ZARGON ENERGY TRUST

2006 Annual Information Form

March 19, 2007

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GLOSSARY OF TERMS

Capitalized terms in this Annual Information Form have the meanings set forth below:

Entities

Board of Directors means the board of directors of Zargon Oil & Gas Ltd.

ExchangeCo means Zargon ExchangeCo Inc.

Trustee means Valiant Trust Company, our trustee.

Unitholders means holders of our Trust Units.

Zargon, **we**, **us, our** or **Trust** means Zargon Energy Trust and all its controlled entities on a consolidated basis.

Zargon Partnership means Zargon Oil & Gas Partnership.

Independent Engineering

McDaniel means McDaniel & Associates Consultants Ltd., independent petroleum consultants of Calgary, Alberta.

McDaniel Report means the report prepared by McDaniel dated February 21, 2007 evaluating the crude oil, natural gas and natural gas liquids reserves attributable to certain of our oil and natural gas assets at December 31, 2006.

Securities

Credit Agreement means the Credit Agreement dated September 30, 2005 and the Amendment thereto dated June 30, 2006.

Exchangeable Shares means exchangeable shares of Zargon Oil & Gas Ltd. which are exchangeable for Trust Units.

Exchange Ratio means the ratio at which Exchangeable Shares may be converted to Trust Units.

Notes means the unsecured subordinated promissory notes issued by Zargon Oil & Gas Ltd. now held by us.

Note Indenture means the note indenture relating to the issuance of the Notes.

NPI means the net profit interest in the petroleum substances owned by the Zargon Oil & Gas Ltd. and held by the Trust.

Special Voting Right means the special voting right issued by the Trust entitling holders of Exchangeable Shares to voting rights at the meeting of Unitholders.

Trust Indenture means the amended and restated trust indenture between Valiant Trust Company and Zargon Oil & Gas Ltd. made as of July 14, 2004.

Trust Unit means a unit issued by us, each unit representing an equal undivided beneficial interest in our assets.

ABBREVIATIONS

Oil and Natural Gas Liquids		Natural Gas	
bbl	barrel	gj	gigajoule
bbl/d	barrels per day	Mcf	thousand cubic feet
Mbbl	thousand barrels	MMcf	million cubic feet
MMbbl	million barrels	bcf	billion cubic feet
NGLs	natural gas liquids	Mcf/d	thousand cubic feet per day
MMboe	million barrels of oil equivalent	MMcf/d	million cubic feet per day
Mboe	thousand barrels of oil equivalent	m^3	cubic metres
boe/d	barrels of oil equivalent per day	MMbtu	million British Thermal Units

Other

BOE or boe	means barrel of oil equivalent, using the conversion factor of 6 Mcf of natural gas being equivalent to one barrel of oil. Boes may be misleading, particularly if used in isolation. **A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.**
WTI	means West Texas Intermediate.
°API	means the measure of the density or gravity of liquid petroleum products derived from a specific gravity.
psi	means pounds per square inch.

CONVERSION

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
Mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
bbls	cubic metres	0.159
cubic metres	bbls	6.289
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471
gigajoules	MMbtu	0.950
MMbtu	gigajoules	1.0526

All dollar amounts set forth in this Annual Information Form are in Canadian dollars, except where otherwise indicated.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Information Form, and in certain documents incorporated by reference into this Annual Information Form, constitute forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form or as of the date specified in the documents incorporated by reference into this Annual Information Form, as the case may be.

In particular, this Annual Information Form, and the documents incorporated by reference, contain forward-looking statements pertaining to the following:

- the performance characteristics of our oil and natural gas properties;
- oil and natural gas production levels;
- the size of the oil and natural gas reserves;
- projections of market prices and costs and the related sensitivities of distributions;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;
- treatment under governmental regulatory regimes and tax laws; and
- capital expenditures programs.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry and income trusts; and
- the other factors discussed under "*Risk Factors*".

Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Annual Information Form and the documents incorporated by reference herein are expressly qualified by this cautionary statement. We do not undertake any obligation to publicly update or revise any forward-looking statements except as required by law.

ZARGON ENERGY TRUST

General

We are an open-end investment trust created on June 17, 2004 under the laws of the Province of Alberta pursuant to the Trust Indenture as amended on July 14, 2004. Valiant Trust Company has been appointed as trustee under the Trust Indenture. The beneficiaries of the Trust are holders of the Trust Units. Our principal and head office is located at Suite 700, 333 - 5th Avenue S.W., Calgary, Alberta, T2P 3B6.

We commenced operations on July 15, 2004 as a result of the completion of a plan of arrangement under the *Business Corporations Act* (Alberta). Pursuant to this plan of arrangement, holders of common shares of Zargon Oil & Gas Ltd. received either Trust Units or Exchangeable Shares for their common shares.

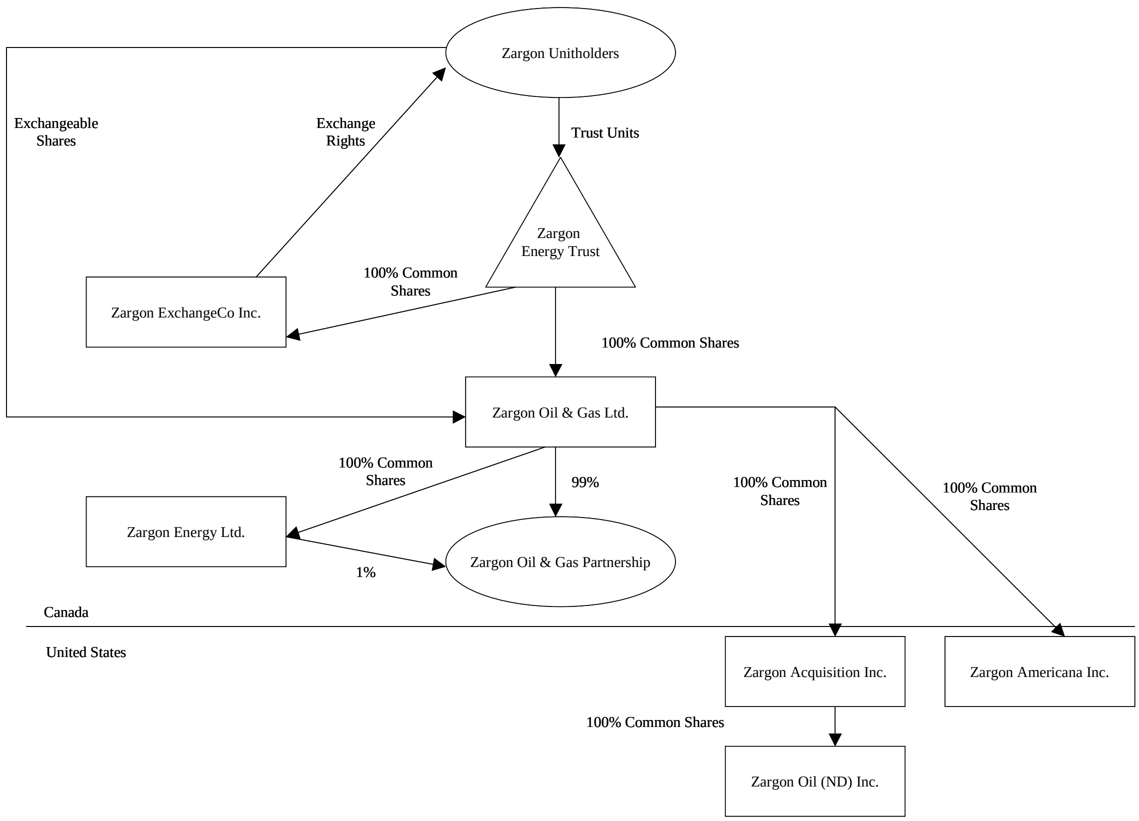
Inter-Corporate Relationships

The following are the name, the percentage of voting securities that we own and the jurisdiction of incorporation, continuance or formation of our subsidiaries and partnerships either, direct and indirect, as at the date hereof.

	Percentage of voting securities (directly or indirectly)	Nature of Entity	Jurisdiction of Incorporation/ Formation
Zargon Oil & Gas Ltd.	100%	Corporation	Alberta
Zargon ExchangeCo Inc.	100%	Corporation	Alberta
Zargon Energy Ltd.	100%	Corporation	Alberta
Zargon Oil & Gas Partnership	100%	General Partnership	Alberta
Zargon Acquisition Inc.	100%	Corporation	Wyoming
Zargon Oil (ND) Inc.	100%	Corporation	Delaware
Zargon Americana Inc.	100%	Corporation	Montana

Our Organization Structure

The following diagram describes the inter-corporate relationships between the Trust and its material subsidiaries and partnership.



Notes:

(1) The Unitholders own 100% of the Trust's equity.

(2) Zargon Oil & Gas Ltd. had a total of 2,206,637 Exchangeable Shares issued and outstanding as at December 31, 2006, which were exchangeable for 2,634,791 Trust Units.

(3) Cash distributions are made on a monthly basis to Unitholders based upon our funds flow from operations. Our primary sources of cash flow are payments from Zargon Oil & Gas Ltd. pursuant to the NPI and interest on the principal amount of the Notes and other intercorporate notes. In addition to such amounts, prepayments in respect of principal on the Notes and other intercorporate notes may be made from time to time by Zargon Oil & Gas Ltd. before the maturity of such notes.

GENERAL DEVELOPMENT OF THE BUSINESS

History and Development

On July 15, 2004, Zargon Oil & Gas Ltd. completed a Plan of Arrangement whereby holders of common shares of Zargon Oil & Gas Ltd. received either Trust Units or Exchangeable Shares for their common shares.

