand cubic feet in the first quarter of 2015, a 40 percent decrease from the 2014 first quarter prices.

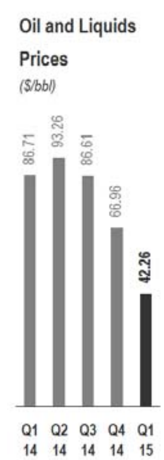


Pricing

	Three Months Ended March 31,		
Average for the period	**2015**	2014	Percent Change
Natural Gas:			
NYMEX average daily spot price ($US/mmbtu)	**2.87**	5.18	(45)
AECO average daily spot price ($Cdn/mmbtu)	**2.75**	5.71	(52)
Zargon realized field price before the impact of financial risk management contracts ($Cdn/mcf)	**3.12**	5.18	(40)
Zargon realized field price before the impact of physical and financial risk management contracts ($Cdn/mcf)	**2.64**	5.47	(52)
Zargon realized field price after the impact of physical and financial risk management contracts ($Cdn/mcf)	**3.91**	4.67	(16)
Zargon realized natural gas field price differential before the impact of physical and financial risk management contracts ($Cdn/mcf)	**0.11**	0.24	
Crude Oil:			
WTI ($US/bbl)	**48.63**	98.68	(51)
Edmonton par price ($Cdn/bbl)	**52.72**	99.78	(47)
Zargon realized field price before the impact of financial risk management contracts ($Cdn/bbl)	**42.26**	86.71	(51)
Zargon realized field price after the impact of financial risk management contracts ($Cdn/bbl)	**64.93**	82.57	(21)
Zargon realized oil field price differential [1]	**10.46**	13.07	

(1) Calculated as Zargon's realized field price before the impact of financial risk management contracts ($Cdn/bbl) as compared to Edmonton par price ($Cdn/bbl).





Volumes

Oil and liquids production volumes during the 2015 first quarter were 3,928 barrels per day, a nine percent decrease from the 2014 first quarter rate of 4,320 barrels per day. The production decrease is due to natural occurring production declines and property dispositions that occurred in the second half of 2014. Natural gas production volumes decreased 63 percent in the 2015 first quarter to 5.24 million cubic feet per day compared to 14.05 million cubic feet per day in the 2015 first quarter. The production decrease is due to naturally occurring production declines and the disposition of the Jarrow, Pembina and Hamilton Lake properties in the second half of 2014.

Production by Core Area

Three Months Ended March 31,		**2015**			2014	
	Oil and Liquids (bbl/d)	**Natural Gas (mmcf/d)**	**Equivalents (boe/d)**	Oil and Liquids (bbl/d)	Natural Gas (mmcf/d)	Equivalents (boe/d)
Alberta Plains North	**852**	**2.60**	**1,286**	1,170	11.00	3,003
Alberta Plains South	**1,225**	**2.29**	**1,607**	1,366	2.64	1,806
Williston Basin	**1,851**	**0.35**	**1,909**	1,784	0.41	1,853
	3,928	**5.24**	**4,802**	4,320	14.05	6,662

Risk Management Contracts

Zargon's commodity price risk management policy, which is approved by the Board of Directors, allows for the sale of up to a certain percentage of its estimated before royalty production volumes for each commodity up to a 30 month period. Zargon may also enter into interest rate swaps and physical electricity hedges.

Zargon also has two five year interest rate swaps on a total of $40 million of borrowing with an average effective interest rate of 1.69 percent plus stamping fee (currently at 2.00 percent) and two physical electricity hedges.

For accounting purposes, an unrealized gain or loss from forward sale commodity contracts and interest rate swaps is recorded based on the fair value ("mark-to-market") of the contracts at the period end. Realized and unrealized gains on risk management contracts are included in "gain/loss on derivatives" in the consolidated statement of earnings and their fair value is reflected in "derivative assets" or "derivative liabilities" on the consolidated balance sheets.

In the 2015 first quarter, higher contract prices versus WTI oil prices resulted in a net realized gain on derivatives of $8.33 million compared to a $2.30 million net realized loss in the first quarter of 2014.

The unrealized loss on derivatives of $5.94 million in the first quarter of 2015 was comprised of oil contract losses of $5.29 million, natural gas contract losses of $0.37 million and interest rate swap losses of $0.28 million, compared to a net $3.19 million loss in the first quarter of 2014. These non-cash unrealized derivative gains or losses are generated by the change over the reporting period in the mark-to-market valuation of Zargon's risk management contracts. Commodity price volatility has resulted in significant fluctuations in the mark-to-market amount of unrealized derivative assets and liabilities. Zargon's commodity risk management positions are described in Notes 11 and 12 to the unaudited interim consolidated financial statements.

Royalties

($ millions)	**2015**	2014	Percent Change
	Three months ended March 31,		
Royalties	**2.50**	6.72	(63)
Percentage of revenue	**15.2%**	16.7%	

Royalties are inclusive of the Saskatchewan Resource Surcharge (“SRC”). The variations in royalty rates generally track changes in production and volumes. First quarter of 2015 royalties were 15.2 percent of gross sales compared to 16.7 percent in the first quarter of 2014. For the remainder of 2015, Zargon is projecting an average corporate royalty rate of 15.0 percent which is comprised of estimated rates of 17.0, 8.0 and 5.0 percent for oil and liquids, natural gas and, commencing July 1, 2015, ASP project oil volumes, respectively.

Operating Expenses and Transportation Expenses

($ millions)	**2015**	2014	Percent Change
	Three months ended March 31,		
Operating expenses	**9.20**	10.22	(10)
Transportation expenses	**0.32**	0.51	(37)
Total expenses	**9.52**	10.73	(11)
Total expenses ($/boe)	**22.02**	17.89	23

Compared to the prior year’s first quarter, operating expenses and transportation expenses in the 2015 first quarter are down on a total dollar basis but increased on a per barrel of oil equivalent basis. In the quarter, operating expenses increased primarily due to the fixed Little Bow ASP facility costs. Additionally, minor ASP plant retrofit/maintenance issues and wellbore pumping upgrades were completed in the quarter. Excluding the Little Bow ASP project costs and volumes, the first quarter 2015 operating and transportation costs averaged $19.41 per barrel of oil equivalent. For the remainder of 2015, Zargon is forecasting reduced operating and transportation expenses and increasing ASP project volumes which are expected to result in less than $20.00 per barrel of oil equivalent operating costs by the end of 2015.

