ZARGON OIL & GAS LTD.

2015 Q3 FINANCIAL REPORT

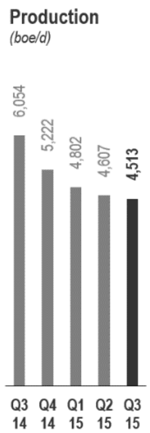
FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended September 30,			Nine Months Ended September 30,		
(unaudited)	2015	2014	Percent Change	2015	2014	Percent Change
Financial						
Income and Investments ($ millions)						
Gross petroleum and natural gas sales	**16.23**	37.41	(57)	**52.96**	118.54	(55)
Funds flow from operating activities	**3.29**	10.87	(70)	**20.52**	38.04	(46)
Cash flows from operating activities	**7.65**	12.36	(38)	**21.30**	37.25	(43)
Cash dividends	**0.91**	5.43	(83)	**6.36**	16.27	(61)
Net earnings/(loss)	**(41.16)**	0.10	–	**(49.81)**	(1.75)	–
Net capital expenditures	**7.38**	6.09	21	**18.13**	34.94	(48)
Per Share, Basic						
Funds flow from operating activities ($/share)	**0.11**	0.36	(69)	**0.68**	1.26	(46)
Cash flows from operating activities ($/share)	**0.25**	0.41	(39)	**0.70**	1.24	(44)
Net loss ($/share)	**(1.36)**	–	–	**(1.65)**	(0.06)	–
Cash Dividends ($/common share)	**0.03**	0.18	(83)	**0.21**	0.54	(61)
Balance Sheet at Period End ($ millions)						
Property and equipment				**277.76**	384.30	(28)
Exploration and evaluation assets				**6.33**	7.57	(16)
Long term bank debt				**51.98**	59.45	(13)
Convertible debentures at maturity				**57.50**	57.50	–
Shareholders' equity				**108.39**	157.91	(31)
Total Common Shares Outstanding at Period End (millions)				**30.30**	30.18	–
Operating						
Average Daily Production						
Oil and liquids (bbl/d)	**3,633**	4,194	(13)	**3,760**	4,203	(11)
Natural gas (mmcf/d)	**5.28**	11.16	(53)	**5.28**	13.32	(60)
Equivalent (boe/d)	**4,513**	6,054	(25)	**4,640**	6,422	(28)
Average Selling Price (before the impact of financial risk management contracts)						
Oil and liquids ($/bbl)	**44.67**	86.61	(48)	**47.76**	88.80	(46)
Natural gas ($/mcf)	**2.66**	3.89	(32)	**2.73**	4.58	(40)
Wells Drilled, Net	**3.0**	1.5	100	**3.0**	13.2	(77)
Undeveloped Land at Period End (thousand net acres)				**78**	103	(24)

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.

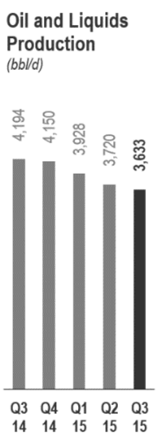
Funds flow from operating activities is an additional GAAP term that represents net earnings/(loss) and asset retirement expenditures except for non-cash items. For a further discussion about this term, refer to the Management's Discussion and Analysis section in this report.

Message to Shareholders [1]



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

- Funds flow from operating activities of $3.3 million were 67 percent lower than the $10.0 million recorded in the prior quarter, and 70 percent lower than the $10.9 million reported in the third quarter of 2014. The reduction in funds flow is primarily due to Zargon's sharply lower third quarter 2015 field oil prices of $44.67 per barrel, down 48 percent from the third quarter 2014 field oil price of $86.61 per barrel and down 21 percent from the second quarter 2015 field oil price of $56.55 per barrel.
- Reflecting restricted conventional capital programs, third quarter 2015 production averaged 3,633 barrels of oil and liquids per day, a two percent decrease from the preceding quarter and third quarter 2015 natural gas production averaged 5.3 million cubic feet per day, unchanged from the preceding quarter. Total production averaged 4,513 barrels of oil equivalent per day, a two percent decrease from the preceding quarter. During the quarter, oil and liquids production represented 81 percent of total production based on a 6:1 equivalent basis.
- At quarter end, Zargon recognized a non-cash impairment charge to property, plant and equipment assets of $56.7 million, primarily due to lower forecasted future commodity prices.

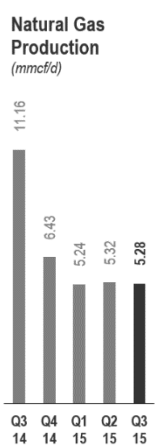


- Three monthly cash dividends of $0.01 per common share were declared in the third quarter of 2015 for a total of $0.9 million. These cash dividends were equivalent to a payout ratio of 27 percent of funds flow from operating activities. This $0.01 per common share monthly dividend has subsequently been suspended.
- Third quarter 2015 exploration and development capital expenditures (excluding property acquisitions and dispositions) were $6.9 million and included $5.0 million of expenditures related to the Little Bow ASP project ($2.8 million exploitation and $2.2 million chemical costs). In the quarter, Zargon drilled 3.0 gross (3.0 net) Little Bow ASP wells.

Suspension of Dividend [1]

As a result of volatile, uncertain and exceptionally low oil prices, Zargon's Board of Directors have decided to suspend the Company's monthly dividend until further notice. The Company estimates this action will reduce annual cash outlays by approximately $3.6 million. The $0.01 per common share dividend declared by the Board of Directors on October 15, 2015, will be paid on November 16, 2015, to shareholders of record at the close of business on October 31, 2015.

Amendment to Credit Facility [1]



Subsequent to the quarter end, Zargon's bank syndicate members have completed their semi-annual review of Zargon's committed syndicated credit facilities to incorporate significantly lower oil price forecasts, and have elected to reduce the credit facilities' committed borrowing base by 20 percent to $88 million from $110 million. This reduced borrowing base compares with the Company's outstanding bank debt of $52.0 million at September 30, 2015. The credit facilities continue to be fully revolving until June 22, 2016, with the provision for an annual extension at the option of the lenders and upon request from Zargon.

At the end of the third quarter, Zargon had $117.0 million in total debt, net of working capital (excluding unrealized derivative assets/liabilities). This total includes $52.0 million of bank debt drawn and $57.5 million of convertible debentures. The convertible debentures (TSX: ZAR.DB) bear interest at a rate of six percent per annum, which is payable semi-annually, in arrears, on June 30 and December 31. The debentures mature on June 30, 2017, at which time Zargon may redeem the debentures with cash or through the issuance of Zargon common shares priced at 95 percent of the then current Zargon share price.

Ongoing Cost Reduction Initiatives [1]