DESCRIPTION OF OUR BUSINESS

Overview

The principal undertaking of the Trust is to issue Trust Units and to acquire and hold securities of subsidiaries, trusts and partnerships, net profits interests, royalties, notes and other interests. Our direct and indirect subsidiaries and, partnerships carry on the business of acquiring, developing, exploring, exploiting and holding interests in petroleum and natural gas properties and assets related thereto. At December 31, 2006 Zargon had 50 employees. Cash flow from the properties is flowed from Zargon Oil & Gas Ltd. to the Trust by way of interest payments and principal repayments on notes and payments from Zargon Oil & Gas Ltd. to the Trust under a net profits interest agreement.

The Board of Directors may declare cash distributions payable to the Unitholders and allocate all or any of our income to the Unitholders. It is currently anticipated that the only income the Trust will receive will be from Zargon Oil & Gas Ltd. by way of interest and principal repayments received on the principal amount of notes and payments pursuant to the NPI. We make monthly cash distributions to Unitholders from this income after expenses and any cash redemptions of Trust Units.

Cash distributions are made on or about the 15th day of each month to Unitholders of record on or about the last calendar day of the immediately preceding month.

Zargon Oil & Gas Ltd.

Zargon Oil & Gas Ltd. is a corporation amalgamated and subsisting pursuant to the laws of Alberta. Zargon Oil & Gas Ltd. is actively engaged in the business of oil and natural gas exploitation, development, acquisition and production in Canada.

The Trust is the sole common shareholder of Zargon Oil & Gas Ltd. The Exchangeable Shares are owned by the public.

The head and registered office of Zargon Oil & Gas Ltd. is located at Suite 700, 333 - 5th Avenue S.W., Calgary, Alberta, T2P 3B6.

Notes

The Notes were issued by Zargon Oil & Gas Ltd. to the Trust under the Note Indenture in connection with the Plan of Arrangement. The Notes are unsecured and bear interest at a rate of 10 percent per annum. Although Zargon Oil & Gas Ltd. is permitted to make payments against the principal amount of the Note outstanding from time to time without notice or bonus, Zargon Oil & Gas Ltd. is not required to make any payment in respect of principal until July 15, 2034, subject to extension in the limited circumstances provided in the Note Indenture.

In contemplation of the possibility that Notes may be distributed to Unitholders upon the redemption of their Trust Units, the Note Indenture provides that if persons other than the Trust (the "**Non-Trust Holders**") own Notes having an aggregate principal amount in excess of $10,000,000, either we or the Non-Trust Holders shall be entitled, among other things, to require the Valiant Trust Company to exercise the powers and remedies available under the Note Indenture upon an event of default and, with the Trust, the Non-Fund Holders may provide consents, waivers or directions relating generally to the variance of the Note Indenture and the rights of noteholders. The Note Indenture allows us flexibility to delay payments of interest or principal otherwise due to it while payment is made to other noteholders, and to allow other noteholders to be paid out before us. Any delayed payments will be due five days after demand.

NPI

The Trust is party to a net profits interest agreement with Zargon Oil & Gas Ltd. pursuant to which we have the right to receive the NPI on petroleum and natural gas rights held by Zargon Oil & Gas Ltd. from time to time. Pursuant to the terms of the agreement, we are entitled to a payment from Zargon Oil & Gas Ltd. for each month equal to the amount by which 99 percent of the gross proceeds from the sale of production attributable to the property interests of Zargon Oil & Gas Ltd. for such month exceed 99 percent of certain deductible costs for such period. Zargon Oil & Gas Ltd. is entitled to set off amounts reimbursable to it against NPI payments payable by Zargon Oil & Gas Ltd. The term of the agreement is for so long as there are petroleum and natural gas rights to which the NPI applies.

Disclosure of Reserves Data and Other Oil and Natural Gas Information

The statement of reserves data and other oil and gas information set forth below (the "**Statement**") is dated February 21, 2007. The effective date of the Statement is December 31, 2006 and the preparation date of the Statement is February 21, 2007.

Disclosure of Reserves Data

The reserves data set forth below (the "**Reserves Data**") is based upon an evaluation by McDaniel & Associates Consultants Ltd. ("**McDaniel**") with an effective date of December 31, 2006 contained in the February 21, 2007 Report ("**McDaniel**

Report"). The Reserves Data summarizes the crude oil, natural gas liquids and natural gas reserves of the Trust and the net present values of future net revenue for these reserves using constant prices and costs and forecast prices and costs. The McDaniel Report has been prepared in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook (the "**COGE**" Handbook) and the reserve definitions contained in NI 51-101. Additional information not required by NI 51-101 has been presented to provide continuity and additional information which we believe is important to the readers of this information. The Trust engaged McDaniel & Associates Consultants Ltd. to provide an evaluation of proved and proved plus probable reserves and no attempt was made to evaluate possible reserves.

All of the Trust's reserves are in Canada in the provinces of Alberta, Saskatchewan and Manitoba, and in the United States in North Dakota.

Disclosure provided herein in respect of barrel of oil equivalent ("**boe**") may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf is equal to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the constant prices and costs assumptions and forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of the Trust's crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquid reserves may be greater than or less than the estimates provided herein.

We are a taxable entity under the *Income Tax Act* (Canada) and are taxable only on income that is not distributed or distributable to our Unitholders. As we distribute all of our taxable income to our Unitholders and meet the requirements of the *Income Tax Act* (Canada) applicable to us, all Canadian before and after tax future net revenue information contained in this Annual Information Form is presented on a before tax basis. Based on proposed changes announced by the federal government this may change. See *"Industry Conditions – Proposed Federal Tax Changes"*.

Reserves Data (Constant Prices and Costs)

SUMMARY OF OIL AND GAS RESERVES
AND NET PRESENT VALUES OF FUTURE NET REVENUE
as of December 31, 2006
CONSTANT PRICES AND COSTS

CANADA

RESERVES CATEGORY	LIGHT AND MEDIUM OIL Gross (Mbbl)	LIGHT AND MEDIUM OIL Net (Mbbl)	NATURAL GAS Gross (MMcf)	NATURAL GAS Net (MMcf)	NATURAL GAS LIQUIDS Gross (Mbbl)	NATURAL GAS LIQUIDS Net (Mbbl)
Proved						
Developed Producing	7,214	6,334	32,139	26,690	56	38
Developed Non-Producing	188	167	11,466	8,982	4	3
Undeveloped	298	250	1,521	1,367	-	-
Total Proved	7,700	6,751	45,126	37,039	60	41
Probable	3,295	2,871	24,050	19,439	26	18
Total Proved Plus Probable	10,995	9,622	69,176	56,478	86	59

NET PRESENT VALUES OF FUTURE NET REVENUE

($ thousand)

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED AT (%/year) 0%	5%	10%	15%	20%	AFTER INCOME TAXES DISCOUNTED AT (%/year) 0%	5%	10%	15%	20%
Proved										
Developed Producing	306,632	246,166	207,506	180,736	161,067	306,632	246,166	207,506	180,736	161,067
Developed Non-Producing	40,064	34,010	29,594	26,196	23,491	40,064	34,010	29,594	26,196	23,491
Undeveloped	9,878	7,624	5,938	4,645	3,633	9,878	7,624	5,938	4,645	3,633
Total Proved	356,574	287,800	243,038	211,577	188,191	356,574	287,800	243,038	211,577	188,191
Probable	182,151	119,346	86,757	67,253	54,410	182,151	119,346	86,757	67,253	54,410
Total Proved Plus Probable	538,725	407,146	329,795	278,830	242,601	538,725	407,146	329,795	278,830	242,601

SUMMARY OF OIL AND GAS RESERVES
AND NET PRESENT VALUES OF FUTURE NET REVENUE
as of December 31, 2006
CONSTANT PRICES AND COSTS

UNITED STATES

RESERVES CATEGORY	LIGHT AND MEDIUM OIL Gross (Mbbl)	LIGHT AND MEDIUM OIL Net (Mbbl)	NATURAL GAS Gross (MMcf)	NATURAL GAS Net (MMcf)	NATURAL GAS LIQUIDS Gross (Mbbl)	NATURAL GAS LIQUIDS Net (Mbbl)
Proved						
Developed Producing	3,740	2,766	-	-	-	-
Developed Non-Producing	25	18	-	-	-	-
Undeveloped	-	-	-	-	-	-
Total Proved	3,765	2,784	-	-	-	-
Probable	1,094	811	-	-	-	-
Total Proved Plus Probable	4,859	3,595	-	-	-	-

NET PRESENT VALUES OF FUTURE NET REVENUE

($ thousand)

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED AT (%/year) 0%	5%	10%	15%	20%	AFTER INCOME TAXES DISCOUNTED AT (%/year) 0%	5%	10%	15%	20%
Proved										
Developed Producing	99,485	70,554	54,864	45,290	38,873	57,987	41,526	32,349	26,713	22,930
Developed Non-Producing	970	791	669	582	518	572	467	395	344	305
Undeveloped	-	-	-	-	-	-	-	-	-	-
Total Proved	100,455	71,345	55,533	45,872	39,391	58,559	41,993	32,744	27,057	23,235
Probable	31,409	16,092	10,248	7,427	5,812	18,528	9,522	6,052	4,383	3,429
Total Proved Plus Probable	131,864	87,437	65,781	53,299	45,203	77,087	51,515	38,796	31,440	26,664

SUMMARY OF OIL AND GAS RESERVES
AND NET PRESENT VALUES OF FUTURE NET REVENUE
as of December 31, 2006
CONSTANT PRICES AND COSTS