Operating Netbacks

Three Months Ended March 31,	**2015**		2014	
	Oil and Liquids ($/bbl)	**Natural Gas ($/mcf)**	Oil and Liquids ($/bbl)	Natural Gas ($/mcf)
Sales	**42.26**	**3.12**	86.71	5.18
Royalties	**(6.62)**	**(0.33)**	(15.03)	(0.69)
Realized gain/(loss) on derivatives	**22.67**	**0.79**	(4.14)	(0.51)
Operating expenses	**(22.08)**	**(2.96)**	(19.41)	(2.11)
Transportation expenses	**(0.89)**	**–**	(1.31)	–
Operating netbacks	**35.34**	**0.62**	46.82	1.87

General & Administrative ("G&A") Expenses

	Three months ended March 31,		
($ millions)	**2015**	2014	Percent Change
G&A expenses	**2.75**	2.97	(7)
G&A expenses ($/boe)	**6.36**	4.95	28

G&A expenses per barrel of oil equivalent were higher in the first quarter of 2015 primarily due to one-time employment costs of $0.56 million or $1.29 per barrel of oil equivalent. The reduction of G&A expenses continues to be an important focus for Zargon, and forecasted costs are expected to decline to less than $4.50 per barrel of oil equivalent by the end of 2015.

Transaction Costs

Transaction costs for the 2015 first quarter were $0.03 million and relatively unchanged compared to $0.05 million in the first quarter of 2014.

Interest and Financing Charges on Long Term Bank Debt

Zargon's borrowings are through its syndicated bank credit facilities. Interest and financing charges on these facilities in the 2015 first quarter were $0.60 million, a two percent decrease from $0.61 million in the first quarter of 2014. The decrease in interest and financing charges resulted from lower average borrowing levels partially offset by a higher effective interest rate compared to the first quarter of 2014.

Interest on Convertible Debentures

Zargon has borrowings through its convertible debentures, which were issued in May 2012 and mature on June 30, 2017. Interest is payable semi-annually at a rate of six percent, calculated on the gross proceeds of $57.50 million. Interest charges of $0.86 million in the first quarter of 2015 were unchanged compared to the first quarter of 2014.

Asset Retirement Expenditures

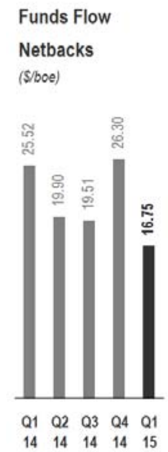
Asset retirement expenditures for the 2015 first quarter were $1.49 million and represented the clearing of a backlog of abandonments and reclamations, and represented a 126 percent increase from the $0.66 million recorded in the first quarter of 2014. For the remainder of 2015, Zargon is forecasting $1.50 million of asset retirement expenditures.

Current Tax

Current tax recoveries for the 2015 first quarter were $0.24 million, and relate to the US operations. When compared to the 2014 first quarter, current tax recoveries increased by $0.31 million. Total corporate tax pools as at March 31, 2015 are approximately $262 million, which represents a decrease of seven percent from the comparable $282 million of tax pools available to Zargon at December 31, 2014.

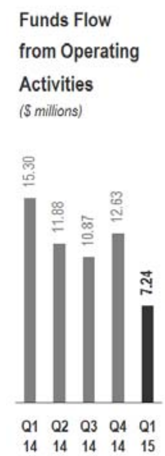
Corporate Netbacks

	Three Months Ended March 31,	
($/boe)	**2015**	2014
Petroleum and natural gas sales	**37.98**	67.15
Royalties	**(5.78)**	(11.21)
Realized gain/(loss) on derivatives	**19.28**	(3.84)
Operating expenses	**(21.29)**	(17.04)
Transportation expenses	**(0.73)**	(0.85)
Operating netbacks	**29.46**	34.21
General and administrative expenses	**(6.36)**	(4.95)
Transaction costs	**(0.08)**	(0.08)
Interest and financing charges	**(1.38)**	(1.01)
Interest on convertible debentures	**(2.00)**	(1.44)
Asset retirement expenditures	**(3.44)**	(1.09)
Current (taxes)/recovery	**0.55**	(0.12)
Funds flow netbacks	**16.75**	25.52



Depletion and Depreciation Expense

Depletion and depreciation expense for the first quarter of 2015 decreased 24 percent at $8.72 million compared to $11.40 million in the first quarter of 2014. On a per barrel of oil equivalent basis, the depletion and depreciation rates were $20.18 and $19.02 for the first quarter of 2015 and the first quarter of 2014, respectively. When compared to the first quarter of 2014, the increased depletion rate is primarily due to the inclusion of the ASP facility costs and reserves in the depletion calculation. The 2014 calendar year depletion and depreciation rate was $20.06 per barrel of oil equivalent.



Accretion of Asset Retirement Obligations and Convertible Debentures

The accretion expense of asset retirement obligations for the first three months of 2015 was $0.54 million, a 51 percent decrease from the first three months of 2014 and resulted from the change in discount rate from 3.25 percent to 2.50 percent at December 31, 2014. Year-over-year adjustments are due to changes in the estimated future liability for asset retirement obligations resulting from changes in cost assumptions and adjustments in Zargon's well count due to drilling programs and property acquisitions or dispositions.

The debt portion of Zargon's convertible debenture is also accreted over its term, up to the total maturity value of $57.50 million. Accretion on the convertible debenture for the 2015 first quarter is $0.34 million compared to $0.30 million in the 2014 first quarter.

Shared-based Compensation

Expensing of share-based compensation in the first quarter of 2015 totalled $0.11 million, which is lower than the $0.30 million incurred in the first quarter of 2014 due to a lower black scholes value of the 2015 grants, including the impact of forfeitures.

Unrealized Foreign Exchange

The Company had an unrealized foreign exchange gain of $0.47 million during the first quarter of 2015 compared to a gain of $0.01 million in the 2014 first quarter. Gains and losses result from transactions in US dollars when they are translated into Canadian dollars. The volatility in the US/Cdn dollar creates non-cash translation gains/losses.

Loss on Disposal of Assets

During the first quarter of 2015, Zargon had a minimal loss on disposal of assets compared to a gain of $0.67 million on disposal of assets in 2014.

Exploration and Evaluation Expenses

Non-cash exploration and evaluation expenses for the 2015 first quarter of nil compared to first quarter of 2014 expenses of $0.10 million. Exploration and evaluation expenses are primarily related to undeveloped land expiries. The first quarter 2015 did not have land expiries.

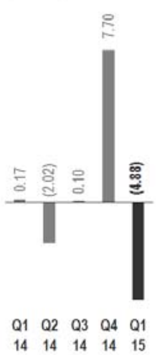
Deferred Tax

The deferred tax recovery for the first quarter of 2015 was $1.57 million compared to an expense of $0.07 million in the first quarter of 2014. The deferred tax recovery is a result of the net loss in the quarter.