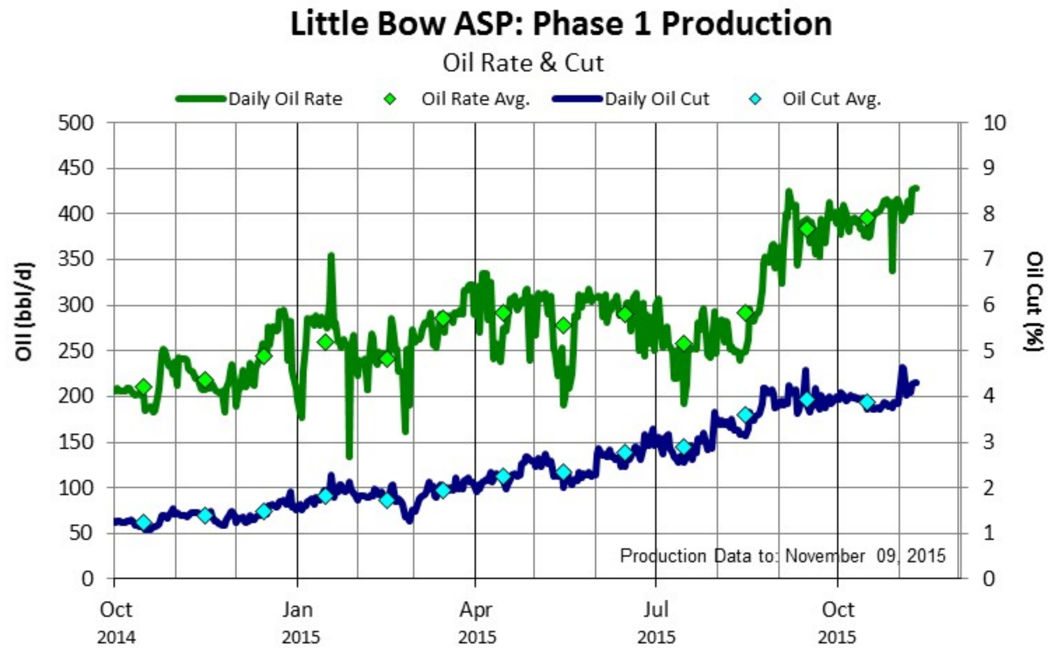
In a response to the sustained low oil price environment, Zargon has continued to focus on reducing general and administrative, operating and transportation and capital costs. Although costs do vary by quarter, good progress has been made with the overall trends. In particular, general and administrative costs and transactions costs (inclusive of one-time adjustments) have been reduced from $13.4 million in 2014, to $8.6 million (projected) in 2015 and $6.5 million (forecast) in 2016. These reductions have been accomplished through office staff reductions (38 percent), comprehensive cost reviews, salary roll backs, consultant rate reductions and office space adjustments.

Similarly, operating and transportation costs have been reduced from $43 million in 2014, to $36 million (projected) in 2015 and $31 million (forecast) in 2016. These reductions have been accomplished through lower margin property sales (now completed), comprehensive cost reviews, field supplier and consultant reductions and field office consolidations. In particular, the projected 2016 cost savings reflect lower electricity costs, lower field contractor costs and reduced Little Bow ASP facility and field pumping costs due to improved pumping designs. Cost containment programs have also been implemented for conventional and ASP oil exploitation capital programs and, in aggregate, have permitted the December drilling of three additional ASP infills without increasing the year's $25 million budget. Finally, ASP chemical supply contracts have been renegotiated with realized price reductions of up to 15 percent.

Little Bow Alkaline Surfactant Polymer ("ASP") Project Update [1]

In March 2014, Zargon commenced chemical injection of large volumes of dilute chemical solution into the partially depleted Little Bow Mannville I pool to recover incremental oil reserves. To date, 5.8 million barrels of ASP solution has been injected into the first phase of the project. This injection volume is equal to about 18 percent of the targeted reservoir pore volume, and represents 26 percent of the total chemical bank (ASP and polymer only) scheduled to be injected in the phase 1 operation.

Earlier this year, Zargon announced that although the project's produced oil cuts had demonstrated encouraging oil banking trends, total oil production volumes had not met expectations. To address this performance issue, Zargon increased the injected surfactant concentrations and undertook a now completed summer-fall 2015 remedial and optimization program, which included the conversion of two additional ASP injectors, multiple producer workovers, the drilling of three producing wells, and the replacement/repair of selected ASP injection lines. The initial production results (provided graphically below) from the program are encouraging and show improved ASP project oil rates due to new wells, improved oil cuts and increased production/injection rates.



Based on the positive fall three well program results, an additional three infill producing wells will be drilled in December 2015. In aggregate, Zargon is forecasting that these three infill wells, in conjunction with the current oil cut and fluid production trends will take the total phase 1 production levels to more than 600 barrels of oil per day by the end of the 2016 second quarter (400 barrels per day of incremental ASP production plus 200 barrels per day of base waterflood production). Zargon's independent reserves evaluator, McDaniel & Associates Consultants Ltd., has assigned 4.48 million barrels of proved and probable (non-producing and undeveloped) oil and liquids reserves to the Little Bow ASP project in its 2014 year end reserve appraisal. An updated reserve report, which incorporates the impact of the delayed production response, the recent encouraging production trends, this year's six additional wells and revised operating and chemical cost data will be provided prior to the end of January 2016. For further information regarding the Little Bow ASP project, please refer to our updated corporate presentation, which is available at www.zargon.ca.

Conventional Oil Exploitation Activities [1]

In addition to the $5.0 million of ASP exploitation and chemical capital expenditures, Zargon spent $1.9 million on conventional oil exploitation capital programs in the third quarter of 2015. These conventional capital programs focused on minor waterflood and facility modifications that continue to enable Zargon to have an industry low base oil production decline of 13 percent per year. Zargon has not drilled any conventional oil exploitation wells in 2015.

Zargon's non-ASP conventional properties tend to be pressure supported by waterflood injections or natural reservoir aquifers and consequently provide long-life low-decline oil volumes. Approximately half of these production volumes are produced from Mississippian (Midale, Frobisher, Alida equiv., Tilston) horizons in the Williston Basin core area. In aggregate, the conventional properties bring more than 75 horizontal locations that can be methodically drilled as oil prices improve in order to deliver stable (or growing) non-ASP oil production volumes for many years.

2015 & 2016 Outlook [1]

Zargon's 2015 total capital budget continues to be set at $25 million (excluding $0.5 million relating to final statement of adjustments for prior year dispositions) of which approximately $7.4 million remains to be spent in the fourth quarter. This remaining 2015 capital budget will be allocated $1.1 million to conventional expenditures, $3.6 million for ASP chemicals and $2.7 million for ASP exploitation expenditures. Despite the addition of $2.2 million of costs for the three December 2015 Little Bow ASP development locations, other budgeted capital costs have been reallocated and the total field capital 2015 budget remains unchanged.

For 2016, we are forecasting a $16 million capital budget which is comprised of $4 million of conventional expenditures and $12 million for ASP chemical costs. The follow-on polymer injection costs for phase 1 are expected to average $4 million per year during the 2017 through 2019 period. Phase 2 expansion capital has been deferred until realized field oil prices increase from the current depressed levels. The 2016 drilling program does not anticipate the drilling of either conventional oil exploitation or Little Bow ASP wells.

Zargon has entered into an oil hedging program to provide a measure of stability and predictability to cash flows as we wait for the ASP production volumes to ramp up and oil prices to improve. For the remainder of 2015, Zargon has hedged 1,500 barrels per day at $79.78 Cdn/bbl WTI, while for the first half of 2016 an average of 500 barrels per day is hedged at $79.30 Cdn/bbl WTI.

Production Guidance (1)

In the August 13, 2015 second quarter results press release, Zargon provided 2015 third quarter oil production guidance of 3,650 barrels of oil and liquids per day (including incremental ASP volumes). Actual third quarter volumes essentially met guidance and were 3,633 barrels of oil and liquids per day. Previously, Zargon had set the 2015 third quarter natural gas production guidance at 5.0 million cubic feet per day, a level that was exceeded by actual third quarter volumes of 5.3 million cubic feet per day.

For the 2015 fourth quarter, oil and liquid volumes are forecast to average 3,650 barrels of oil per day, a level that incorporates 230 barrels of oil per day of incremental ASP production, up from 100 and 75 barrels of oil per day in the 2015 third and second quarters, respectively. Fourth quarter natural gas production guidance is forecast to average 5.0 million cubic feet per day.

Looking forward to 2016, increasing oil production volumes from the Little Bow ASP project are forecasted to completely offset the effects of the 13 percent base decline from the conventional oil properties, and an average production rate of 3,650 barrels of oil per day is forecasted to be maintained throughout the year. This forecast assumes that no additional wells are drilled on either the Little Bow ASP or conventional oil exploitation properties. Significant oil production growth could be obtained if a drilling budget was implemented. Natural gas volumes are forecasted to average 4.6 million cubic feet per day in 2016.