AGGREGATE

RESERVES CATEGORY	LIGHT AND MEDIUM OIL Gross (Mbbl)	LIGHT AND MEDIUM OIL Net (Mbbl)	NATURAL GAS Gross (MMcf)	NATURAL GAS Net (MMcf)	NATURAL GAS LIQUIDS Gross (Mbbl)	NATURAL GAS LIQUIDS Net (Mbbl)
Proved						
Developed Producing	10,954	9,100	32,139	26,690	56	38
Developed Non-Producing	213	185	11,466	8,982	4	3
Undeveloped	298	250	1,521	1,367	-	-
Total Proved	11,465	9,535	45,126	37,039	60	41
Probable	4,389	3,682	24,050	19,439	26	18
Total Proved Plus Probable	15,854	13,217	69,176	56,478	86	59

NET PRESENT VALUES OF FUTURE NET REVENUE

($ thousand)

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED AT (%/year) 0%	5%	10%	15%	20%	AFTER INCOME TAXES DISCOUNTED AT (%/year) 0%	5%	10%	15%	20%
Proved										
Developed Producing	406,117	316,720	262,370	226,026	199,940	364,619	287,692	239,855	207,449	183,997
Developed Non-Producing	41,034	34,801	30,263	26,778	24,009	40,636	34,477	29,989	26,540	23,796
Undeveloped	9,878	7,624	5,938	4,645	3,633	9,878	7,624	5,938	4,645	3,633
Total Proved	457,029	359,145	298,571	257,449	227,582	415,133	329,793	275,782	238,634	211,426
Probable	213,560	135,438	97,005	74,680	60,222	200,679	128,868	92,809	71,636	57,839
Total Proved Plus Probable	670,589	494,583	395,576	332,129	287,804	615,812	458,661	368,591	310,270	269,265

TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
as of December 31, 2006
CONSTANT PRICES AND COSTS

($ thousand) RESERVES CATEGORY	REVENUE	ROYALTIES	OPERATING COSTS	DEVELOPMENT COSTS	WELL ABANDONMENT COSTS	FUTURE NET REVENUE BEFORE INCOME TAXES	INCOME TAXES	FUTURE NET REVENUE AFTER INCOME TAXES
Proved Reserves								
Canada	722,795	115,067	214,884	13,782	22,488	356,574	-	356,574
United States	218,237	56,865	58,058	-	2,859	100,455	41,896	58,559
Total	941,032	171,932	272,942	13,782	25,347	457,029	41,896	415,133
Proved Plus Probable Reserves								
Canada	1,059,353	170,466	306,455	21,035	22,672	538,725	-	538,725
United States	281,667	73,287	73,657	-	2,859	131,864	54,777	77,087
Total	1,341,020	243,753	380,112	21,035	25,531	670,589	54,777	615,812

BY PRODUCTION GROUP
as of December 31, 2006
CONSTANT PRICES AND COSTS

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) ($ thousand)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	191,942
	Natural Gas (including by-products but excluding solution gas from oil wells)	106,629
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	242,491
	Natural Gas (including by-products but excluding solution gas from oil wells)	153,085

Reserves Data (Forecast Prices and Costs)

SUMMARY OF OIL AND GAS RESERVES
AND NET PRESENT VALUES OF FUTURE NET REVENUE
as of December 31, 2006
FORECAST PRICES AND COSTS

CANADA

RESERVES CATEGORY	LIGHT AND MEDIUM OIL Gross (Mbbl)	LIGHT AND MEDIUM OIL Net (Mbbl)	NATURAL GAS Gross (MMcf)	NATURAL GAS Net (MMcf)	NATURAL GAS LIQUIDS Gross (Mbbl)	NATURAL GAS LIQUIDS Net (Mbbl)
Proved						
Developed Producing	7,212	6,331	32,223	26,772	56	38
Developed Non-Producing	188	167	11,412	8,953	4	3
Undeveloped	298	250	1,521	1,366	-	-
Total Proved	7,698	6,748	45,156	37,091	60	41
Probable	3,295	2,869	24,005	19,415	26	18
Total Proved Plus Probable	10,993	9,617	69,161	56,506	86	59

NET PRESENT VALUES OF FUTURE NET REVENUE

($ thousand)	BEFORE INCOME TAXES DISCOUNTED AT (%/year)					AFTER INCOME TAXES DISCOUNTED AT (%/year)				
RESERVES CATEGORY	0%	5%	10%	15%	20%	0%	5%	10%	15%	20%
Proved										
Developed Producing	336,440	272,047	230,378	201,353	179,941	336,440	272,047	230,378	201,353	179,941
Developed Non-Producing	53,211	45,038	39,059	34,472	30,837	53,211	45,038	39,059	34,472	30,837
Undeveloped	11,587	9,028	7,114	5,647	4,498	11,587	9,028	7,114	5,647	4,498
Total Proved	401,238	326,113	276,551	241,472	215,276	401,238	326,113	276,551	241,472	215,276
Probable	226,633	147,442	106,496	82,180	66,278	226,633	147,442	106,496	82,180	66,278
Total Proved Plus Probable	627,871	473,555	383,047	323,652	281,554	627,871	473,555	383,047	323,652	281,554

SUMMARY OF OIL AND GAS RESERVES
AND NET PRESENT VALUES OF FUTURE NET REVENUE
as of December 31, 2006
FORECAST PRICES AND COSTS

UNITED STATES

RESERVES CATEGORY	LIGHT AND MEDIUM OIL Gross (Mbbl)	LIGHT AND MEDIUM OIL Net (Mbbl)	NATURAL GAS Gross (MMcf)	NATURAL GAS Net (MMcf)	NATURAL GAS LIQUIDS Gross (Mbbl)	NATURAL GAS LIQUIDS Net (Mbbl)
Proved						
Developed Producing	3,741	2,766	-	-	-	-
Developed Non-Producing	25	18	-	-	-	-
Undeveloped	-	-	-	-	-	-
Total Proved	3,766	2,784	-	-	-	-
Probable	1,094	811	-	-	-	-
Total Proved Plus Probable	4,860	3,595	-	-	-	-

NET PRESENT VALUES OF FUTURE NET REVENUE

($ thousand)

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED AT (%/year) 0%	5%	10%	15%	20%	AFTER INCOME TAXES DISCOUNTED AT (%/year) 0%	5%	10%	15%	20%
Proved										
Developed Producing	96,781	69,574	54,336	45,037	38,827	55,487	40,828	32,021	26,561	22,902
Developed Non-Producing	985	803	680	593	528	581	474	401	350	312
Undeveloped	-	-	-	-	-	-	-	-	-	-
Total Proved	97,766	70,377	55,016	45,630	39,355	56,068	41,302	32,422	26,911	23,214
Probable	34,988	17,409	10,747	7,648	5,928	20,364	10,313	6,353	4,515	3,497
Total Proved Plus Probable	132,754	87,786	65,763	53,278	45,283	76,432	51,615	38,775	31,426	26,711

SUMMARY OF OIL AND GAS RESERVES
AND NET PRESENT VALUES OF FUTURE NET REVENUE
as of December 31, 2006
FORECAST PRICES AND COSTS

AGGREGATE

RESERVES CATEGORY	LIGHT AND MEDIUM OIL Gross (Mbbl)	Net (Mbbl)	NATURAL GAS Gross (MMcf)	Net (MMcf)	NATURAL GAS LIQUIDS Gross (Mbbl)	Net (Mbbl)
Proved						
Developed Producing	10,953	9,097	32,223	26,772	56	38
Developed Non-Producing	213	185	11,412	8,953	4	3
Undeveloped	298	250	1,521	1,366	-	-
Total Proved	11,464	9,532	45,156	37,091	60	41
Probable	4,389	3,680	24,005	19,415	26	18
Total Proved Plus Probable	15,853	13,212	69,161	56,506	86	59

NET PRESENT VALUES OF FUTURE NET REVENUE

($ thousand)	BEFORE INCOME TAXES DISCOUNTED AT (%/year)					AFTER INCOME TAXES DISCOUNTED AT (%/year)				
RESERVES CATEGORY	0%	5%	10%	15%	20%	0%	5%	10%	15%	20%
Proved										
Developed Producing	433,221	341,621	284,714	246,390	218,768	391,927	312,875	262,399	227,914	202,843
Developed Non-Producing	54,196	45,841	39,739	35,065	31,365	53,792	45,512	39,460	34,822	31,149
Undeveloped	11,587	9,028	7,114	5,647	4,498	11,587	9,028	7,114	5,647	4,498
Total Proved	499,004	396,490	331,567	287,102	254,631	457,306	367,415	308,973	268,383	238,490
Probable	261,621	164,851	117,243	89,828	72,206	246,997	157,755	112,849	86,695	69,775
Total Proved Plus Probable	760,625	561,341	448,810	376,930	326,837	704,303	525,170	421,822	355,078	308,265

TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
as of December 31, 2006
FORECAST PRICES AND COSTS

($ thousand) RESERVES CATEGORY	REVENUE	ROYALTIES	OPERATING COSTS	DEVELOPMENT COSTS	WELL ABANDONMENT COSTS	FUTURE NET REVENUE BEFORE INCOME TAXES	INCOME TAXES	FUTURE NET REVENUE AFTER INCOME TAXES
Proved Reserves								
Canada	832,532	134,090	253,279	14,107	29,818	401,238	-	401,238
United States	246,599	64,351	78,888	-	5,594	97,766	41,698	56,068
Total	1,079,131	198,441	332,167	14,107	35,412	499,004	41,698	457,306
Proved Plus Probable Reserves								
Canada	1,267,379	205,452	379,966	21,626	32,464	627,871	-	627,871
United States	333,889	87,043	107,657	-	6,435	132,754	56,322	76,432
Total	1,601,268	292,495	487,623	21,626	38,899	760,625	56,322	704,303

BY PRODUCTION GROUP
as of December 31, 2006
FORECAST PRICES AND COSTS

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) ($ thousand)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	186,662
	Natural Gas (including by-products but excluding solution gas from oil wells)	144,905
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	237,681
	Natural Gas (including by-products but excluding solution gas from oil wells)	211,129

Notes to Reserves Data Tables:

1. Columns may not add due to rounding.

2. The crude oil, natural gas liquids and natural gas reserve estimates presented in the McDaniel Report are based on the definitions and guidelines contained in the COGE Handbook. A summary of those definitions are set forth below.