Funds Flow from Operating Activities

Funds flow from operating activities in the 2015 first quarter of $7.24 million was $8.06 million, or 53 percent lower than the prior year first quarter. The decrease in funds flow compared to the prior year first quarter was primarily a result of decreased revenue from lower oil and natural gas prices and increased abandonment retirement expenditures which was partially offset by decreased operating expenses, lower royalties and a gain on realized derivatives.

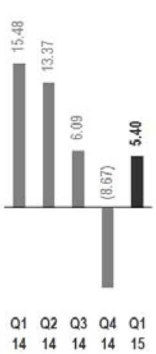
Net Earnings/ (Loss)
($ millions)



Net Earnings/(Loss)

A net loss of $4.88 million for the 2015 first quarter was down $5.05 million from the $0.17 million of net earnings in the 2014 first quarter, largely due to decreased revenue and increased unrealized derivative losses offset by gains on realized derivatives and unrealized foreign exchange gains. The net earnings/(loss) track the funds flow from operating activities for the respective periods modified by asset retirement expenditures and non-cash charges, which include depletion and depreciation, unrealized derivative gain/(loss), land expiries, property disposition gain/(loss) and deferred taxes. On a per diluted share basis, the 2015 first quarter net loss was $0.16, compared to net earnings of $0.01 from the 2014 first quarter.

Net Capital Expenditures
($ millions)



Capital Expenditures

	Three Months Ended March 31,	
($ millions)	**2015**	2014
Undeveloped land	**0.40**	0.88
Geological and geophysical (seismic)	**0.05**	0.14
Drilling and completion of wells	**0.52**	4.33
Well equipment and facilities	**0.22**	4.12
ASP project and exploitation costs	**1.41**	6.06
ASP chemical costs	**2.84**	1.39
Exploration and development	**5.44**	16.92
Property acquisitions	**0.03**	0.07
Property dispositions	**(0.03)**	(1.53)
Net property dispositions	**–**	(1.46)
Total net capital expenditures excluding administrative assets	**5.44**	15.46
Administrative assets	**(0.04)**	0.02
Total net capital expenditures	**5.40**	15.48

LIQUIDITY AND CAPITAL RESOURCES

Total net capital expenditures (including net property dispositions) totalled $5.40 million in the first quarter of 2015 and were 65 percent lower than the same period in 2014. Field expenditures of $5.44 million for the first quarter of 2015 were 68 percent lower than the 2014 first quarter. The first quarter 2015 field capital expenditures (excluding net property dispositions) were allocated to Alberta Plains North - $0.16 million recovery, Alberta Plains South - $4.77 million and Williston Basin - $0.83 million and included the drilling of nil net wells, down from the 3.7 net wells drilled in the first quarter of 2014.

Included in the Alberta Plains South capital expenditures is the $4.25 million incurred on the Little Bow ASP project. Of the total ASP amount, $1.41 million was spent on project and exploitation costs while $2.84 million was spent on ASP phase 1 chemical costs.

Funds flow from operating activities in the first three months of 2015 of $7.24 million were used to partially fund the capital program and cash dividends to shareholders.

At March 31, 2015, the Company's combined debt net of working capital (excluding unrealized derivative assets/liabilities) was $113.80 million, which compares to $113.43 million of net debt at the end of December 31, 2014. Net debt has remained consistent due to Zargon's minimal 2015 first quarter capital expenditure program. The $113.80 million debt net of working capital consists of the $57.50 million of convertible unsecured subordinate debentures and the remaining portion of bank debt.

The volatility of oil and natural gas prices, uncertainty or modifications regarding royalties and Canadian income tax rules and global economic/political concerns have, on occasion, restricted the oil and natural gas industry's ability to attract new capital from debt and equity markets.

Cash Dividends Analysis

	Three Months Ended March 31,	
($ millions)	**2015**	2014
Cash flows from operating activities	**6.67**	14.86
Net earnings/(loss)	**(4.88)**	0.17
Actual cash dividends paid or payable relating to the period	**(2.72)**	(5.42)
Excess of cash flows from operating activities over cash dividends paid	**3.95**	9.44
Excess (shortfall) of net earnings over cash dividends paid	**(7.60)**	(5.25)

During the first three months of 2015, Zargon maintained a monthly dividend of $0.03 per common share. Management monitors the Company's dividend policy with respect to forecasted net cash flows, debt levels and capital expenditures. Zargon's cash dividends are discretionary to the extent that these dividends are in compliance with Section 43 of the *Business Corporations Act* (Alberta) and do not cause a breach of the financial covenants under Zargon's credit facilities. As a petroleum and natural gas company, Zargon's reserve base is depleted by production and Zargon, therefore, relies on ongoing exploration, development, exploitation and acquisition activities to replace reserves and to offset production declines. The success of these capital programs, along with commodity price fluctuations and the Company's ability to manage costs, are the main factors influencing the sustainability of the Company's dividends.

For the three months ended March 31, 2015, cash flows from operating activities (after changes in non-cash working capital) of $6.67 million exceeded cash dividends of $2.72 million. Similarly, for the three months ended March 31, 2014, cash flows from operating activities (after changes in non-cash working capital) of $14.86 million exceeded cash dividends of $5.42 million.

For the three months ended March 31, 2015, a net loss of $4.88 million was exceeded by cash dividends of $2.72 million. The net loss includes significant non-cash charges of $13.61 million for the 2015 first quarter that does not impact cash flow. For the three months ended March 31, 2014, the net earnings of

$0.17 million were exceeded by cash dividends of $5.42 million. In the instances where dividends exceed net earnings, a portion of the cash dividend paid to shareholders may represent an economic return of the shareholders' capital.

For the quarter ended March 31, 2015, cash dividends and net capital expenditures totalled $8.12 million, which was $1.45 million higher than the cash flows from operating activities (after changes in non-cash working capital) of $6.67 million. For the quarter ended March 31, 2014, cash dividends and net capital expenditures totalled $20.90 million, which was $6.04 million higher than the cash flows from operating activities (after changes in non-cash working capital) of $14.86 million. Zargon relies on access to debt and capital markets to the extent that cash dividends and net capital expenditures exceed cash flows from operating activities (after changes in non-cash working capital). Over the long term, Zargon expects to fund cash dividends and capital expenditures with its cash flows from operating activities; however, it may continue to fund acquisitions and growth through additional debt and equity issuances. In the crude oil and natural gas industry, because of the nature of reserve reporting, the natural reservoir declines and the risks involved in capital investment, it is not possible to distinguish between capital spent on maintaining productive capacity and capital spent on growth opportunities. Therefore, maintenance capital is not disclosed separately from development capital spending.