Strategic Alternatives Process Update (1)

In the August 13, 2015 press release, Zargon announced the formation of a Special Board Committee (“the Committee”) to examine alternatives that would maximize shareholder value in a manner that would recognize the Company’s fundamental inherent value related to Zargon’s long-life, low-decline conventional oil assets and the significant long term oil potential related to the Little Bow ASP project. This ongoing strategic and financial review might include, but is not limited to a strategic 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 its business plan.

Upon consideration of market trends and the recent/forecast positive Little Bow ASP results (improved operational performance, encouraging drilling results and increasing oil cuts and oil rates), the Committee is planning to commence a formal Company/asset marketing process in early 2016. This timing would permit the finalization of Zargon’s 2015 year end independent reserves appraisal, which would incorporate the drilling of three additional Little Bow ASP wells in December 2015. The Company expects to provide updated disclosure regarding this strategic alternatives process prior to the end of the 2016 first quarter.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") is a review of Zargon Oil & Gas Ltd.'s 2015 third quarter financial results and should be read in conjunction with the unaudited interim consolidated financial statements and related notes for the three and nine months ended September 30, 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 per boe, 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 November 11, 2015, and contains forward-looking statements including:

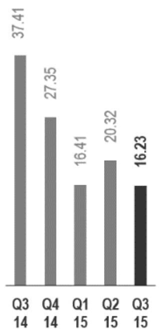
- *Our suspension of dividend referred to under the headings “Suspension of Dividend” and “Liquidity and Capital Resources”;*
- *Our expectations on reducing general and administrative, operating and transportation costs referred to under the heading “Ongoing Cost Reduction Initiatives”;*
- *our expectations for our plans with respect to our Little Bow ASP project and the results therefrom referred to under the headings “Ongoing Cost Reduction Initiatives”, “Little Bow Alkaline Surfactant Polymer (“ASP”) Project Update”, “2015 & 2016 Outlook”, “Production Guidance” and “Strategic Alternatives Process Update”;*
- *our expectations for our budgeted 2015 and 2016 conventional oil exploitation assets capital program referred to under the headings “2015 & 2016 Outlook”, “Production Guidance” and “Outlook”;*
- *our expectations for our 2015 and 2016 hedges referred to under the heading “2015 & 2016 Outlook”;*
- *our expectations for production referred to under the heading “Production Guidance”;*
- *our strategic alternatives process referred to under the headings “Strategic Alternatives Process Update” and “Outlook”;*
- *our dividend policy referred to under the heading “Liquidity and Capital Resources”; and*
- *our expected sources of funds for capital expenditures referred to under the heading “Liquidity and Capital Resources”.*

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.

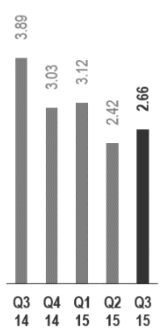
You are cautioned that the assumptions, including among other things, future oil and natural gas prices; future capital expenditure levels (including ASP); future production levels; future exchange rates; the cost of developing and expanding our assets; our ability to obtain equipment in a timely manner 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 November 11, 2015.

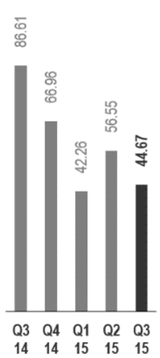
Petroleum and Natural Gas Revenue
($ millions)



Natural Gas Prices
($/mcf)



Oil and Liquids Prices
($/bbl)



FINANCIAL & OPERATING RESULTS

Petroleum and Natural Gas Sales

	Three Months Ended September 30,			Nine Months Ended September 30,		
($ millions)	**2015**	2014	Percent Change	**2015**	2014	Percent Change
Petroleum sales	**14.94**	33.41	(55)	**49.02**	101.90	(52)
Natural gas sales	**1.29**	4.00	(68)	**3.94**	16.64	(76)
Petroleum and natural gas sales	**16.23**	37.41	(57)	**52.96**	118.54	(55)

Third quarter 2015 gross petroleum and natural gas sales of $16.23 million were 57 percent below the $37.41 million in the third quarter of 2014 due to lower oil and natural gas prices and production declines after property sales.

Third quarter 2015 realized oil and liquids field prices averaged $44.67 per barrel before the impact of financial risk management contracts and were 48 percent lower than the $86.61 per barrel recorded in the 2014 third quarter. Zargon's crude oil field price differential from the Edmonton par price increased to $11.59 per barrel in the third quarter of 2015 compared to $11.29 per barrel in the third quarter of 2014. Natural gas field prices received averaged $2.66 per thousand cubic feet in the third quarter of 2015, a 32 percent decrease from the 2014 third quarter prices.

Pricing

	Three Months Ended September 30,			Nine Months Ended September 30,		
Average for the period	**2015**	2014	Percent Change	**2015**	2014	Percent Change
Natural Gas:						
NYMEX average daily spot price ($US/mmbtu)	**2.75**	3.93	(30)	**2.78**	4.57	(39)
AECO average daily spot price ($Cdn/mmbtu)	**2.90**	4.02	(28)	**2.77**	4.81	(42)
Zargon realized field price before the impact of financial risk management contracts ($Cdn/mcf)	**2.66**	3.89	(32)	**2.73**	4.58	(40)
Zargon realized field price before the impact of physical and financial risk management contracts ($Cdn/mcf)	**2.67**	3.80	(30)	**2.58**	4.65	(45)
Zargon realized natural gas field price differential before the impact of physical and financial risk management contracts ($Cdn/mcf)	**0.23**	0.22		**0.19**	0.16	
Crude Oil:						
WTI ($US/bbl)	**46.43**	97.17	(52)	**51.00**	99.61	(49)
Edmonton par price ($Cdn/bbl)	**56.26**	97.90	(43)	**59.16**	100.96	(41)
Zargon realized field price before the impact of financial risk management contracts ($Cdn/bbl)	**44.67**	86.61	(48)	**47.76**	88.80	(46)
Zargon realized field price after the impact of financial risk management contracts ($Cdn/bbl)	**51.90**	81.79	(37)	**62.64**	83.09	(25)
Zargon realized oil field price differential [1]	**11.59**	11.29		**11.40**	12.16	

(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 third quarter were 3,633 barrels per day, a 13 percent decrease from the 2014 third quarter rate of 4,194 barrels per day and a two percent decrease from the preceding quarter's rate of 3,720 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 in the 2015 third quarter of 5.28 million cubic feet per day compared to 11.16 million cubic feet per day in the 2014 third quarter and 5.32 million cubic feet per day in the preceding 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 September 30,		**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	**759**	**2.32**	**1,146**	1,216	8.10	2,566
Alberta Plains South	**1,154**	**2.50**	**1,571**	1,299	2.59	1,730
Williston Basin	**1,720**	**0.46**	**1,796**	1,679	0.47	1,758
	3,633	**5.28**	**4,513**	4,194	11.16	6,054

Nine Months Ended September 30,		**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	**806**	**2.45**	**1,214**	1,168	10.27	2,879
Alberta Plains South	**1,184**	**2.40**	**1,584**	1,314	2.61	1,749
Williston Basin	**1,770**	**0.43**	**1,842**	1,721	0.44	1,794
	3,760	**5.28**	**4,640**	4,203	13.32	6,422

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.

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/(loss) and their fair value is reflected in "derivative assets" or "derivative liabilities" on the consolidated balance sheets.

In the 2015 third quarter, higher contract prices versus WTI oil prices resulted in a net realized gain on derivatives of $2.33 million compared to a $2.06 million net realized loss in the third quarter of 2014.