Reserve Categories

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on:

- analysis of drilling, geological, geophysical and engineering data;

- the use of established technology; and

- specified economic conditions (see the discussion of "**Economic Assumptions**" below).

Reserves are classified according to the degree of certainty associated with the estimates.

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Other criteria that must also be met for the categorization of reserves are provided in the COGE Handbook.

Each of the reserve categories (proved and probable) may be divided into developed and undeveloped categories:

Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainly.

Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and

at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

3. ***Forecast Prices and Costs***

The forecast cost and price assumptions assume increases in wellhead selling prices and take into account inflation with respect to future operating and capital costs. Crude oil and natural gas benchmark reference pricing, as at December 31, 2006, inflation and exchange rates utilized in the McDaniel Report were as follows:

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS
as of December 31, 2006
PRICES AND COSTS

Year	WTI Cushing Oklahoma ($US/bbl)	Edmonton Par Price 40° API ($Cdn/bbl)	Cromer Medium 29° API ($Cdn/bbl)	Natural Gas AECO Price ($Cdn/gj)	Natural Gas Liquids FOB Field Gate ($Cdn/bbl)	Inflation Rate(1) %/year	Exchange Rate(2) ($US/$Cdn)
Forecast							
2007	62.50	70.80	62.20	6.85	50.80	2.0	0.87
2008	61.20	69.30	60.90	7.05	50.10	2.0	0.87
2009	59.80	67.70	59.40	7.40	49.50	2.0	0.87
2010	58.40	66.10	58.00	7.50	48.60	2.0	0.87
2011	56.80	64.20	56.40	7.70	47.60	2.0	0.87
2012	58.00	65.60	57.60	7.90	48.70	2.0	0.87
2013	59.10	66.80	58.70	8.10	49.60	2.0	0.87
2014	60.30	68.20	59.80	8.25	50.60	2.0	0.87
2015	61.50	69.50	61.00	8.45	51.60	2.0	0.87
2016	62.70	70.90	62.20	8.60	52.60	2.0	0.87
2017	64.00	72.30	63.50	8.75	53.70	2.0	0.87
Thereafter				Various Escalation rates			

Notes:
(1) Inflation rates for forecasting prices and costs.
(2) Exchange rates used to generate the benchmark reference prices in this table.

Weighted average historical prices realized by the Trust (before the impact of financial risk management contracts) for the year ended December 31, 2006, were $6.82/Mcf for natural gas, $61.25/bbl for oil and natural gas liquids.

4. ***Constant Prices and Costs***

The constant crude oil and natural gas benchmark references pricing and the exchange rate utilized in the McDaniel Report were as follows:

SUMMARY OF PRICING ASSUMPTIONS
as of December 31, 2006
CONSTANT PRICES AND COSTS

Year	WTI Cushing Oklahoma ($US/bbl)	Edmonton Par Price 40° API ($Cdn/bbl)	Cromer Medium 29° API ($Cdn/bbl)	Alberta Average Gas Price ($Cdn/gj)	Natural Gas Liquids FOB Field Gate ($Cdn/bbl)	Exchange Rate(1) ($US/$Cdn)
2006 Year End	61.05	67.06	58.96	5.62	48.10	0.87

Note:
(1) The exchange rate used to generate benchmark reference prices in this table.

5. ***Future Development Costs***

The following table sets forth development costs deducted in the estimation of the Trust's future net revenue attributable to the reserve categories noted below.

	Constant Prices and Costs	Forecast Prices and Costs	
Year ($ thousand)	Proved Reserves	Proved Reserves	Proved Plus Probable Reserves
2007	13,267	13,532	16,992
2008	83	86	3,929
2009	-	-	9
2010	104	112	112
2011	-	-	-
Thereafter	328	377	584
Total Undiscounted	13,782	14,107	21,626
Total Discounted at 10%	12,975	13,262	19,965

Notes:
(1) While the Trust has reserves and production in the United States, the estimation of the Trust's future net revenue attributable to the US properties does not imply future development costs.
(2) We expect to fund the development costs of the reserves through a combination of internally generated cash flow, debt and sale of Trust Units. We withhold approximately 50 percent of funds flow from operations to assist in funding development activities.
(3) There can be no guarantee that funds will be available or that the Board of Directors will allocate funding to develop all of the reserves attributed in the reserve reports. Failure to develop those reserves would have a negative impact on future cash flow.
(4) The interest or other costs of external funding are not included in the reserves and future net revenue estimates and would reduce reserves and future net revenue to some degree depending upon the funding sources utilized. We do not anticipate that interest or other funding costs would make development of any property uneconomic.

6. Estimated future abandonment and reclamation costs related to a property have been taken into account by McDaniel in determining reserves that should be attributed to a property. Reasonable estimated future well abandonment costs were deducted in determining the aggregate future net revenue. No allowance was made, however, for reclamation of well sites or the abandonment and reclamation of any facilities.

7. Both the constant and forecast price and cost assumptions assume the continuance of current laws and regulations.

8. The extent and character of all factual data supplied to McDaniel were accepted by McDaniel as represented. No field inspection was conducted.

Reconciliations of Changes in Reserves

RECONCILIATION OF
TRUST NET RESERVES
BY PRINCIPAL PRODUCT TYPE
FORECAST PRICES AND COSTS

CANADA

	LIGHT AND MEDIUM OIL			ASSOCIATED AND NON-ASSOCIATED GAS			NATURAL GAS LIQUIDS		
FACTORS	Net Proved (MMbbl)	Net Probable (MMbbl)	Net Proved Plus Probable (MMbbl)	Net Proved (bcf)	Net Probable (bcf)	Net Proved Plus Probable (bcf)	Net Proved (MMbbl)	Net Probable (MMbbl)	Net Proved Plus Probable (MMbbl)
December 31, 2005	6.38	2.37	8.75	37.95	17.73	55.68	0.05	0.02	0.07
Extensions	0.43	0.39	0.82	1.25	0.24	1.49	-	-	-
Improved Recovery	0.39	-	0.39	-	-	-	-	-	-
Technical Revisions	0.21	(0.05)	0.16	(1.02)	(2.65)	(3.67)	-	-	-
Discoveries	0.20	0.18	0.38	6.64	4.10	10.74	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	(0.07)	(0.02)	(0.09)	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production	(0.79)	-	(0.79)	(7.73)	-	(7.73)	(0.01)	-	(0.01)
December 31, 2006	6.75	2.87	9.62	37.09	19.42	56.51	0.04	0.02	0.06

RECONCILIATION OF
TRUST NET RESERVES
BY PRINCIPAL PRODUCT TYPE
FORECAST PRICES AND COSTS

UNITED STATES

	LIGHT AND MEDIUM OIL			ASSOCIATED AND NON-ASSOCIATED GAS			NATURAL GAS LIQUIDS		
FACTORS	Net Proved (MMbbl)	Net Probable (MMbbl)	Net Proved Plus Probable (MMbbl)	Net Proved (bcf)	Net Probable (bcf)	Net Proved Plus Probable (bcf)	Net Proved (MMbbl)	Net Probable (MMbbl)	Net Proved Plus Probable (MMbbl)
December 31, 2005	3.06	0.84	3.90	-	-	-	-	-	-
Extensions	0.10	0.09	0.19	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-
Technical Revisions	(0.10)	(0.12)	(0.22)	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production	(0.29)	-	(0.29)	-	-	-	-	-	-
December 31, 2006	2.77	0.81	3.58	-	-	-	-	-	-

RECONCILIATION OF
TRUST NET RESERVES
BY PRINCIPAL PRODUCT TYPE
FORECAST PRICES AND COSTS

AGGREGATE

	LIGHT AND MEDIUM OIL			ASSOCIATED AND NON-ASSOCIATED GAS			NATURAL GAS LIQUIDS		
FACTORS	Net Proved (MMbbl)	Net Probable (MMbbl)	Net Proved Plus Probable (MMbbl)	Net Proved (bcf)	Net Probable (bcf)	Net Proved Plus Probable (bcf)	Net Proved (MMbbl)	Net Probable (MMbbl)	Net Proved Plus Probable (MMbbl)
December 31, 2005	9.44	3.21	12.65	37.95	17.73	55.68	0.05	0.02	0.07
Extensions	0.53	0.48	1.01	1.25	0.24	1.49	-	-	-
Improved Recovery	0.39	-	0.39	-	-	-	-	-	-
Technical Revisions	0.11	(0.17)	(0.06)	(1.02)	(2.65)	(3.67)	-	-	-
Discoveries	0.20	0.18	0.38	6.64	4.10	10.74	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	(0.07)	(0.02)	(0.09)	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production	(1.08)	-	(1.08)	(7.73)	-	(7.73)	(0.01)	-	(0.01)
December 31, 2006	9.52	3.68	13.20	37.09	19.42	56.51	0.04	0.02	0.06

Reconciliation of Future Net Revenue

The following table sets forth a reconciliation of the estimate of the net present value of future net revenue attributable to Zargon's reserves as evaluated in the McDaniel Report as at December 31, 2006 against the estimate of such amount as at December 31, 2005, calculated before tax using a discount rate of 10 percent and constant price and cost assumptions:

RECONCILIATION OF CHANGES IN
NET PRESENT VALUES OF FUTURE NET REVENUE
DISCOUNTED AT 10% PER YEAR
PROVED RESERVES
DECEMBER 31, 2006

CONSTANT PRICES AND COSTS

	2006		
PERIOD AND FACTOR ($ thousand)	Canada	US	Total
Estimated Future Net Revenue at Beginning of Year (After Tax)	334,024	34,110	368,134
Sales and Transfers of Oil and Gas Produced, Net of Production Costs and Royalties	(78,958)	(15,209)	(94,167)
Net Change in Prices, Production Costs and Royalties Related to Future Production	(78,912)	11,994	(66,918)
Changes in Previously Estimated Development Costs Incurred During the Period	4,475	-	4,475
Changes in Estimated Future Development Costs	(9,837)	-	(9,837)
Extensions and Improved Recovery	19,540	3,083	22,623
Discoveries	21,987	-	21,987
Acquisitions of Reserves	-	-	-
Dispositions of Reserves	(794)	-	(794)
Net Change Resulting from Revisions in Quantity Estimates plus effects of timing	(1,889)	(6,623)	(8,512)
Accretion of Discount	33,402	5,784	39,186
Net Change in Income Taxes	-	(395)	(395)
Estimated Future Net Revenue at End of Year (After Tax)	243,038	32,744	275,782

Additional Information Relating to Reserves Data

Undeveloped Reserves

Of the total Trust proved plus probable reserves, 0.55 MMboe or two percent are proved undeveloped reserves. Probable reserves account for 8.42 MMboe or 31 percent of the total Trust proved plus probable reserves.

Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned. In Zargon's practice, proved undeveloped reserves tend to be those reserves related to wells that have been tested and not yet tied-in, wells drilled near the end of the fiscal year or wells further away from the Trust's gathering systems. In addition, such reserves may relate to planned infill drilling locations. Probable undeveloped reserves may be reserves tested or indicated by analogy to be productive, infill drilling locations and lands contiguous to production. In either case, the majority of undeveloped reserves are planned to be on stream within a two-year timeframe. Undeveloped reserves represent only about two percent of Zargon’s proved reserve base.

Significant Factors or Uncertainties Affecting Reserves Data

Our evaluated oil and gas properties have no material extraordinary risks or uncertainties beyond those which are inherent in an oil and gas producing company as described under the heading "*Management's Discussion and Analysis*" in our Annual Report. See also "*Risk Factors*" below.

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserves estimates contained herein are based on current production forecasts, prices and economic conditions. The Trust's reserves are evaluated by McDaniel & Associates Consultants Ltd., an independent engineering firm.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result of the subjective decisions implied, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year end oil and gas prices, and reservoir performance. Such revisions can be either positive or negative.

Other Oil and Gas Information

Oil and Gas Properties

The following is a description of our principal oil and natural gas properties on production or under development as at December 31, 2006. The term "net", when used to describe our share of production, means the total of our working interest share before deduction of royalties owned by others. Reserve amounts are stated, before deduction of royalties, at December 31, 2006, based on December 31, 2006 price and cost assumptions. Unless otherwise specified, gross and net acres and well count information are as at December 31, 2006.

Our major properties are concentrated within the following three core regions in Alberta, Saskatchewan and Manitoba in Canada and in North Dakota in the United States. Each region offers a large undeveloped land base, a vast seismic database, and significant ownership and operatorship in production facilities.

West Central Alberta

Zargon’s West Central Alberta core area is located north west of Edmonton in central Alberta and is comprised of three natural gas producing regions that provide the Trust with a varied inventory of exploration opportunities. This core area currently delivers approximately 30 percent of Zargon’s natural gas production and with exploration success can provide

Zargon the opportunity to grow its natural gas production volumes. In 2006, Zargon spent $18.29 million of capital in the West Central Alberta core area, which represented 136 percent of the $13.41 million of property cash flow generated by this area. With these expenditures, Zargon drilled 14.7 net wells in this core area that resulted in 13.7 net natural gas wells and 1.0 net dry hole.

Zargon's 43 thousand net acres of undeveloped land in the Greater Highvale property is centred around a 54 section land block situated on and around Paul First Nation lands located west of Edmonton. Zargon owns and operates natural gas production infrastructure in the area and pursues seismically defined structural and stratigraphic prospects at medium depths. The structural geology lends itself to stacked pay with potential for multiple pay zones. Greater Highvale activities in 2006 included the drilling of 1.6 net natural gas wells. In addition, during the year Zargon shot a 10 kilometre 2D seismic program in the area. The Greater Highvale property provided 3.45 million cubic feet per day of natural gas and six barrels per day of oil and liquids production to Zargon in 2006. In 2007, three net natural gas exploration wells are planned for the Highvale area.

Over the last six years, Zargon has been pursuing shallow under-pressured Scollard and Horseshoe Canyon sands in the Pembina area at depths up to 900 metres. Zargon has an inventory of 65 net thousand acres on this prospect. In 2006, Zargon drilled 7.5 net natural gas wells in the Pembina area and the property provided 2.44 million cubic feet per day of natural gas and 128 barrels per day of oil and liquids production to Zargon's interest. Zargon is planning a reduced three net well drilling program in 2007.

In the Peace River Arch exploration area, Zargon is pursuing multiple zone gas exploration prospects at drilling depths ranging up to 1,800 metres. The Peace River Arch exploration strategy is more "grassroots" than in other areas as the Trust develops prospects, posts land, shoots seismic and drills high graded prospects. Zargon has a 91 thousand net acre undeveloped land inventory that is generally characterized by year round surface access and sweet natural gas multi-zone prospects. In 2006, the Trust drilled 5.6 net wells in the Peace River Arch area that resulted in 4.6 net natural gas wells and 1.0 net abandonment. Production for the area averaged 2.13 million cubic feet per day of natural gas and 14 barrels per day of oil and liquids. For 2007, Zargon is planning on a refocused five net well drilling program.

Alberta Plains

The Trust's Alberta Plains core area is located in the east central region of Alberta and is made up predominantly of relatively shallow natural gas producing properties. This core area delivered 70 percent of Zargon's total natural gas production in 2006 and contributes the free cash flow that underpins the Trust's monthly cash distributions. Production volumes have been maintained at a relatively stable level since 2001 through exploration and development drilling programs on the Trust's existing land base. In 2006, the Alberta Plains core area generated $38.23 million of property cash flow, of which $22.95 million was reinvested in the core area to maintain production volumes and reserves.

The Jarrow property continues to be the Trust's most significant producing natural gas property. This property is characterized by high working interests, ownership and operatorship of significant pipeline and gas processing facilities and a large inventory of prospects on a 91 thousand net acre undeveloped land inventory. This undeveloped land inventory is an increase of 11 percent from 2005. This increase is attributable to the freehold leasing program during the year and fewer expiries occuring in 2006 than in 2005. It is anticipated that the Jarrow land inventory will remain relatively unchanged in 2007. During the year, Zargon drilled 16.9 net (22 gross) wells at Jarrow, resulting in 14.4 net natural gas wells, 0.5 net oil wells and 2.0 net dry holes. The Trust also shot 89 kilometres of two-dimensional ("2D") seismic as part of its ongoing exploration and development programs. Zargon's strategy for Jarrow has been to sustain net natural gas production levels from this property at approximately 15 million cubic feet per day. This strategy attempts to balance, in a sustainable manner, the efficient loading of the existing infrastructure capacity while capitalizing on a considerable inventory of natural gas prospects. In 2006, the Trust focused on recent down-spacing approvals that allowed further development of the large partially drained Viking, Ostracod, Glauconite and Colony pools located in the two Jarrow Units. In 2007, emphasis will remain on further developing low cost opportunities in the Viking pool, Mannville material balance opportunities and seismically based Mannville exploration through a 19 net well program.

Also located in the Alberta Plains core area is the Hamilton Lake property where Zargon produced 2.65 million cubic feet of natural gas per day and 86 barrels of oil and liquids per day in 2006 from the Mannville and Viking formations. The property consists of a mostly contiguous 18 thousand net acre land block that has significant development potential in the lower permeability but extensive first Viking sand formation. In 2006, Zargon drilled 15.5 net (16 gross) wells at Hamilton Lake resulting in 15.5 net natural gas wells. Similar to the Jarrow property, in 2007 Zargon intends on developing low cost Viking natural gas opportunities with a planned 10 net well program.

Taber is a medium gravity oil property within the Alberta Plains core area and is an emerging new focus area for Zargon. In 2006, this property produced 316 barrels of oil and liquids per day and 1.0 net horizontal oil well and 1.0 net water injection well were drilled. Based on encouraging results from 2006, Zargon is planning waterflood modifications and a three net horizontal well infill program in 2007 to further develop the potential of this area.

Williston Basin

The Williston Basin properties are located in relatively close proximity in south east Saskatchewan, south west Manitoba and in the northern counties of the State of North Dakota. The properties produce light and medium gravity oil from carbonate reservoirs at depths up to 1,500 metres. The Williston Basin contributes about 82 percent of the Trust's oil and liquids production, 84 percent of the Trust's proved and probable oil and liquids reserves and provides a long proved and probable reserve life of 12.2 years. Zargon's Williston Basin producing reservoirs are characterized by moderate permeability and a large remaining oil-in-place. By the nature of the physical characteristics of these reservoirs, the properties demonstrate relatively stable production with shallow annual production declines and accordingly, long reserve life indices. In 2006, Zargon drilled 10.7 net horizontal wells and 11.3 net vertical wells in the Williston Basin resulting in 21.0 net oil wells and 1.0 net water injector well. The Trust also shot a 32 kilometre 2D seismic program at Pinto, Saskatchewan and a four square kilometre 3D seismic program at Manor, Saskatchewan. In addition to the exploitation and development drilling activities, the 2006 capital program included 5.0 net vertical wells at Frys East and Pinto that explored for Torquay and Frobisher targets.

Oil and Gas Wells

The following table sets forth the number and status of wells in which we had a working interest as at December 31, 2006.