At May 13, 2015, Zargon Oil & Gas Ltd. had 30.274 million common shares outstanding. Pursuant to the share award plan, there are currently an additional 0.950 million common share awards issued and outstanding.

Capital Sources and Uses

	Three Months Ended March 31,	
($ millions)	**2015**	2014
Funds flow from operating activities	**7.24**	15.30
Change in long term bank debt	**7.14**	10.58
Cash dividends to shareholders	**(2.72)**	(5.42)
Changes in working capital and other	**(6.26)**	(4.98)
Total capital sources	**5.40**	15.48

CHANGES IN ACCOUNTING POLICIES

The Company's changes in accounting policies are discussed in Note 3 to the Financial Statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

The Company's future changes in accounting policies are discussed in Note 3 to the Financial Statements.

MANAGEMENT AND FINANCIAL REPORTING SYSTEMS

Zargon is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", otherwise referred to as Canadian SOX ("C-Sox"). The 2015 certificate requires that the Company disclose in the interim MD&A any changes in the Company's internal controls over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company confirms that no such changes were made to the internal controls over financial reporting during the first quarter of 2015.

Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control systems are met. Zargon uses the 1992 Committee of Sponsoring Organizations of the Treadway Commission ("COSO") Framework as the Company has not yet adopted the 2013 COSO Framework.

OUTLOOK

Since mid-2014, oil prices have declined precipitously to unexpected levels and as a result, Zargon's current revenues and cash flows are significantly reduced. During these challenging times, Zargon will seek to improve cash flows by reducing all costs while restricting capital programs. Zargon's remaining portfolio of long-life low-decline oil exploitation properties is well suited to survive this period of low oil prices. With the Little Bow ASP tertiary project demonstrating first responses and growing production, Zargon can anticipate stable and then increasing oil production volumes throughout the rest of the decade with only modest capital expenditures.

SUMMARY OF QUARTERLY RESULTS

	2014				**2015**
	Q1	Q2	Q3	Q4	**Q1**
Petroleum and natural gas sales ($ millions)	40.26	40.86	37.41	27.35	**16.41**
Net earnings/(loss) ($ millions)	0.17	(2.02)	0.10	7.70	**(4.88)**
Net earnings/(loss) per diluted share ($)	0.01	(0.07)	–	0.19	**(0.16)**
Funds flow from operating activities ($ millions)	15.30	11.88	10.87	12.63	**7.24**
Funds flow from operating activities per diluted share ($)	0.50	0.39	0.35	0.41	**0.24**
Cash flows from operating activities ($ millions)	14.86	10.03	12.36	13.15	**6.67**
Cash flows from operating activities per diluted share ($)	0.49	0.33	0.40	0.43	**0.22**
Cash dividends ($ millions)	5.42	5.42	5.43	5.43	**2.72**
Cash dividends declared per common share ($)	0.18	0.18	0.18	0.18	**0.09**
Net capital expenditures/(dispositions) ($ millions)	15.48	13.37	6.09	(8.67)	**5.40**
Total assets ($ millions)	462.66	461.70	426.51	382.71	**377.16**
Long term bank debt ($ millions)	50.55	56.37	59.45	42.77	**49.91**
Convertible debentures ($ millions) (1)	57.50	57.50	57.50	57.50	**57.50**
Net debt	121.72	128.88	129.11	113.43	**113.80**
Average daily oil and liquids production (bbl)	4,320	4,096	4,194	4,150	**3,928**
Average daily natural gas production (mmcf)	14.05	14.77	11.16	6.43	**5.24**
Average daily production (boe)	6,662	6,558	6,054	5,222	**4,802**
Average oil production weighting (%)	65	62	69	79	**82**
Average realized commodity field price before the impact of financial risk management contracts ($/boe)	67.15	68.46	67.18	56.93	**37.98**
Funds flow netback ($/boe)	25.52	19.90	19.51	26.30	**16.75**

(1) Amount is full future face value of the convertible debentures.

	2013			
	Q1	Q2	Q3	Q4
Petroleum and natural gas sales ($ millions)	37.08	40.59	45.14	35.84
Net earnings/(loss) ($ millions)	0.23	1.13	(2.35)	(4.91)
Net earnings/(loss) per diluted share ($)	0.01	0.04	(0.08)	(0.16)
Funds flow from operating activities ($ millions)	13.90	15.99	16.45	12.15
Funds flow from operating activities per diluted share ($)	0.46	0.53	0.55	0.40
Cash flows from operating activities ($ millions)	12.46	14.68	16.30	13.56
Cash flows from operating activities per diluted share ($)	0.42	0.49	0.54	0.45
Cash dividends ($ millions) (1)	4.75	5.01	5.17	5.42
Cash dividends declared per common share ($)	0.18	0.18	0.18	0.18
Net capital expenditures ($ millions)	16.19	2.42	17.54	5.59
Total assets ($ millions)	450.34	437.88	441.87	452.98
Long term bank debt ($ millions)	44.02	42.06	43.65	39.97
Convertible debentures ($ millions) (2)	57.50	57.50	57.50	57.50
Net debt	120.10	111.33	117.61	116.24
Average daily oil and liquids production (bbl)	5,113	4,930	4,816	4,625
Average daily natural gas production (mmcf)	15.21	14.77	16.46	15.90
Average daily production (boe)	7,648	7,392	7,560	7,276
Average oil production weighting (%)	67	67	64	64
Average realized commodity field price before the impact of financial risk management contracts ($/boe)	53.87	60.34	64.90	53.55
Funds flow netback ($/boe)	20.20	23.77	23.64	18.14

(1) Cash dividends represent the cash portion only and do not include common shares issued through Zargon's Dividend Reinvestment Plan.

(2) Amount is full future face value of the convertible debentures.

Additional information regarding the Company and its business operations, including the Company's Annual Information Form for December 31, 2014, is available on the Company's SEDAR profile at www.sedar.com.