The unrealized gain on derivatives of $3.26 million in the third quarter of 2015 was comprised of oil contract gains of $3.20 million and an interest rate swap gain of $0.06 million, compared to a net $11.22 million gain in the third 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 12 and 13 to the unaudited interim consolidated financial statements.

Royalties

	Three Months Ended September 30,			Nine Months Ended September 30,		
($ millions)	**2015**	2014	Percent Change	**2015**	2014	Percent Change
Royalties	**2.45**	7.45	(67)	**7.59**	22.37	(66)
Percentage of revenue	**15.1%**	19.9%		**14.3%**	18.9%	

Royalties are inclusive of the Saskatchewan Resource Surcharge ("SRC"). The variations in royalty rates generally track changes in production volumes and pricing. Third quarter of 2015 royalties were 15.1 percent of gross sales compared to 19.9 percent in the third quarter of 2014.

Operating Expenses and Transportation Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
($ millions)	**2015**	2014	Percent Change	**2015**	2014	Percent Change
Operating expenses	**8.78**	9.87	(11)	**26.41**	31.47	(16)
Transportation expenses	**0.33**	0.39	(15)	**0.89**	1.28	(30)
Total expenses	**9.11**	10.26	(11)	**27.30**	32.75	(17)
Total expenses ($/boe)	**21.95**	18.41	19	**21.55**	18.68	15

Compared to the prior year's third quarter, operating expenses and transportation expenses in the 2015 third quarter were down on a total dollar basis but increased on a per barrel of oil equivalent basis due to the disposition of the lower per barrel of oil equivalent Jarrow, Pembina and Hamilton Lake natural gas properties in the second half of 2014. In the quarter, operating expenses included $1.17 million for annual facility turnaround costs that are primarily expended in the summer months.

Operating Netbacks

Three Months Ended September 30,	**2015**		2014	
	Oil and Liquids ($/bbl)	**Natural Gas ($/mcf)**	Oil and Liquids ($/bbl)	Natural Gas ($/mcf)
Sales	**44.67**	**2.66**	86.61	3.89
Royalties	**(6.88)**	**(0.32)**	(18.11)	(0.45)
Realized gain/(loss) on derivatives	**7.23**	**–**	(4.82)	(0.15)
Operating expenses	**(22.64)**	**(2.50)**	(20.35)	(1.97)
Transportation expenses	**(0.99)**	**–**	(1.01)	–
Operating netbacks	**21.39**	**(0.16)**	42.32	1.32

Nine Months Ended September 30,	**2015**		2014	
	Oil and Liquids ($/bbl)	**Natural Gas ($/mcf)**	Oil and Liquids ($/bbl)	Natural Gas ($/mcf)
Sales	**47.76**	**2.73**	88.80	4.58
Royalties	**(6.89)**	**(0.36)**	(17.83)	(0.52)
Realized gain/(loss) on derivatives	**14.88**	**0.26**	(5.71)	(0.39)
Operating expenses	**(22.16)**	**(2.54)**	(20.76)	(2.10)
Transportation expenses	**(0.87)**	**–**	(1.11)	–
Operating netbacks	**32.72**	**0.09**	43.39	1.57

General & Administrative ("G&A") Expenses

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
($ millions)	**2015**	2014	Percent Change	**2015**	2014	Percent Change
G&A expenses	**1.78**	4.21	(58)	**6.44**	10.21	(37)
G&A expenses ($/boe)	**4.28**	7.56	(43)	**5.08**	5.82	(13)

G&A expenses per barrel of oil equivalent were lower in the third quarter of 2015 primarily due to reductions in salaries and wages from staff reductions as well as one-time employee related costs of $1.55 million incurred in the third quarter of 2014.

Transaction Costs

Transaction costs for the 2015 third quarter were $0.16 million and related to Zargon's ongoing strategic alternatives review. The comparative 2014 third quarter costs of $0.36 million related to the 2014 property disposition program.

Interest and Financing Charges on Long Term Bank Debt

Zargon reduced its syndicated committed credit facilities from $110 million to $88 million after the Company's semi-annual review was completed on November 10, 2015. This reduction is primarily a result of lower commodity prices. The next renewal date is June 22, 2016. 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.

Zargon's borrowings are through its syndicated bank credit facilities. Interest and financing charges on these facilities in the 2015 third quarter were $0.65 million, a 13 percent decrease from $0.75 million in the third quarter of 2014. The decrease in interest and financing charges resulted from lower average borrowing levels and a lower effective interest rate compared to the third 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. Zargon may redeem the convertible debentures with cash or through the issuance of Zargon common shares priced at 95 percent of the then current Zargon share price. 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 third quarter of 2015 were unchanged compared to the third quarter of 2014.

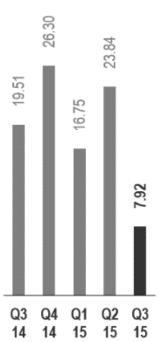
Current Tax

The current tax recovery for the 2015 third quarter was $0.11 million, and relates to the US operations. When compared to the 2014 third quarter, the current tax recovery increased by $0.06 million. Total corporate tax pools as at September 30, 2015 are approximately $290 million, which represents an increase of three percent from the comparable $282 million of tax pools available to Zargon at December 31, 2014.

Estimated Tax Pools

($ millions)	September 30, 2015
Canadian development expenses	**37.12**
Canadian exploration expenses	**58.65**
Capital cost allowance	**70.93**
Non-capital losses	**117.72**
US tax pools	**1.51**
Other	**3.60**
Estimated tax pools	**289.53**

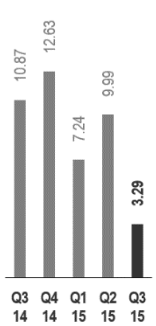
Funds Flow Netbacks
($/boe)



Corporate Netbacks

	Three Months Ended September 30,		Nine Months Ended September 30,	
($/boe)	**2015**	2014	**2015**	2014
Petroleum and natural gas sales	**39.08**	67.18	**41.81**	67.61
Royalties	**(5.91)**	(13.38)	**(5.99)**	(12.76)
Realized gain/(loss) on derivatives	**5.60**	(3.72)	**12.16**	(4.61)
Operating expenses	**(21.15)**	(17.71)	**(20.85)**	(17.95)
Transportation expenses	**(0.80)**	(0.70)	**(0.70)**	(0.73)
Operating netbacks	**16.82**	31.67	**26.43**	31.56
General and administrative expenses	**(4.28)**	(7.56)	**(5.08)**	(5.82)
Transaction costs	**(0.37)**	(0.65)	**(0.15)**	(0.32)
Interest and financing charges	**(1.56)**	(1.34)	**(1.45)**	(1.16)
Interest on convertible debentures	**(2.08)**	(1.55)	**(2.04)**	(1.48)
Asset retirement expenditures	**(0.88)**	(1.15)	**(1.67)**	(1.03)
Current tax (expense)/recovery	**0.27**	0.09	**0.16**	(0.05)
Funds flow netbacks	**7.92**	19.51	**16.20**	21.70

Funds Flow from Operating Activities
($ millions)



Depletion and Depreciation Expense

Depletion and depreciation expense for the third quarter of 2015 decreased 25 percent to $8.46 million compared to $11.26 million in the third quarter of 2014 and reflects the quarter's decline in production volumes from last year. On a per barrel of oil equivalent basis, the depletion and depreciation rates were $20.37 and $20.22 for the third quarter of 2015 and 2014, respectively, and were essentially unchanged. 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 third quarter of 2015 was $0.54 million, a 41 percent decrease from the third quarter of 2014 and resulted from the reduction of future asset retirement obligations through 2014 property sales. Reflecting last year's sale of higher liability assets, the third quarter of 2015 accretion expense rate declined to $1.30 per barrel of oil equivalent from $1.66 per barrel of oil equivalent in the third quarter of 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 third quarter was $0.36 million compared to $0.32 million in the 2014 third quarter.