	Oil Wells				**Natural Gas Wells**			
	Producing		**Non-Producing**		**Producing**		**Non-Producing**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Canada								
Alberta	173	100	56	24	343	227	130	95
Saskatchewan	310	209	39	29	-	-	-	-
Manitoba	57	57	10	10	-	-	-	-
United States								
North Dakota	89	87	6	6	-	-	-	-
Total	629	453	111	69	343	227	130	95

Properties with no Attributable Reserves

The following table sets out our developed and undeveloped land holdings as at December 31, 2006.

	Undeveloped Acres	
(thousand net acres)	**Gross**	**Net**
Alberta	382	323
Saskatchewan	61	56
Manitoba	2	2
United States	-	-
Total	445	381

With respect to its undeveloped land inventory and farm-in agreements, the Trust had no work commitments at December 31, 2006.

We expect that rights to explore, develop and exploit 81,000 net acres of its undeveloped land holdings will expire by December 31, 2007.

Forward Contracts

We are exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. A variety of derivative instruments are used to reduce exposure to fluctuations in commodity prices and foreign exchange rates. We are exposed to losses in the event of default by the counterparties to these derivative instruments. We manage this risk by diversifying its derivative portfolio amongst a number of financially strong counterparties. For information in relation to marketing arrangements, see "*Marketing Arrangements*".

For details of material commitments to sell natural gas and crude oil which were outstanding at December 31, 2006 see note 11 to the Financial Statements contained in our Annual Report which pages are incorporated herein by reference.

Additional Information Concerning Abandonment and Reclamation Costs

As at December 31, 2006, we had 844 net wells capable of production for which we expect to incur abandonment and reclamation costs.

Zargon has estimated the net present value of its total asset retirement obligations to be $17.31 million as at December 31, 2006, based on a total future liability of $65.08 million. The future net revenues disclosed in this Annual Information Form based on the McDaniel report do not contain an allowance for abandonment and reclamation costs for batteries and salvage values are deducted, which are not allowed under GAAP. The McDaniel report deducted $38.90 million (undiscounted) and $9.27 million (10 percent discount using forecast prices and costs for proved and probable reserves) for abandonment and reclamation costs in estimating the future net revenue disclosed in this Annual Information Form.

We do not expect to pay any material amounts with respect to abandonment and reclamation costs in the next two financial years.

Tax Horizon

As a result of our tax efficient structure, annual taxable income in Canada is transferred from our operating entities to us and from us to our Unitholders. This is primarily accomplished through the deduction of the royalties on underlying oil and gas properties and the deduction of interest on the long term notes held by its operating entities. On October 31, 2006 the Government of Canada announced its intention to impose tax on distributions of trusts such as Zargon. See *"Industry Conditions"*. Therefore, we expect that no Canadian income tax liability would be incurred by us for as long as the organization maintains this organizational tax structure prior to 2011. During 2006, the Trust incurred current income taxes in the United States of $1.34 million. If high oil prices continue, there may be similar United States current income taxes payable annually, that will be somewhat modified by Zargon's United States capital program activity levels.

Capital Expenditures

The following tables summarize capital expenditures related to our activities for the year ended December 31, 2006:

($ million)	**Canada**	**United States**	**Total**
Property Acquisition/(Disposition) Costs:			
Proved Properties (1)	(3.14)	-	(3.14)
Unproved Properties	5.17	0.08	5.25
Corporate Acquisitions	-	-	-
Development Costs (2)	36.88	5.25	42.13
Exploration Costs (3)	19.13	-	19.13
Total	58.04	5.33	63.37

Notes:

(1) Acquisitions are net of disposition of properties.

(2) Development and facilities expenditures.

(3) Cost of land acquired, geological and geophysical capital expenditures and drilling costs for 2006 exploration wells drilled.

Exploration and Development Activities

The following table sets forth the gross and net exploratory and development wells in which we participated during the year ended December 31, 2006:

Canada	**Exploratory Wells**		**Development Wells**	
	Gross	**Net**	**Gross**	**Net**
Oil	7.0	7.0	14.0	10.6
Natural Gas	19.0	17.8	38.0	29.8
Service	-	-	1.0	1.0
Dry	4.0	4.0	-	-
Total	30.0	28.8	53.0	41.4

United States	**Exploratory Wells**		**Development Wells**	
	Gross	**Net**	**Gross**	**Net**
Oil	-	-	5.0	5.0
Natural Gas	-	-	-	-
Service	-	-	1.0	1.0
Dry	-	-	-	-
Total	-	-	6.0	6.0

In 2007, we are budgeted to invest approximately $55 million in our core regions. The entire amount is dedicated to well-planned exploration, exploitation, development and optimization of our existing assets. This amount does not include any capital for acquisitions which will be pursued on an opportunistic basis.

The Trust's most important current exploration and development activities include the following:

Development work with an exploration component seeking to maintain current production levels of natural gas in the Alberta Plains core area.

Exploitation of many of our Williston Basin properties with improved recovery techniques, reservoir re-pressurization by water injection followed in due course by geologically–driven development drilling based on 3D seismic programs.

Exploration for natural gas in West Central Alberta, primarily in the Peace River Arch, Highvale and Pembina areas.

Production Estimates

The following table sets out the volume of our gross production estimated in the McDaniel Report for the year ended December 31, 2007 which is reflected in the estimate of future net revenue disclosed in the tables contained under "*Disclosure of Reserves Data And Other Oil And Natural Gas Information*".

	Light and Medium Oil	**Natural Gas**	**Natural Gas Liquids**	**BOE**
	(bbl/d)	(Mcf/d)	(bbl/d)	(boe/d)
Total Proved	3,658	28,666	30	8,462
Total Probable	228	2,866	4	708
Total Proved Plus Probable	3,886	31,532	34	9,170

The Jarrow property in Alberta Plains accounts for 32 percent of the gross production volume estimated in the above table and is the only property that accounts for 20 percent or more of the estimated production disclosed above.

Production History and Prices Received

The following tables summarize certain information in respect of production, product prices received, royalties paid, operating expenses and resulting netback for the periods indicated below:

CANADA

	Quarter Ended			
	2006			
	Dec. 31	**Sept. 30**	**June 30**	**Mar. 31**
Average Daily Production:				
Gas (Mcf/d)	27,460	26,940	27,440	28,990
Light and Medium Crude Oil (bbl/d)[2]	2,803	2,604	2,636	2,813
Combined (boe/d)	7,380	7,094	7,210	7,644
Average Price Received [1]**:**				
Gas ($/Mcf)	7.46	6.52	6.76	8.04
Light and Medium Crude Oil ($/bbl)[2]	55.15	65.41	61.44	52.46
Combined ($/boe)	48.69	48.78	48.18	49.81
Royalties Paid:				
Gas ($/Mcf)	1.44	1.26	1.22	1.76
Light and Medium Crude Oil ($/bbl)[2]	11.36	14.15	13.40	11.48
Combined ($/boe)	9.67	9.98	9.54	10.90
Production Costs:				
Gas ($/Mcf)	1.28	1.07	0.95	0.89
Light and Medium Crude Oil ($/bbl)[2]	14.85	15.49	12.05	12.77
Combined ($/boe)	10.40	9.75	8.02	8.07
Netback Received[3]**:**				
Gas ($/Mcf)	4.74	4.19	4.59	5.39
Light and Medium Crude Oil ($/bbl)[2]	28.94	35.77	35.99	28.21
Combined ($/boe)	28.62	29.05	30.62	30.84

Notes:

(1) Average price received is calculated after the impact of realized risk management gains/losses.

(2) Includes an immaterial amount of NGLs.

(3) Netbacks are calculated by subtracting royalties and operating costs from revenues after realized risk management gains/losses.

UNITED STATES

	Quarter Ended			
	2006			
	Dec. 31	Sept. 30	June 30	Mar. 31
Average Daily Production:				
Gas (Mcf/d)	-	-	-	-
Light and Medium Crude Oil (bbl/d)(2)	986	1,100	1,112	1,168
Combined (boe/d)	986	1,100	1,112	1,168
Average Price Received (1):				
Gas ($/Mcf)	-	-	-	-
Light and Medium Crude Oil ($/bbl)(2)	50.74	63.60	62.69	50.57
Combined ($/boe)	50.74	63.60	62.69	50.57
Royalties Paid:				
Gas ($/Mcf)	-	-	-	-
Light and Medium Crude Oil ($/bbl)(2)	14.07	19.41	18.03	14.52
Combined ($/boe)	14.07	19.41	18.03	14.52
Production Costs:				
Gas ($/Mcf)	-	-	-	-
Light and Medium Crude Oil ($/bbl)(2)	6.33	6.11	5.41	4.12
Combined ($/boe)	6.33	6.11	5.41	4.12
Netback Received(3):				
Gas ($/Mcf)	-	-	-	-
Light and Medium Crude Oil ($/bbl)(2)	30.34	38.08	39.25	31.93
Combined ($/boe)	30.34	38.08	39.25	31.93

Notes:

(1) Average price received is calculated after the impact of realized risk management gains/losses.
(2) Includes an immaterial amount of NGLs.
(3) Netbacks are calculated by subtracting royalties and operating costs from revenues after realized risk management gains/losses.