"Signed" C.H. Hansen
President and Chief Executive Officer and Interim Chief Financial Officer

Calgary, Alberta
May 13, 2015

CONSOLIDATED BALANCE SHEETS

(unaudited)

($ thousands)	Notes	**March 31, 2015**	December 31, 2014
ASSETS			
Trade and other receivables		**10,142**	11,240
Deposits and prepaid expenses		**763**	1,226
Investment in marketable securities		**1,542**	1,542
Derivatives	11,12	**6,348**	12,004
Total current assets		**18,795**	26,012
Long term deposits		**126**	126
Property, plant and equipment, net	4	**337,447**	337,445
Intangible exploration and evaluation assets	5	**6,754**	6,610
Goodwill	5	**4,770**	4,770
Deferred tax assets		**9,270**	7,743
Total assets		**377,162**	382,706
LIABILITIES			
Trade and other payables		**17,544**	24,971
Cash dividends payable	6	**908**	1,811
Provisions	7	**385**	385
Derivatives	11,12	**352**	122
Total current liabilities		**19,189**	27,289
Long term bank debt	8	**49,908**	42,770
Convertible debentures		**54,071**	53,735
Derivatives	11,12	**129**	75
Provisions	7	**86,280**	86,557
Deferred tax liabilities		**11,914**	10,940
Total liabilities		**221,491**	221,366
Commitments and contingencies	7,8,10,11,12		
EQUITY			
Shareholders' capital	9	**258,091**	257,138
Accumulated other comprehensive income		**4,290**	2,538
Contributed surplus	10	**12,112**	12,879
Equity component of debentures		**3,640**	3,640
Deficit		**(122,462)**	(114,855)
Total equity		**155,671**	161,340
Total equity and liabilities		**377,162**	382,706

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS/(LOSS) AND COMPREHENSIVE INCOME/(LOSS)

(unaudited)		Three Months Ended March 31,	
($ thousands, except per share amounts)	Notes	**2015**	2014
Petroleum and natural gas sales		**16,414**	40,262
Royalties		**(2,496)**	(6,722)
PETROLEUM AND NATURAL GAS REVENUE, NET OF ROYALTIES		**13,918**	33,540
Loss on unrealized derivatives	11,12	**(5,940)**	(3,193)
Gain/(loss) on realized derivatives	11,12	**8,330**	(2,298)
GAIN/(LOSS) ON DERIVATIVES		**2,390**	(5,491)
TOTAL INCOME		**16,308**	28,049
Operating		**9,201**	10,219
Transportation		**316**	510
General and administrative		**2,749**	2,968
Transaction costs		**33**	47
Exploration and evaluation	5	**–**	101
(Gain)/loss on disposal of properties	4	**2**	(670)
Share-based compensation	10	**114**	300
Unrealized foreign exchange gain		**(468)**	(12)
Depletion and depreciation		**8,722**	11,404
EXPENSES		**20,669**	24,867
EARNINGS/(LOSS) BEFORE FINANCE EXPENSES AND INCOME TAXES		**(4,361)**	3,182
Interest and financing charges	8	**597**	607
Interest on convertible debentures		**863**	863
Accretion on convertible debentures		**336**	303
Accretion of asset retirement obligations	7	**536**	1,098
FINANCE EXPENSES		**2,332**	2,871
EARNINGS/(LOSS) BEFORE INCOME TAXES		**(6,693)**	311
Current tax expense/(recovery)		**(237)**	73
Deferred tax expense/(recovery)		**(1,572)**	67
INCOME TAXES EXPENSE /(RECOVERY)		**(1,809)**	140
NET EARNINGS/(LOSS) FOR THE PERIOD		**(4,884)**	171
Currency translation adjustment that may be reclassified subsequently to net earnings		**1,752**	963
OTHER COMPREHENSIVE EARNINGS FOR THE PERIOD		**1,752**	963
TOTAL COMPREHENSIVE EARNINGS/(LOSS) FOR THE PERIOD		**(3,132)**	1,134
NET EARNINGS/(LOSS) PER SHARE			
Basic		**(0.16)**	0.01
Diluted		**(0.16)**	0.01

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

($ thousands)	Notes	Shareholders' Capital	Currency Translation Adjustment	Contributed Surplus	Equity Component of Convertible Debentures	Deficit	Total Equity
Balance at December 31, 2014		**257,138**	**2,538**	**12,879**	**3,640**	**(114,855)**	**161,340**
Net loss for the period		**–**	**–**	**–**	**–**	**(4,884)**	**(4,884)**
Dividends declared	6	**–**	**–**	**–**	**–**	**(2,723)**	**(2,723)**
Share-based compensation	10	**–**	**–**	**114**	**–**	**–**	**114**
Exercise of share awards	9	**992**	**–**	**(992)**	**–**	**–**	**–**
Cancellation of shares	9	**(39)**	**–**	**111**	**–**	**–**	**72**
Translation differences on foreign subsidiary		**–**	**1,752**	**–**	**–**	**–**	**1,752**
Balance at March 31, 2015		**258,091**	**4,290**	**12,112**	**3,640**	**(122,462)**	**155,671**
Balance at December 31, 2013		256,092	493	12,423	3,640	(99,103)	173,545
Net earnings for the period		–	–	–	–	171	171
Dividends declared	6	–	–	–	–	(5,418)	(5,418)
Share-based compensation	10	–	–	300	–	–	300
Exercise of share awards		349	–	(349)	–	–	–
Translation differences on foreign subsidiary		–	963	–	–	–	963
Balance at March 31, 2014		256,441	1,456	12,374	3,640	(104,350)	169,561

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)		Three Months Ended March 31,	
($ thousands)	Notes	**2015**	2014
OPERATING ACTIVITIES			
Net earnings/(loss) for the period		**(4,884)**	171
Adjustments for non-cash items:			
(Gain)/loss on sale of properties	4	**2**	(670)
Loss on unrealized derivatives	11,12	**5,940**	3,193
Depletion and depreciation	4	**8,722**	11,404
Accretion of asset retirement obligations	7	**536**	1,098
Accretion of convertible debentures		**336**	303
Share-based compensation	10	**114**	300
Unrealized foreign exchange gain		**(468)**	(12)
Deferred tax expense/(recovery)		**(1,572)**	67
Exploration and evaluation expenses	5	**–**	101
Asset retirement expenditures		**(1,486)**	(655)
Funds flow from operating activities		**7,240**	15,300
Changes in operating working capital		**(575)**	(440)
Net cash from operating activities		**6,665**	14,860
INVESTING ACTIVITIES			
Additions to property, plant and equipment	4	**(5,406)**	(16,923)
Additions to intangible exploration and evaluation assets	5	**(30)**	(88)
Proceeds on disposal of property, plant and equipment	4	**34**	1,530
Changes in investing working capital		**(4,775)**	(4,540)
Net cash used in investing activities		**(10,177)**	(20,021)
FINANCING ACTIVITIES			
Advances of bank debt		**7,138**	10,578
Cash dividends paid to shareholders	6	**(2,723)**	(5,418)
Changes in financing working capital		**(903)**	1
Net cash provided by financing activities		**3,512**	5,161
NET CHANGE IN CASH DURING THE PERIOD AND CASH, END OF PERIOD		**–**	–

See accompanying notes to the interim consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015, with comparative figures for 2014 (unaudited).