Shared-based Compensation

Expensing of share-based compensation in the third quarter of 2015 totalled $0.38 million, which was higher than the $0.17 million incurred in the third quarter of 2014 due to cancellations of share awards related to employee changes in 2014.

Unrealized Foreign Exchange

The Company had an unrealized foreign exchange gain of $0.82 million during the third quarter of 2015 compared to a minimal gain in the 2014 third 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.

Gain/Loss on Disposal of Assets

During the third quarter of 2015, Zargon had a nil gain on disposal of assets compared to a loss of $10.07 million on disposal of assets in 2014.

Exploration and Evaluation Expenses

Non-cash exploration and evaluation expenses for the 2015 third quarter of $0.24 million compared to third quarter of 2014 expenses of $0.16 million. Exploration and evaluation expenses are primarily related to undeveloped land expiries. The 2015 third quarter exploration and evaluation expense related to expiries in northern Alberta and North Dakota.

Impairment Loss

As at September 30, 2015, the Company tested its cash generating units ("CGUs") for impairment. Low crude oil and natural gas prices resulted in impairment of three CGUs (Alberta Plains North, Alberta Plains South and Williston Basin USA). The exploration and evaluation ("E&E") assets associated with these CGUs were not included in this impairment test.

The recoverable amount of the CGUs was estimated based on their fair value less costs of disposal. This estimate was determined using an after-tax discount rate of 10 percent and forecasted cash flows. The forecasted cash flows are prepared over the estimated life of the reserves in the CGUs. The prices used in this estimate are those used by independent reserve engineers.

Based on the assessment on September 30, 2015, the carrying amount of the three CGUs were determined to be $56.69 million higher than their recoverable amount, and an impairment loss was recognized. The impairment specifically related to Alberta Plains North ($3.64 million), Alberta Plains South ($38.02 million) and Williston Basin USA ($15.03 million). The carrying amounts before impairment were $43.45 million, $164.60 million and $42.74 million for the Alberta Plains North, Alberta Plains South and Williston Basin

USA CGUs, respectively. As at September 30, 2014, the Company determined there was no impairment. No impairment losses from prior years were reversed in 2015.

Impairment of Marketable Securities

As at September 30, 2015, the Company tested its marketable securities for impairment. Decreased values in market capitalizations resulted in impairment of two marketable securities. The fair value of the marketable securities was estimated at September 30, 2015 with their book value estimated at the time they were acquired or previously written-down.

Based on the assessment on September 30, 2015, the carrying amounts of the marketable securities were determined to be $0.88 million higher than their recoverable amount of $0.66 million, and an impairment loss was recognized. As at September 30, 2014, the Company determined there was no impairment on marketable securities.

Deferred Tax

The deferred tax recovery for the third quarter of 2015 was $18.65 million compared to a recovery of $0.28 million in the third quarter of 2014. The increase in deferred tax recovery is primarily a result of a higher net loss in the 2015 third quarter.

Funds Flow from Operating Activities

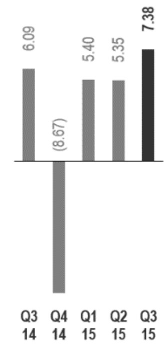
Funds flow from operating activities in the 2015 third quarter of $3.29 million was $7.58 million, or 70 percent lower than the prior year third quarter. The decrease in funds flow compared to the prior year third quarter was primarily a result of decreased revenue from lower oil and gas prices which was partially offset by decreased royalties, operating expenses, G&A expenses and asset retirement expenditures as well as a gain on realized derivatives.

Net Earnings/(Loss)

A net loss of $41.16 million for the 2015 third quarter was $41.26 million higher than the $0.10 million net earnings in the 2014 third quarter, largely due to decreased revenue and impairment losses. 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 third quarter 2015 net loss was $1.36, compared to nil for the 2014 third quarter.

Capital Expenditures

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ millions)	**2015**	2014	**2015**	2014
Undeveloped land	**0.53**	0.17	**1.40**	1.80
Geological and geophysical (seismic)	**0.03**	0.04	**0.34**	0.75
Drilling and completion of wells	**0.87**	3.51	**2.05**	13.72
Well equipment and facilities	**0.42**	3.95	**1.11**	12.44
ASP project and exploitation costs	**2.75**	1.46	**4.80**	9.36
ASP chemical costs	**2.25**	3.62	**7.98**	8.03
Exploration and development	**6.85**	12.75	**17.68**	46.10
Property acquisitions	**0.52**	0.03	**0.55**	3.29
Property dispositions	**0.01**	(6.69)	**(0.07)**	(14.61)
Net property acquisitions/(dispositions)	**0.53**	(6.66)	**0.48**	(11.32)
Total net capital expenditures excluding administrative assets	**7.38**	6.09	**18.16**	34.78
Administrative assets	**–**	–	**(0.03)**	0.16
Total net capital expenditures	**7.38**	6.09	**18.13**	34.94



LIQUIDITY AND CAPITAL RESOURCES

Total net capital expenditures (including net property dispositions) totalled $7.38 million in the third quarter of 2015 and were 21 percent higher than the same period in 2014. Field expenditures of $6.85 million for the third quarter of 2015 were 46 percent lower than the 2014 third quarter. The third quarter 2015 field capital expenditures (excluding net property dispositions) were allocated to Alberta Plains North - $0.55 million, Alberta Plains South - $5.82 million and Williston Basin - $0.48 million and included the drilling of 3.0 net wells, up from the 1.5 net wells drilled in the third quarter of 2014.

Included in the Alberta Plains South capital expenditures is the $5.00 million incurred on the Little Bow ASP project. Of the total ASP amount, $2.75 million was spent on project and exploitation costs while $2.25 million was spent on chemical costs for the facility.

Funds flow from operating activities in the 2015 third quarter of $3.29 million were used to partially fund the capital program and cash dividends to shareholders.

At September 30, 2015, the Company's combined debt net of working capital (excluding unrealized derivative assets/liabilities) was $116.96 million, which compares to $113.43 million of net debt at the end of December 31, 2014. The increase in net debt was due to Zargon's 2015 third quarter capital expenditure program, including the drilling of 3.0 net wells. The $116.96 million debt net of working capital consists of the $57.50 million of convertible unsecured subordinate debentures and the remaining portion of bank debt.

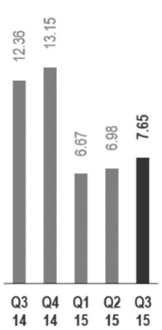
The volatility of oil and natural gas prices, uncertainty or modifications regarding royalties and Canadian income tax rules and global economic/political concerns have, on occasion, restricted the oil and natural gas industry's ability to attract new capital from debt and equity markets.

Cash Dividends Analysis

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ millions)	**2015**	2014	**2015**	2014
Cash flows from operating activities	**7.65**	12.36	**21.30**	37.25
Net earnings/(loss)	**(41.16)**	0.10	**(49.81)**	(1.75)
Actual cash dividends paid or payable relating to the period	**(0.91)**	(5.43)	**(6.36)**	(16.27)
Excess of cash flows from operating activities over cash dividends paid	**6.74**	6.93	**14.94**	20.98
Excess (shortfall) of net earnings/(loss) over cash dividends paid	**(42.07)**	(5.33)	**(56.17)**	(18.02)

During the third quarter of 2015, Zargon maintained a monthly dividend of $0.01 per common share, while a monthly dividend of $0.03 per common share was maintained for the first half of 2015. 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.

Cash Flows from Operating Activities
($ millions)



In response to continuing weakness in both spot and forward commodity price markets and increased uncertainty in the capital markets, the Board of Directors of Zargon on November 11, 2015 suspended Zargon's monthly dividend after the November 16, 2015 payment previously declared.