AGGREGATE

	Quarter Ended 2006			
	Dec. 31	**Sept. 30**	**June 30**	**Mar. 31**
Average Daily Production:				
Gas (Mcf/d)	27,460	26,940	27,440	28,990
Light and Medium Crude Oil (bbl/d)(2)	3,789	3,704	3,748	3,981
Combined (boe/d)	8,366	8,194	8,322	8,812
Average Price Received (1):				
Gas ($/Mcf)	7.46	6.52	6.76	8.04
Light and Medium Crude Oil ($/bbl)(2)	54.00	64.87	61.81	51.90
Combined ($/boe)	48.93	50.77	50.12	49.91
Royalties Paid:				
Gas ($/Mcf)	1.44	1.26	1.22	1.76
Light and Medium Crude Oil ($/bbl)(2)	12.09	15.77	14.75	12.38
Combined ($/boe)	10.19	11.25	10.68	11.38
Production Costs:				
Gas ($/Mcf)	1.28	1.07	0.95	0.89
Light and Medium Crude Oil ($/bbl)(2)	12.61	12.71	10.10	10.21
Combined ($/boe)	9.92	9.26	7.67	7.55
Netback Received(3):				
Gas ($/Mcf)	4.74	4.19	4.59	5.39
Light and Medium Crude Oil ($/bbl)(2)	29.30	36.39	36.96	29.31
Combined ($/boe)	28.82	30.26	31.77	30.98

Notes:
(1) Average price received is calculated after the impact of realized risk management gains/losses.
(2) Includes an immaterial amount of NGLs.
(3) Netbacks are calculated by subtracting royalties and operating costs from revenues after realized risk management gains/losses.

The following table indicates our average daily production from our core regions for the year ended December 31, 2006:

	Natural Gas (Mcf/d)	**Light and Medium Crude Oil (bbl/d)**	**NGLs (bbl/d)**	**BOE (boe/d)**
West Central Alberta	8,188	133	35	1,534
Alberta Plains	19,294	497	23	3,736
Williston Basin	215	3,117	-	3,152
Total	27,697	3,747	58	8,422

Marketing Arrangements

Natural Gas

We continue to maintain a risk-mitigating strategy by cultivating a diverse natural gas sales portfolio, which encompasses a variety of pricing mechanisms and term commitments. In 2006, approximately 24 percent of Zargon's natural gas production was sold under aggregator contracts pursuant to long-term contracts with Cargill Gas Marketing Ltd. (Jarrow – 19 percent) and ProGas Limited (Hamilton Lake – five percent). The remainder of Zargon's natural gas production was sold by spot sale contracts and Alberta Index prices were received. Our risk management objectives include protecting or securing minimum prices for between 20 to 35 percent of working interest production for terms not exceeding 18 months. Our risk management methodology includes employing collars, floors or fixed price contracts. In order to control and manage credit risk and ensure competitive bids, we engage a number of reputable counterparties for our natural gas transactions. The integration and application of these strategies resulted in an average realized price (after realized risk management gains/losses) of $7.21 Cdn per Mcf in 2006 compared to $8.16 Cdn per Mcf in 2005.

Oil and Natural Gas Liquids

We sell our oil and natural gas liquids production to a variety of customers. This allows us to benefit from specific regional advantages while maintaining pricing and delivery flexibility. In general, Zargon markets its oil production with various purchasers under one month renewable contracts and receives posted reference prices with adjustments for quality and transportation. In 2006, our average realized oil and liquids price (after realized risk management losses) was $58.05 Cdn per bbl. compared to $53.32 Cdn per bbl. in 2006. Consistent with our natural gas strategy, our risk management objectives include protecting or securing minimum prices for between 20 to 35 percent of our working interest production for terms not exceeding 18 months. Our crude oil risk management strategy employs the use of costless collars and fixed pricing.

Acquisitions and Dispositions

During 2006, Zargon completed four property transactions including the acquisition and disposition of oil and natural gas properties. In aggregate we made $3.14 million of net property dispositions in the year.

Environmental Policies

Zargon has an environmental policy in place as part of its commitment to protecting the environment while conducting its operations. Zargon's environmental policy states that:

Operating in an environmentally responsible manner is key to insuring the continued growth of the Trust and the industry.

Sound environmental management is an integral component of a good business plan. Environmental stewardship reduces costs and corporate liability. It enhances shareholder value, boosts employee moral and enhances the Trust's image in the eyes of regulators and the public.

Managing Zargon's environmental responsibilities is a team effort requiring the commitment of management, employees and contractors.

Preventing environmental damage is cheaper than repairing damage.

An effective environmental program helps operations staff to understand and comply with environmental laws and regulations and to minimize the costs and liabilities associated with environmental damage. It helps meet the concerns of investors, analysts, bankers, partners and the public that environmental issues are being managed properly and will provide a due-diligence defense in the event of an environmental incident.

Zargon management also monitors developments related to the Kyoto Protocol and other environment laws and regulations.

SHARE CAPITAL OF ZARGON OIL & GAS LTD.

Common Shares

Zargon Oil & Gas Ltd. has authorized for issuance an unlimited number of common shares, all of which are owned by the Trust. The voting of such shares is delegated to the Board of Directors under the Trust Indenture other than: (i) any sale, lease or other disposition of, or any interest in, all or substantially all of the assets of Zargon Oil & Gas Ltd., except in conjunction with an internal reorganization of the direct or indirect assets of Zargon Oil & Gas Ltd. as a result of which either Zargon Oil & Gas Ltd. or we have the same, or substantially similar, interest, whether direct or indirect, in the assets as the interest, whether direct or indirect, that it had prior to the reorganization; (ii) any statutory amalgamation of Zargon Oil & Gas Ltd. with any other corporation or any amalgamation, merger or other transaction, as the case may be, of Zargon Oil & Gas Ltd. with any other entity, except in conjunction with an internal reorganization as referred to in paragraph (i) above; (iii) any statutory arrangement involving Zargon Oil & Gas Ltd., except in conjunction with an internal reorganization as referred to in paragraph (i) above; (iv) any amendment to the articles of Zargon Oil & Gas Ltd. to increase or decrease the minimum or maximum number of directors; or (v) any material amendment to the articles of Zargon Oil & Gas Ltd. to change the authorized share capital or amend the rights, privileges, restrictions and conditions attaching to any class of Zargon Oil & Gas Ltd.'s shares in a manner which may be prejudicial to us, which must be approved by the Unitholders by special resolution at a meeting of Unitholders called for that purpose.

The holders of common shares are entitled to receive notice of and to attend all meetings of the shareholders of Zargon Oil & Gas Ltd. and to one vote at such meetings. The holders of common shares will be, at the discretion of the Board of Directors and subject to applicable legal restrictions, and subject to certain preferences of holders of Exchangeable Shares, entitled to receive any dividends declared by the Board of Directors on the common shares to the exclusion of the holders of Exchangeable Shares, provided that no dividends shall be paid on the common shares unless all declared dividends on the outstanding Exchangeable Shares have been paid in full. The holders of common shares will be entitled to share equally in any distribution of the assets of Zargon Oil & Gas Ltd. upon the liquidation, dissolution, bankruptcy or winding-up of Zargon Oil & Gas Ltd. or other distribution of its assets among its shareholders for the purpose of winding-up its affairs. Such participation is subject to the rights, privileges, restrictions and conditions attaching to the Exchangeable Shares and any other shares having priority over the common shares.

Exchangeable Shares

Zargon Oil & Gas Ltd. is authorized to issue an unlimited number of Exchangeable Shares of which, as of December 31, 2006, 2,206,637 were outstanding. The Exchangeable Shares rank prior to the common shares of Zargon Oil & Gas Ltd. and any other shares ranking junior to the Exchangeable Shares with respect to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of Zargon Oil & Gas Ltd. The Exchangeable Share provisions have been filed on SEDAR at *www.sedar.com*.

Valiant Trust Company acts as the transfer agent for the Exchangeable Shares.

Each Exchangeable Share has economic rights (including the right to have the Exchange Ratio adjusted to account for distributions paid to Unitholders) and voting attributes (through the benefit of the Special Voting Rights granted to the Trustee) equivalent to those of the Trust Units into which they are exchangeable from time to time. As at December 31, 2006, the Exchange Ratio was 1.19403 and will be increased on each distribution payment date by an amount, rounded to the nearest five decimal places, equal to a fraction having as its numerator the distribution, expressed as an amount per Trust Unit, paid on that date multiplied by the Exchange Ratio immediately prior to the record date for such distribution and having as its denominator the current market price (five day weighted average trading price) on the first business day following the record date for the distribution. In addition, holders of Exchangeable Shares have the right to receive Trust Units at any time in exchange for their Exchangeable Shares, on the basis of the Exchange Ratio in effect at the time of the exchange. Fractional Trust Units will not be delivered on any exchange of Exchangeable Shares. In the event that the Exchange Ratio in effect at the time of an exchange would otherwise entitle a holder of Exchangeable Shares to a fractional Trust Unit, the number of Trust Units to be delivered will be rounded to the nearest whole number of Trust Units. Holders of Exchangeable Shares will not receive cash distributions from us or Zargon Oil & Gas Ltd., rather, the Exchange Ratio will be adjusted to account for distributions paid to Unitholders.

Ranking

The Exchangeable Shares rank rateably with shares of any other series of exchangeable shares of Zargon Oil & Gas Ltd. and prior to any common shares of Zargon Oil & Gas Ltd. and any other shares ranking junior to the Exchangeable Shares with respect to the payment of dividends, if any, that have been declared and the distribution of assets in the event of the liquidation, dissolution or winding-up of Zargon Oil & Gas Ltd.

Dividends

Holders of Exchangeable Shares will be entitled to receive cash dividends if, as and when declared by the Board of Directors. Zargon Oil & Gas Ltd. anticipates that it may from time to time declare dividends on the Exchangeable Shares up to but not exceeding any cash distributions on the Trust Units into which such Exchangeable Shares are exchangeable. In the event that any such dividends are paid, the Exchange Ratio will be correspondingly reduced to reflect such dividends.