1. REPORTING ENTITY

Zargon Oil & Gas Ltd. ("the Company" or "Zargon") is a publicly traded corporation incorporated in Canada with its head office located at Suite 700, 333-5th Avenue SW, Calgary, Alberta. The interim consolidated financial statements of the Company as at and for the period ended March 31, 2015 and for its 2014 comparative period comprise the Company and its wholly owned subsidiaries. The Company is engaged in the exploration for and development and production of oil and natural gas in Canada and the United States ("US") and conducts many of its activities jointly with others; these financial statements reflect only the Company's proportionate interest in such activities.

2. BASIS OF PRESENTATION

(a) Statement of compliance:

The unaudited interim consolidated financial statements for the three month period ended March 31, 2015 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standards ("IAS") 34, Interim Financial Reporting. The same accounting policies and methods of computation were followed in the preparation of these unaudited interim consolidated financial statements as were followed in the preparation of the audited annual consolidated financial statements for the fiscal year ended December 31, 2014. New and amended accounting standards have been evaluated and disclosed in Note 3. The disclosures provided below are incremental to those included with the audited annual consolidated financial statements. These unaudited interim consolidated financial statements for the three month period ended March 31, 2015 should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2014. These consolidated financial statements were approved and authorized for issue by the Board of Directors on May 13, 2015.

(b) Basis of measurement:

The interim consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments and the investment in marketable securities which are measured at fair value.

(c) Functional and presentation currency:

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The interim consolidated financial statements are presented in Canadian dollars, which is Zargon's functional currency.

The financial statements of subsidiaries that have a functional currency different from that of Zargon ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities - at the closing rate at the date of the balance sheet, and income and expenses - at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as currency translation adjustments.

If Zargon disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in earnings. If Zargon disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

(d) Use of estimates and judgements:

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. ACCOUNTING POLICIES

(a) New and amended standards adopted by the Company:

No new or amended standards were adopted by the Company for the interim period.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

- IFRS 9 "Financial Instruments" replaces the current multiple classification and measurement models for financial assets and liabilities with a single model. IFRS 9 also details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. The Company does not employ hedge accounting for its risk management contracts currently in place. IFRS 9 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has not yet determined the impact on the Company's consolidated financial statements.
- IFRS 15 "Revenue from Contracts with Customers" specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company has not yet determined the impact on the Company's consolidated financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

($ thousands)	Three Months Ended March 31, 2015
Cost, December 31, 2014	519,076
Accumulated depletion and depreciation	(181,631)
Net carrying amount, December 31, 2014	337,445
Additions	5,403
Disposals	(13)
Exchange differences	3,334
Depletion and depreciation	(8,722)
Net carrying amount, March 31, 2015	337,447
Cost, March 31, 2015	528,963
Accumulated depletion and depreciation	(191,516)
Net carrying amount, March 31, 2015	337,447

During the three months ended March 31, 2015, the Company disposed of certain assets for gross cash proceeds of $0.34 million (March 31, 2014 - $1.53 million), resulting in a loss of nil (March 31, 2014 - $0.67 million gain).

5. INTANGIBLE EXPLORATION AND EVALUATION ASSETS AND GOODWILL

($ thousands)	Goodwill	E&E Assets	Total
Cost:			
Balance at December 31, 2014	**4,770**	**6,610**	**11,380**
Additions	**–**	**30**	**30**
Exchange differences	**–**	**114**	**114**
Balance at March 31, 2015	**4,770**	**6,754**	**11,524**

6. CASH DIVIDENDS

During the period, the Company declared dividends to the shareholders in the aggregate amount of $2.72 million (2014 – $5.42 million) in accordance with the following schedule:

2015 Dividends	Record Date	Dividend Date	Per Common Share
January	January 31, 2015	February 17, 2015	$0.03
February	February 28, 2015	March 16, 2015	$0.03
March	March 31, 2015	April 15, 2015	$0.03

Subsequent to the end of the period and prior to the consolidated financial statements being authorized for issue on May 13, 2015, the Company declared dividends of $0.91 million or $0.03 per common share for April 2015.

7. PROVISIONS

($ thousands)	Asset Retirement Obligations	Other	Total
Balance at December 31, 2014	**86,557**	**385**	**86,942**
Foreign exchange and other	**673**	**–**	**673**
Provisions used during the period	**(1,486)**	**–**	**(1,486)**
Accretion	**536**	**–**	**536**
Balance at March 31, 2015	**86,280**	**385**	**86,665**
Current	**–**	**385**	**385**
Non-current	**86,280**	**–**	**86,280**

Asset retirement obligation:

The asset retirement obligations were calculated using a discount factor of 2.50 percent (December 31, 2014 – 2.50 percent) being the risk-free rate related to the liability and based on the Government of Canada long term bond rate. These obligations are expected to be incurred over the next 55 years. An inflation rate of two percent per annum (December 31, 2014 – two percent) used in the calculation of the present value of the asset retirement obligation remains unchanged.

Other:

Zargon is subject to normal course income tax audits by Canadian and US taxation authorities. During the fourth quarter of 2010, the Canada Revenue Agency commenced a flow-through share audit of a predecessor company from a prior corporate acquisition. During the first quarter of 2011, Zargon recorded a $1.27 million provision which was comprised of a $0.92 million charge to current income tax expense and $0.35 million charge to interest expense for the related Part XII.6 tax, with respect to this ongoing income tax audit. The interest expense related to the Part XII.6 tax has been paid to the Canada Revenue Agency and the remaining provision is currently $0.39 million.

8. LONG TERM BANK DEBT

On June 13, 2014, Zargon amended and renewed its syndicated credit facilities, the result of which was the reduction of the available facilities and borrowing base to $150 million. The syndicated committed credit facilities were reduced to $140 million after the Company's semi-annual review was completed on November 10, 2014 and were reduced to $130 million on December 16, 2014 after the disposition of assets. A $300 million demand debenture on the assets of the Company has been provided as security for these facilities. The facilities are fully revolving for a 364 day period with the provision for an annual extension at the option of the lenders and upon notice from Zargon's Management. The next renewal date is June 24, 2015, with a semi-annual review that took place in the fall of 2014. Should the facilities not be renewed, they convert to one year non-revolving term facilities at the end of the revolving 364 day period. Repayment would not be required until the end of the non-revolving term, and, as such, these facilities have been classified as long term debt.

Interest rates fluctuate under the syndicated facilities with Canadian prime, US prime and US base rates plus an applicable margin between 50 basis points and 200 basis points as well as with Canadian banker's acceptance and LIBOR rates plus an applicable margin between 200 basis points and 350 basis points. At March 31, 2015, $49.91 million (December 31, 2014 - $42.77 million) had been drawn on the syndicated committed credit facilities with any unused amounts subject to standby fees. In the normal course of operations Zargon enters into various letters of credit. At March 31, 2015, the approximate value of outstanding letters of credit totalled $0.94 million (December 31, 2014 - $0.90 million). The letters of credit reduce the amount of Zargon's available credit facilities to $79.15 million at March 31, 2015 (December 31, 2014 - $86.33 million).