For the three months ended September 30, 2015, cash flows from operating activities (after changes in non-cash working capital) of $7.65 million exceeded cash dividends of $0.91 million. Similarly, for the three months ended September 30, 2014, cash flows from operating activities (after changes in non-cash working capital) of $12.36 million exceeded cash dividends of $5.43 million.

For the three months ended September 30, 2015, a net loss of $41.16 million was exceeded by cash dividends of $0.91 million. The net loss includes significant non-cash charges of $44.82 million for the 2015 third quarter that does not impact cash flow. For the three months ended September 30, 2014, net earnings of $0.10 million was exceeded by cash dividends of $5.43 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 September 30, 2015, cash dividends and net capital expenditures totalled $8.29 million, which was $0.64 million higher than the cash flows from operating activities (after changes in non-cash working capital) of $7.65 million. For the quarter ended September 30, 2014, cash dividends and net capital expenditures totalled $11.52 million, which was $0.84 million lower than the cash flows from operating activities (after changes in non-cash working capital) of $12.36 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 capital expenditures with its cash flows from operating activities; however, it may 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 November 11, 2015, Zargon Oil & Gas Ltd. had 30.302 million common shares outstanding. Pursuant to the share award and common share rights incentive plans, there are currently an additional 0.953 million common share awards issued and outstanding.

Capital Sources and Uses

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ millions)	**2015**	2014	**2015**	2014
Funds flow from operating activities	**3.29**	10.87	**20.52**	38.04
Change in long term bank debt	**1.18**	3.08	**9.21**	19.48
Cash dividends to shareholders	**(0.91)**	(5.43)	**(6.36)**	(16.27)
Changes in working capital and other	**3.82**	(2.43)	**(5.24)**	(6.31)
Total capital sources	**7.38**	6.09	**18.13**	34.94

CHANGES IN ACCOUNTING POLICIES

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

FUTURE CHANGES IN ACCOUNTING POLICIES

The Company's future changes in accounting policies are discussed in Note 3 to the Consolidated 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 third 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. Additionally, on August 13, 2015, Zargon announced the initiation of a process to identify and consider strategic and financial alternatives available to the Company with the ultimate goal of maximizing shareholder value.

SUMMARY OF QUARTERLY RESULTS

	2015		
	Q1	Q2	**Q3**
Petroleum and natural gas sales ($ millions)	16.41	20.32	**16.23**
Net loss ($ millions)	(4.88)	(3.76)	**(41.16)**
Net loss per diluted share ($)	(0.16)	(0.12)	**(1.36)**
Funds flow from operating activities ($ millions)	7.24	9.99	**3.29**
Funds flow from operating activities per diluted share ($)	0.24	0.33	**0.11**
Cash flows from operating activities ($ millions)	6.67	6.98	**7.65**
Cash flows from operating activities per diluted share ($)	0.22	0.23	**0.25**
Cash dividends ($ millions)	2.72	2.73	**0.91**
Cash dividends declared per common share ($)	0.09	0.09	**0.03**
Net capital expenditures ($ millions)	5.40	5.35	**7.38**
Total assets ($ millions)	377.16	369.47	**325.64**
Long term bank debt ($ millions)	49.91	50.80	**51.98**
Convertible debentures ($ millions) (1)	57.50	57.50	**57.50**
Net debt	113.80	111.99	**116.96**
Average daily oil and liquids production (bbl)	3,928	3,720	**3,633**
Average daily natural gas production (mmcf)	5.24	5.32	**5.28**
Average daily production (boe)	4,802	4,607	**4,513**
Average oil production weighting (%)	82	81	**81**
Average realized commodity field price before the impact of financial risk management contracts ($/boe)	37.98	48.46	**39.08**
Funds flow netback ($/boe)	16.75	23.84	**7.92**

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

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

(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 which was suspended September 2013.

(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

Calgary, Alberta
November 11, 2015

CONSOLIDATED BALANCE SHEETS

(unaudited)

($ thousands)	Notes	**September 30, 2015**	December 31, 2014
ASSETS			
Trade and other receivables		**7,301**	11,240
Deposits and prepaid expenses		**1,209**	1,226
Investment in marketable securities	12	**662**	1,542
Derivatives	12,13	**4,066**	12,004
Total current assets		**13,238**	26,012
Long term deposits		**167**	126
Property, plant and equipment, net	4,6	**277,764**	337,445
Intangible exploration and evaluation assets	5	**6,326**	6,610
Goodwill	5	**4,770**	4,770
Deferred tax assets		**23,372**	7,743
Total assets		**325,637**	382,706
LIABILITIES			
Trade and other payables		**15,973**	24,971
Cash dividends payable	7	**303**	1,811
Provisions	8	**376**	385
Derivatives	12,13	**338**	122
Total current liabilities		**16,990**	27,289
Long term bank debt	9	**51,980**	42,770
Convertible debentures		**54,768**	53,735
Derivatives	12,13	**–**	75
Provisions	8	**87,397**	86,557
Deferred tax liabilities		**6,111**	10,940
Total liabilities		**217,246**	221,366
Commitments and contingencies	8,9,11,12,13		
EQUITY			
Shareholders’ capital	10	**258,365**	257,138
Accumulated other comprehensive income		**4,842**	2,538
Contributed surplus	11	**12,561**	12,879
Equity component of debentures		**3,640**	3,640
Deficit		**(171,017)**	(114,855)
Total equity		**108,391**	161,340
Total equity and liabilities		**325,637**	382,706

See accompanying notes to the interim consolidated financial statements.

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

(unaudited)		Three Months Ended September 30,		Nine Months Ended September 30,	
($ thousands, except per share amounts)	Notes	**2015**	2014	**2015**	2014
Petroleum and natural gas sales		**16,227**	37,413	**52,957**	118,535
Royalties		**(2,454)**	(7,454)	**(7,592)**	(22,369)
PETROLEUM AND NATURAL GAS REVENUE, NET OF ROYALTIES		**13,773**	29,959	**45,365**	96,166
Gain/(loss) on unrealized derivatives	12,13	**3,261**	11,216	**(8,078)**	6,249
Gain/(loss) on realized derivatives	12,13	**2,326**	(2,064)	**15,425**	(8,096)
GAIN/(LOSS) ON DERIVATIVES		**5,587**	9,152	**7,347**	(1,847)
TOTAL INCOME		**19,360**	39,111	**52,712**	94,319
Operating		**8,782**	9,866	**26,408**	31,467
Transportation		**332**	391	**892**	1,278
General and administrative		**1,778**	4,211	**6,435**	10,208
Transaction costs		**155**	362	**188**	555
Exploration and evaluation	5	**235**	155	**575**	913
Loss on disposal of properties	4	**–**	10,072	**2**	8,145
Share-based compensation	11	**384**	168	**837**	1,014
Unrealized foreign exchange gain		**(819)**	(2)	**(1,206)**	(28)
Impairment loss on property, plant and equipment	4,6	**56,692**	–	**56,692**	–
Impairment loss on marketable securities		**880**	–	**880**	–
Depletion and depreciation		**8,460**	11,259	**25,706**	34,567
EXPENSES		**76,879**	36,482	**117,409**	88,119
EARNINGS/(LOSS) BEFORE FINANCE EXPENSES AND INCOME TAXES		**(57,519)**	2,629	**(64,697)**	6,200
Interest and financing charges	9	**647**	746	**1,840**	2,028
Interest on convertible debentures		**863**	863	**2,588**	2,588
Accretion on convertible debentures		**360**	324	**1,033**	930
Accretion of asset retirement obligations	8	**541**	923	**1,613**	3,088
FINANCE EXPENSES		**2,411**	2,856	**7,074**	8,634
LOSS BEFORE INCOME TAXES		**(59,930)**	(227)	**(71,771)**	(2,434)
Current tax expense/(recovery)		**(113)**	(49)	**(205)**	96
Deferred tax recovery		**(18,654)**	(278)	**(21,761)**	(781)
INCOME TAXES RECOVERY		**(18,767)**	(327)	**(21,966)**	(685)
NET EARNINGS/(LOSS) FOR THE PERIOD		**(41,163)**	100	**(49,805)**	(1,749)
Currency translation adjustment that may be reclassified subsequently to net earnings		**888**	1,316	**2,304**	1,367
OTHER COMPREHENSIVE EARNINGS FOR THE PERIOD		**888**	1,316	**2,304**	1,367
TOTAL COMPREHENSIVE EARNINGS/(LOSS) FOR THE PERIOD		**(40,275)**	1,416	**(47,501)**	(382)
NET LOSS PER SHARE					
Basic		**(1.36)**	–	**(1.65)**	(0.06)
Diluted		**(1.36)**	–	**(1.65)**	(0.06)

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

($ thousands)	Notes	Shareholders' Capital	Accumulated Other Comprehensive Income	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		**–**	**–**	**–**	**–**	**(49,805)**	**(49,805)**
Dividends declared	7	**–**	**–**	**–**	**–**	**(6,357)**	**(6,357)**
Share-based compensation	11	**–**	**–**	**837**	**–**	**–**	**837**
Exercise of share options	10	**1,266**	**–**	**(1,266)**	**–**	**–**	**–**
Cancellation of shares	10	**(39)**	**–**	**111**	**–**	**–**	**72**
Translation differences on foreign subsidiary		**–**	**2,304**	**–**	**–**	**–**	**2,304**
Balance at September 30, 2015		**258,365**	**4,842**	**12,561**	**3,640**	**(171,017)**	**108,391**
Balance at December 31, 2013		256,092	493	12,423	3,640	(99,103)	173,545
Net loss for the period		–	–	–	–	(1,749)	(1,749)
Dividends declared	7	–	–	–	–	(16,271)	(16,271)
Share-based compensation	11	–	–	1,014	–	–	1,014
Exercise of share options		1,017	–	(1,017)	–	–	–
Translation differences on foreign subsidiary		–	1,367	–	–	–	1,367
Balance at September 30, 2014		257,109	1,860	12,420	3,640	(117,123)	157,906

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)		Three Months Ended September 30,		Nine Months Ended September 30,	
($ thousands)	Notes	**2015**	2014	**2015**	2014
OPERATING ACTIVITIES					
Net earnings/(loss) for the period		**(41,163)**	100	**(49,805)**	(1,749)
Adjustments for non-cash items:					
Loss on sale of properties	4	**–**	10,072	**2**	8,145
(Gain)/loss on unrealized derivatives	12,13	**(3,261)**	(11,216)	**8,078**	(6,249)
Depletion and depreciation	4	**8,460**	11,259	**25,706**	34,567
Accretion of asset retirement obligations	8	**541**	923	**1,613**	3,088
Accretion of convertible debentures		**360**	324	**1,033**	930
Share-based compensation	11	**384**	168	**837**	1,014
Unrealized foreign exchange gain		**(819)**	(2)	**(1,206)**	(28)
Impairment loss on property, plant and equipment	6	**56,692**	–	**56,692**	–
Impairment loss on marketable securities		**880**	–	**880**	–
Deferred tax recovery		**(18,654)**	(278)	**(21,761)**	(781)
Exploration and evaluation expenses	5	**235**	155	**575**	913
Asset retirement expenditures		**(365)**	(639)	**(2,121)**	(1,809)
Funds flow from operating activities		**3,290**	10,866	**20,523**	38,041
Changes in operating working capital		**4,359**	1,497	**775**	(792)
Net cash from operating activities		**7,649**	12,363	**21,298**	37,249
INVESTING ACTIVITIES					
Additions to property, plant and equipment	4	**(7,364)**	(12,672)	**(18,084)**	(46,090)
Additions to intangible exploration and evaluation assets	5	**(40)**	(129)	**(117)**	(364)
Proceeds on disposal of property, plant and equipment	4	**24**	1,969	**72**	9,371
Proceeds on disposal of intangible exploration and evaluation assets		**–**	4,720	**–**	5,235
Acquisition of property, plant and equipment		**–**	–	**–**	(3,111)
Change in long term deposits		**–**	–	**(41)**	2
Changes in investing working capital		**61**	(3,904)	**(4,473)**	(5,506)
Net cash used in investing activities		**(7,319)**	(10,016)	**(22,643)**	(40,463)
FINANCING ACTIVITIES					
Advances of bank debt		**1,184**	3,080	**9,210**	19,480
Cash dividends paid to shareholders	7	**(908)**	(5,429)	**(6,357)**	(16,271)
Changes in financing working capital		**(606)**	2	**(1,508)**	5
Net cash (used)/provided by financing activities		**(330)**	(2,347)	**1,345**	3,214
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 and nine months ended September 30, 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 September 30, 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 and nine month periods ended September 30, 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 and nine month periods ended September 30, 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 November 11, 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)	Nine Months Ended September 30, 2015
Cost, December 31, 2014	519,076
Accumulated depletion and depreciation	(181,631)
Net carrying amount, December 31, 2014	337,445
Additions	18,081
Disposals	(51)
Change in asset retirement obligation	224
Impairment loss on property, plant and equipment	(56,692)
Exchange differences	4,463
Depletion and depreciation	(25,706)
Net carrying amount, September 30, 2015	277,764
Cost, September 30, 2015	487,155
Accumulated depletion and depreciation	(209,391)
Net carrying amount, September 30, 2015	277,764

During the three and nine months ended September 30, 2015, the Company disposed of certain assets for gross cash proceeds of $0.02 million (2014 - $1.97 million) and $0.07 million (2014 - $9.37 million), respectively. The dispositions for the three and nine months resulted in gains of nil (2014 - $10.07 million loss) and nil (2014 - $8.15 million loss), respectively.

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	**–**	**117**	**117**
Exploration and evaluation expense	**–**	**(575)**	**(575)**
Exchange differences	**–**	**174**	**174**
Balance at September 30, 2015	**4,770**	**6,326**	**11,096**

6. IMPAIRMENT LOSS

As at September 30, 2015, the Company tested its CGUs, as defined under IFRS, for impairment. Low crude oil and natural gas prices resulted in impairment of three CGUs, Alberta Plains North, Alberta Plains South and Williston Basin USA. The E&E assets associated with these CGUs were not included in this impairment test and were tested separately.

The recoverable amount of the CGUs was estimated based on their fair value less costs of disposal. The estimate of fair value less costs of disposal was determined using an after-tax discount rate of 10 percent and forecasted cash flows. The forecasted cash flows are prepared over the estimated life of the reserves in the CGUs. The prices used to estimate the fair value less costs of disposal are those used by McDaniel and Associates Consultants Ltd., our independent reserve engineers.

The following commodity price estimates were used to determine the recoverable amount:

Year	WTI Oil ($US/bbl) (1)	AECO Gas ($Cdn/mmbtu) (1)	$US/$Cdn Exchange Rates (1)
2015 (3 mos)	50.00	2.90	0.760
2016	55.00	3.35	0.760
2017	61.20	3.65	0.780
2018	65.00	3.85	0.780
2019	69.00	4.00	0.800
2020	73.10	4.25	0.800
2021	77.30	4.45	0.800
2022	81.60	4.70	0.800
2023	86.20	5.00	0.800
2024	87.90	5.10	0.800
2025	89.60	5.20	0.800
2026	91.40	5.30	0.800
2027	93.30	5.40	0.800
2028	95.10	5.50	0.800
2029	97.00	5.60	0.800
Remainder (2)	2.0%	2.0%	0.800

(1) Source: McDaniel & Associates Consultants Ltd. price forecast effective October 1, 2015.

(2) Percentage change represents the change in each year after 2029 to the end of the reserve life.