Zargon reviews its compliance with its bank debt covenants on a quarterly basis and is in compliance as at March 31, 2015.

9. SHARE CAPITAL

The Company is authorized to issue an unlimited number of voting common shares and 10,000,000 preferred shares.

Common Shares

	Three Months Ended March 31, 2015	
(thousands)	**Number of Shares**	**Amount ($)**
Balance, as at December 31, 2014	**30,179**	**257,138**
Share awards exercised	**105**	**–**
Cancellation of shares	**(10)**	**(39)**
Share-based compensation recognized on exercise of share awards	**–**	**992**
Balance, as at March 31, 2015	**30,274**	**258,091**

10. SHARE-BASED PAYMENTS

Share Award Plan

Under the Share Award Plan, directors, officers, employees and other service providers (the "grantees") are granted the right to receive a defined number of shares in the future, which increases commensurately with each dividend declared by the Company after the grant date. The grantees will receive equity compensation in relation to the value of a specified number of underlying share awards. The awards vest equally over four years and expire five years after grant date. Holders may choose to exercise upon vesting or at any time thereafter, with forfeiture of any shares not exercised by the expiry date. Upon vesting, the grantees are eligible to receive a share award based on the fair value of the underlying share awards plus all notional dividends accrued since the grant date. Zargon uses a fair value methodology to value the share awards.

Due to the nature of the plan, Zargon is required to estimate the forfeiture rate upon initial calculation of fair values. The forfeiture rate is estimated at 15 percent while the interest rate and volatility is set at a historical rate as there is no exercise price. The fair value of the share award is determined on the grant date at the prior day closing price of the Company's common shares on the Toronto Stock Exchange.

The following table summarizes information about the Company's share awards under the Share Award Plan:

	Three Months Ended March 31, 2015
	Number of Share Awards (thousands)
Outstanding, as at December 31, 2014	**678**
Share awards granted	**420**
Share awards exercised	**(105)**
Share awards forfeited	**(43)**
Outstanding, as at March 31, 2015	**950**

Common Share Rights Incentive Plan

Under this plan, directors, officers, employees and other service providers of the Company possess rights to acquire common shares at their option of either the original exercise price or a "modified price" as calculated per the provision of the plan. Under the Common Share Rights Incentive Plan, if the monthly dividend exceeds the monthly return of 0.833 percent of the Company's recorded net book value of oil and natural gas properties, the entire amount of the dividend is deducted from the original grant price. Options granted under this plan generally vest equally over a three-year period and expire approximately five years from the grant date. Zargon uses a fair value methodology to value the option grants.

The following table summarizes information about the Company's share options under the Common Share Rights Incentive Plan:

	Three Months Ended March 31, 2015	
	Number of Share Options (thousands)	**Weighted Average Exercise Price Initial and Modified ($/share)**
Outstanding at beginning of period	**178**	**19.80 / 16.85**
Share options expired	**(178)**	**19.80**
Outstanding at end of period	**–**	**–**

All options under the Common Share Rights Incentives plan are expired as of March 31, 2015.

Share-based Compensation

The share awards for the three months ended March 31, 2015, resulted in share-based compensation of $0.11 million (2014 - $0.30 million).

Compensation expense associated with awards/options granted under each Plan is recognized in earnings over the vesting period of the Plan with a corresponding increase in contributed surplus. The exercise of awards/options is recorded as an increase in common shares with a corresponding reduction in contributed surplus.

Weighted Average Number of Total Shares

(thousands of shares)	**March 31, 2015**	March 31, 2014
Weighted average number of common shares – basic	**30,245**	30,099
Weighted average number of common shares – diluted	**30,245**	30,543

Dilution amounts for the three months ended March 31, 2015 of nil shares (2014 - 0.44 million shares) were added to the weighted average number of shares outstanding during the period in the calculation of diluted per share amounts. These share additions represent the dilutive effect of share rights according to the treasury stock method.

The convertible debenture could potentially dilute basic earnings per share, but were not included in the calculation of diluted earnings per share because they are antidilutive for the three months ended March 31, 2015.

11. FINANCIAL INSTRUMENTS

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgement.

The following table shows the comparison of the carrying and fair value of the company's financial instruments:

	March 31, 2015		December 31, 2014	
(thousands)	**Carrying Amount ($)**	**Fair Value ($)**	Carrying Value ($)	Fair Value ($)
Loans and receivables:				
Trade and other receivables	**10,142**	**10,142**	11,240	11,240
Fair value through profit and loss:				
Derivative assets	**6,348**	**6,348**	12,004	12,004
Derivative liabilities	**481**	**481**	197	197
Fair value through other comprehensive income:				
Investment in marketable securities	**1,542**	**1,542**	1,542	1,542
Other liabilities:				
Trade and other payables	**17,544**	**17,544**	24,971	24,971
Cash dividends	**908**	**908**	1,811	1,811
Long term bank debt	**49,908**	**49,908**	42,770	42,770
Convertible debentures	**54,071**	**40,250**	53,735	50,939

All of the Company's risk management contracts are transacted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

The investment in marketable securities is classified as "available-for-sale" and is carried at fair value. This investment is available on the active market and the Company classifies the fair value of this investment according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level I

Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

- Level II

Pricing inputs are other than quoted prices in active markets included in Level I. Prices in Level II are either directly or indirectly observable as of the reporting date. Level II valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

- Level III

Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's risk management contracts have been assessed on the fair value hierarchy described above and are classified as Level II. Assessment of the significance of a particular input into the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. The Company's policy is to recognize transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. The company does not have any fair value measurements classified as Level III.

At each reporting date, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing the level of classification for each financial asset and financial liability measured or disclosed at fair value in the financial statements. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy. During the period ended March 31, 2015, there were no transfers between levels I, II or III.

The carrying value of receivables and other liabilities approximate their fair value due to their short maturities, except for the convertible debentures which is determined using Level I inputs.

Financial Risk Management

The Company is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk (commodity prices, interest rates and foreign exchange rates), credit risk and liquidity risk.

- Market Risk

  Market risk is the risk that the fair value of future cash flows of financial assets or liabilities will fluctuate due to movements in market prices and is comprised of the following:

  - Commodity Price Risk

  Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result in changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also world economic events that dictate the levels of supply and demand. As a means of mitigating exposure to commodity price risk volatility, the Company has entered into various derivative agreements. The use of derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors. The Company's policy is to not use derivative financial instruments for speculative purposes.