Based on the assessment on September 30, 2015, the carrying amount of the three CGUs were determined to be $56.69 million (2014 – nil) higher than their recoverable amount, and an impairment loss was recognized. The impairment specifically related to Alberta Plains North ($3.64 million), Alberta Plains South ($38.02 million) and Williston Basin USA ($15.03 million). The carrying amounts before impairment were $43.45 million, $164.60 million and $42.74 million for the Alberta Plains North, Alberta Plains South and Williston Basin USA CGUs, respectively. No impairment losses from prior years were reversed in 2015. The estimated recoverable amount of the impaired CGUs is classified as a Level II fair value measurement. Refer to Note 12 for information on fair value hierarchy classifications.

The above estimates are particularly sensitive in the following areas:

- A one percent increase in the discount rate used would have increased the impairment loss by $14.24 million.
- A five percent decrease in future planned cash flows would have increased the impairment loss by $11.18 million.

7. CASH DIVIDENDS

During the period, the Company declared dividends to the shareholders in the aggregate amount of $6.36 million (2014 – $16.27 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
April	April 30, 2015	May 15, 2015	$0.03
May	May 31, 2015	June 15, 2015	$0.03
June	June 30, 2015	July 15, 2015	$0.03
July	July 31, 2015	August 17, 2015	$0.01
August	August 31, 2015	September 15, 2015	$0.01
September	September 30, 2015	October 15, 2015	$0.01

Subsequent to the end of the period and prior to the consolidated financial statements being authorized for issue on November 11, 2015, the Company declared dividends of $0.30 million or $0.01 per common share for October 2015, payable on November 16, 2015. The Company has suspended its monthly cash dividend after the November 16, 2015 payment.

8. PROVISIONS

($ thousands)	Asset Retirement Obligations	Other	Total
Balance at December 31, 2014	**86,557**	**385**	**86,942**
Provisions made during the period	**224**	**–**	**224**
Foreign exchange and other	**1,124**	**–**	**1,124**
Provisions used during the period	**(2,121)**	**(9)**	**(2,130)**
Accretion	**1,613**	**–**	**1,613**
Balance at September 30, 2015	**87,397**	**376**	**87,773**
Current	**–**	**376**	**376**
Non-current	**87,397**	**–**	**87,397**

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 $0.38 million.

9. LONG TERM BANK DEBT

Zargon reduced its syndicated committed credit facilities from $110 million to $88 million after the Company's semi-annual review was completed on November 10, 2015. 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 22, 2016. 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 September 30, 2015, $51.98 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 September 30, 2015, the approximate value of outstanding letters of credit totalled $0.96 million (December 31, 2014 - $0.90 million). The letters of credit reduce the amount of Zargon's available credit facilities to $35.06 million at September 30, 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 September 30, 2015.

10. SHARE CAPITAL

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

Common Shares

	Nine Months Ended September 30, 2015	
(thousands)	**Number of Shares**	**Amount ($)**
Balance, as at December 31, 2014	**30,179**	**257,138**
Share awards exercised	**133**	**–**
Cancellation of shares	**(10)**	**(39)**
Share-based compensation recognized on exercise of share awards	**–**	**1,266**
Balance, as at September 30, 2015	**30,302**	**258,365**

11. 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 12 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:

	Nine Months Ended September 30, 2015
	Number of Share Awards (thousands)
Outstanding, as at December 31, 2014	**678**
Share awards granted	**454**
Share awards exercised	**(133)**
Share awards forfeited	**(46)**
Outstanding, as at September 30, 2015	**953**

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:

	Nine Months Ended September 30, 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 and nine months ended September 30, 2015, resulted in share-based compensation of $0.38 million (2014 - $0.17 million) and $0.84 million (2014 - $1.01 million), respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(thousands of shares)	**2015**	2014	**2015**	2014
Weighted average number of common shares – basic	**30,290**	30,152	**30,271**	30,127
Weighted average number of common shares – diluted	**30,290**	30,725	**30,271**	30,127

Dilution amounts for the three and nine months ended September 30, 2015 of nil shares (2014 – 0.57 million shares) and nil shares (2014 – nil 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 was not included in the calculation of diluted earnings per share because it is antidilutive for the three and nine months ended September 30, 2015 and 2014.

12. 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:

	September 30, 2015		December 31, 2014	
(thousands)	**Carrying Amount ($)**	**Fair Value ($)**	Carrying Value ($)	Fair Value ($)
Loans and receivables:				
Trade and other receivables	**7,301**	**7,301**	11,240	11,240
Fair value through profit and loss:				
Derivative assets	**4,066**	**4,066**	12,004	12,004
Derivative liabilities	**338**	**338**	197	197
Fair value through other comprehensive income:				
Investment in marketable securities	**662**	**662**	1,542	1,542
Other liabilities:				
Trade and other payables	**15,973**	**15,973**	24,971	24,971
Cash dividends payable	**303**	**303**	1,811	1,811
Long term bank debt	**51,980**	**51,980**	42,770	42,770
Convertible debentures	**54,768**	**34,494**	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 consolidated 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 September 30, 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 are 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 may enter 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 September 30, 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 $0.37 million (September 30, 2014 - $0.41 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 $0.20 million (September 30, 2014 - $0.57 million) increase or decrease in net earnings for the period ended September 30, 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 September 30, 2015, approximately 38 percent (December 31, 2014 - 50 percent) was owing from two companies and Zargon anticipates full collection.

  The Company's allowance for doubtful accounts at September 30, 2015 was $0.08 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 September 30, 2015, $0.28 million (December 31, 2014 - $0.37 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 September 30, 2015, Zargon had available unused committed bank credit facilities of approximately $35.06 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	**15,973**	**–**	**15,973**
Cash dividends payable	**303**	**–**	**303**
Derivative liabilities	**338**	**–**	**338**
Long term bank debt	**–**	**51,980**	**51,980**
Interest on convertible debentures	**3,450**	**3,450**	**6,900**
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 $1.42 million (September 30, 2014 – $5.33 million) and nil (September 30, 2014 – $0.23 million) for oil and gas risk management contracts impacting net earnings for the nine months ended September 30, 2015, respectively.

13. 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 gain/loss on the consolidated statement of earnings/(loss) and comprehensive earnings/(loss) for the three and nine month periods of 2015 was $3.26 million gain (2014 - $11.22 million gain) and $8.08 million loss (2014 - $6.25 million gain), respectively. The realized gain on the consolidated statement of earnings/(loss) and comprehensive earnings/(loss) for the three and nine month periods of 2015 was $2.33 million (2014 - $2.06 million loss) and $15.43 million (2014 - $8.10 million loss), respectively.

As at September 30, 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	1,000 bbl/d	$80.02 Cdn/bbl	Oct. 1/15 – Dec. 31/15	1,786
	500 bbl/d	$79.30 Cdn/bbl	Oct. 1/15 – Jun. 30/16	2,280
Total Fair Market Value, Commodity Price Financial Contracts				**4,066**

Oil swaps are settled against the NYMEX WTI pricing index.

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%	Oct. 1/15 – Jul. 26/16	(153)
	$20,000,000/month	1.731%	Oct. 1/15 – Aug. 26/16	(185)
Total Fair Market Value, Interest Rate Financial Contracts				**(338)**

(1) *Excludes the current stamping fee of 2.25 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

K. James Harrison (2)
Chairman of the Board
Oakville, Ontario

Kyle D. Kitagawa (1)
Calgary, Alberta

Geoffrey C. Merritt (1)
Calgary, Alberta

Jim Peplinski (1) (2)
Calgary, Alberta

Ron Wigham (2)
Calgary, Alberta

Grant A. Zawalsky (2)
Calgary, Alberta

OFFICERS

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President and Chief Executive 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

Jeffrey N. Post
Chief Financial Officer

(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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