  Natural Gas – To partially mitigate the natural gas commodity price risk, the Company has entered into swaps, which fix the Canadian dollar AECO prices and natural gas basis hedges.

  Crude Oil – The Company has partially mitigated its exposure to the WTI NYMEX price with fixed price swaps.

  - Interest Rate Risk

  Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Borrowings under bank credit facilities are market rate based (variable interest rates); thus, carrying values approximate fair values.

  At the March 31, 2015 debt pricing levels, the increase or decrease in net earnings for the year for each one percent change in interest rates would amount to $0.12 million (March 31, 2014 - $0.12 million) before swaps.

  - Foreign Exchange Risk

  Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. As Zargon operates in North America, fluctuations in the exchange rate between the US/Canadian dollar can have a significant effect on the Company's reported results. A $0.01 change in the US to Canadian dollar exchange rate would have resulted in a $0.08 million (March 31, 2014 - $0.20 million) increase or decrease in net earnings for the period ended March 31, 2015. In order to mitigate the Company's exposure to foreign exchange fluctuations, the Company may enter into foreign exchange derivative agreements.

- Credit Risk

  Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. This credit exposure is mitigated with credit practices that limit transactions according to counterparties' credit quality. A substantial portion of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks.

  The maximum credit risk exposure associated with accounts receivable and derivative assets is the total carrying value. The Company monitors these balances monthly to limit the risk associated with collection. Of Zargon's accounts receivable at March 31, 2015, approximately 49 percent (December 31, 2014 - 50 percent) was owing from two companies and Zargon anticipates full collection.

  The Company's allowance for doubtful accounts at March 31, 2015 was $0.31 million (December 31, 2014 - $0.35 million). During 2015, the Company did not record any additional provision for non-collectible accounts receivable.

When determining whether amounts that are past due are collectible, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Zargon considers all material amounts greater than 90 days to be past due. As at March 31, 2015, $0.39 million of accounts receivable are past due, excluding amounts described above, all of which are considered to be collectable.

- Liquidity Risk

  Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations. The Company manages its liquidity risk through funds flow and debt management.

  As at March 31, 2015, Zargon had available unused committed bank credit facilities of approximately $79.15 million compared to $86.33 million at December 31, 2014. The Company believes it has sufficient funding through the use of these facilities to meet foreseeable borrowing requirements.

The timing of cash outflows relating to financial liabilities are outlined in the table below:

($ thousands)	1 year	2–4 years	Total
Trade and other payables	**17,544**	**–**	**17,544**
Cash dividends payable	**908**	**–**	**908**
Derivative liabilities	**352**	**129**	**481**
Long term bank debt	**–**	**49,908**	**49,908**
Interest on convertible debentures	**3,450**	**5,175**	**8,625**
Convertible debentures (1)	**–**	**57,500**	**57,500**

(1) Amount is the full face value of the convertible debenture at $57.50 million.

Commodity Price Sensitivities

The following summarizes the sensitivity of the fair value of the Company's risk management positions to fluctuations in commodity prices, with all other variables held constant. When assessing the potential impact of these commodity price changes, the Company believes 10 percent volatility is a reasonable long term measure.

Fluctuations of 10 percent in commodity prices could have resulted in unrealized gains or losses of $0.67 million (March 31, 2014 – $8.59 million) and nil (March 31, 2014 – $1.26 million) for oil and gas risk management contracts impacting net earnings for the three months ended March 31, 2015, respectively.

12. DERIVATIVE CONTRACTS

The Company is a party to certain financial instruments that have fixed the price of a portion of its oil production and interest rates. The Company enters into these contracts for risk management purposes only in order to protect a portion of its future cash flows from the volatility of oil and natural gas commodity prices and interest rates. For financial risk management contracts, any unrealized gains or losses are recorded in earnings based on the fair value (mark-to-market) of the contracts at each reporting period. The unrealized loss on the statement of earnings/(loss) and comprehensive income/(loss) for the first three months of 2015 was $5.94 million and the unrealized loss for the first three months of 2014 was $3.19 million. The realized gain on the statement of earnings/(loss) and comprehensive income/(loss) for the first three months of 2015 was $8.33 million and the realized loss for the first three months of 2014 was $2.30 million.

As at March 31, 2015, the Company had the following outstanding commodity and interest risk management contracts:

Commodity Financial Risk Management Contracts:

	Rate	Weighted Average Price	Range of Terms	Fair Market Value Asset/(Liability) ($ thousands)
Oil swaps	1,200 bbl/d	$94.01 US/bbl	Apr. 1/15 – Jun. 30/15	6,348
Total Fair Market Value, Commodity Price Financial Contracts				**6,348**

Oil swaps are settled against the NYMEX WTI pricing index.

Subsequent to the end of the period and prior to the consolidated financial statements being authorized for issue on May 13, 2015, the Company entered into commodity contracts totalling 1,000 barrels per day of oil at a weighted average price of $63.34 US/bbl WTI from July 1, 2015 to December 31, 2015.

Interest Rate Risk Management Contracts:

	Notional Value	Weighted Average Interest Rate(1)	Range of Terms	Fair Market Value Asset/(Liability) ($ thousands)
Interest rate swaps	$20,000,000/month	1.640%	Apr. 1/15 – Jul. 26/16	(221)
	$20,000,000/month	1.731%	Apr. 1/15 – Aug. 26/16	(260)
Total Fair Market Value, Interest Rate Financial Contracts				**(481)**

(1) Excludes the current stamping fee of 2.00 percent for each swap.

Interest rate swaps are reset monthly and settled against the BA-CDOR interest rate index.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Craig H. Hansen
Calgary, Alberta

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Chairman of the Board
Oakville, Ontario

Kyle D. Kitagawa [1]
Calgary, Alberta

Geoffrey C. Merritt [1]
Calgary, Alberta

Jim Peplinski [1] [2]
Calgary, Alberta

Grant A. Zawalsky [2]
Calgary, Alberta

OFFICERS

Craig H. Hansen
President and Chief Executive Officer and Interim Chief Financial Officer

Leslie E. Burden
Vice President, Land

Randolph J. Doetzel
Vice President, Operations

Christopher M. Hustad
Vice President, Alberta Plains South

Pete H.S. Janjua
Vice President, Williston Basin

Brian G. Kergan
Vice President, Corporate Development

Robert T. Moriyama
Vice President, Enhanced Recovery

(1) Audit and Reserves Committee
(2) Governance and Compensation Committee

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Zargon Oil & Gas Ltd.
Common Shares
Trading Symbol: ZAR

Zargon Oil & Gas Ltd.
Convertible Debentures
Trading Symbol: ZAR.DB

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