Certain Restrictions

Zargon Oil & Gas Ltd. will not, without obtaining the approval of the holders of the Exchangeable Shares as set forth below under the subheading "*Amendment and Approval*":

(a) pay any dividend on the common shares or any other shares ranking junior to the common shares, other than stock dividends payable in common shares or any other shares ranking junior to the Exchangeable Shares;

(b) redeem, purchase or make any capital distribution in respect of the common shares of Zargon Oil & Gas Ltd. or any other shares ranking junior to the Exchangeable Shares;

(c) redeem or purchase any other shares of Zargon Oil & Gas Ltd. ranking equally with the Exchangeable Shares with respect to the payment of dividends or on any liquidation distribution; or

(d) issue any shares, other than Exchangeable Shares or common shares, which rank superior to the Exchangeable Shares with respect to the payment of dividends or on any liquidation distribution.

The above restrictions shall not apply if all declared dividends on the outstanding Exchangeable Shares shall have been paid in full.

Liquidation or Insolvency of Zargon Oil & Gas Ltd.

In the event of the liquidation, dissolution or winding-up of Zargon Oil & Gas Ltd. or any other proposed distribution of the assets of Zargon Oil & Gas Ltd. among its shareholders for the purpose of winding up its affairs, a holder of Exchangeable Shares, subject to applicable law, will be entitled to receive from Zargon Oil & Gas Ltd., in respect of each such Exchangeable Share, that number of Trust Units equal to the Exchange Ratio as at the effective date of such event.

Upon the occurrence of such an event, we and ExchangeCo will each have the overriding right to purchase all but not less than all of the Exchangeable Shares then outstanding (other than Exchangeable Shares which are held by us or any subsidiaries) at a purchase price per Exchangeable Share to be satisfied by the issuance or delivery, as the case may be, of that number of Trust Units equal to the Exchange Ratio at such time and, upon the exercise of this right, the holders thereof will be obligated to sell such Exchangeable Shares to us or ExchangeCo, as applicable. This right may be exercised by either us or ExchangeCo.

Automatic Exchange Right on our Liquidation

The voting and exchange trust agreement provides that in the event of a "trust liquidation event", as described below, we or ExchangeCo will be deemed to have purchased all outstanding Exchangeable Shares and each holder of Exchangeable Shares will be deemed to have sold their Exchangeable Shares immediately prior to such trust liquidation event at a purchase price per Exchangeable Share to be satisfied by the issuance or delivery, as the case may be, of that number of Trust Units equal to the Exchange Ratio at such time. "Trust liquidation event" means:

- any determination by us to institute our voluntary liquidation, dissolution or winding-up proceedings or to effect any other distribution of our assets among the Unitholders for the purpose of winding up its affairs; or

- the earlier of, our receiving notice of or we otherwise becoming aware of, any threatened or instituted claim, suit, petition or other proceedings with respect to our involuntary liquidation, dissolution or winding up or to effect any other distribution of our assets among the Unitholders for the purpose of winding up our affairs in each case where we have failed to contest in good faith such proceeding within 30 days of becoming aware thereof.

Retraction of Exchangeable Shares by Holders and Retraction Call Right

Subject to the Retraction Call Right granted to us and ExchangeCo, described below, a holder of Exchangeable Shares will be entitled at any time to require Zargon Oil & Gas Ltd. to redeem any or all of the Exchangeable Shares held by such holder for a retraction price (the "**Retraction Price**") per Exchangeable Share equal to the value of that number of Trust Units equal to the Exchange Ratio as at the date of redemption (the "**Retraction Date**"), to be satisfied by the delivery of such number of Trust Units. Fractional Trust Units will not be delivered. Any amount payable on account of the Retraction Price that includes a fractional Trust Unit will be rounded to the nearest whole number of Trust Units. Holders of the Exchangeable Shares may request redemption by presenting to Zargon Oil & Gas Ltd. or the transfer agent for the Exchangeable Shares a certificate or certificates representing the number of Exchangeable Shares the holder desires to have redeemed, together with a duly executed retraction request and such other documents as may be reasonably required to effect the redemption of the Exchangeable Shares. Subject to extension as described below, the redemption will become effective on the Retraction Date, which will be three business days after the date on which Zargon Oil & Gas Ltd. or the transfer agent receives the retraction notice.

When a holder requests Zargon Oil & Gas Ltd. to redeem the Exchangeable Shares, we and ExchangeCo will have an overriding right (the "**Retraction Call Right**") to purchase on the Retraction Date all but not less than all of the Exchangeable Shares that the holder has requested Zargon Oil & Gas Ltd. to redeem at a purchase price per Exchangeable Share equal to the Retraction Price, to be satisfied by the delivery of that number of Trust Units equal to the Exchange Ratio at such time. At the time of a Retraction Request by a holder of Exchangeable Shares, Zargon Oil & Gas Ltd. will immediately notify us and ExchangeCo. We or ExchangeCo must then advise Zargon Oil & Gas Ltd. within two business days as to whether the Retraction Call Right will be exercised. A holder may revoke his or her Retraction Request at any time prior to the close of business on the last business day immediately preceding the Retraction Date, in which case the holder's Exchangeable Shares will neither be purchased by us or ExchangeCo nor be redeemed by Zargon Oil & Gas Ltd.. If the holder does not revoke his or her Retraction Request, the Exchangeable Shares that the holder has requested Zargon Oil & Gas Ltd. to redeem will on the Retraction Date be purchased by us or ExchangeCo or redeemed by Zargon Oil & Gas Ltd., as the case may be, in each case at a purchase price per Exchangeable Share equal to the Retraction Price. In addition, a holder of Exchangeable Shares may elect to instruct the Trustee to exercise the optional exchange right (the "**Optional Exchange Right**") to require us or ExchangeCo to acquire such holder's Exchangeable Shares in circumstances where neither we nor ExchangeCo have exercised the Retraction Call Right.

The Retraction Call Right may be exercised by either us or ExchangeCo. If, as a result of solvency provisions of applicable law, Zargon Oil & Gas Ltd. is not permitted to redeem all Exchangeable Shares tendered by a retracting holder, Zargon Oil & Gas Ltd. will redeem only those Exchangeable Shares tendered by the holder as would not be contrary to such provisions of applicable law. The holder of any Exchangeable Shares not redeemed by Zargon Oil & Gas Ltd. will be deemed to have required us to purchase such unretracted Exchangeable Shares in exchange for Trust Units on the Retraction Date pursuant to the Optional Exchange Right.

Redemption of Exchangeable Shares

Subject to applicable law and the Redemption Call Right granted to us, ExchangeCo and Zargon Oil & Gas Ltd.:

(a) will, on the tenth anniversary of the Effective Date, subject to extension of such date by the Board of Directors (the "**Automatic Redemption Date**"), redeem all but not less than all of the then outstanding Exchangeable Shares for a redemption price per Exchangeable Share equal to the value of that number of Trust Units equal to the Exchange Ratio as at the last Business Day prior to that Redemption Date (as that term is defined below) (the "**Redemption Price**"), to be satisfied by the delivery of such number of Trust Units;

(b) may, on the fifth anniversary of the Effective Date (the "**Optional Redemption Date**"), redeem all but not less than all of the outstanding Exchangeable Shares for the Redemption Price per Exchangeable Share at the last Business Day prior to that Redemption Date (as that term is defined below), to be satisfied by the delivery of Trust Units;

(c) may, redeem up to that number of Exchangeable Shares equal to 20 percent of the Exchangeable Shares outstanding on the Effective Date for the Redemption Price per Exchangeable Share at the last Business Day prior to that Redemption Date (as that term is defined below), to be satisfied by the delivery of Trust Units; and

(d) may, at any time when the aggregate number of issued and outstanding Exchangeable Shares is less than 350,000 (other than Exchangeable Shares held by us and our subsidiaries and as such shares may be adjusted from time to time) (the "**De Minimus Redemption Date**" and, collectively with the Automatic Redemption Date, optional Redemption Date and Annual Redemption Date, a "**Redemption Date**"), redeem all but not less than all of the then outstanding Exchangeable Shares for the Redemption Price per Exchangeable Share (unless contested in good faith by us).

Zargon Oil & Gas Ltd. will, at least 90 days prior to any Redemption Date, provide the registered holders of the Exchangeable Shares with written notice of the prospective redemption of the Exchangeable Shares by Zargon Oil & Gas Ltd.

We and ExchangeCo have the right (the "**Redemption Call Right**"), notwithstanding a proposed redemption of the Exchangeable Shares by Zargon Oil & Gas Ltd. on the applicable Redemption Date, pursuant to the Exchangeable Share Provisions, to purchase on any Redemption Date all but not less than all of the Exchangeable Shares then outstanding (other than Exchangeable Shares held by us or our subsidiaries) in exchange for the Redemption Price per Exchangeable Share and, upon the exercise of the Redemption Call Right, the holders of all of the then outstanding Exchangeable Shares will be obliged to sell all such shares to us or ExchangeCo, as applicable. If either we or ExchangeCo exercises the Redemption Call Right, then Zargon Oil & Gas Ltd.'s right to redeem the Exchangeable Shares on the applicable Redemption Date will terminate. The Redemption Call Right may be exercised by either us or ExchangeCo.

Voting Rights

Except as required by applicable law, the holders of the Exchangeable Shares are not entitled as such to receive notice of or attend any meeting of the shareholders of Zargon Oil & Gas Ltd. or to vote at any such meeting. Holders of Exchangeable Shares will have the notice and voting rights respecting meetings that are provided in the Voting and Exchange Trust Agreement.

Amendment and Approval

The rights, privileges, restrictions and conditions attaching to the Exchangeable Shares may be changed only with the approval of the holders thereof. Any such approval or other approval or consent to be given by the holders of the Exchangeable Shares will be sufficiently given if given in accordance with applicable law and subject to a minimum requirement that such approval or consent be evidenced by a resolution passed by not less than two-thirds of the votes cast thereon (other than shares beneficially owned by us, or any of our entities and other affiliates) at a meeting of the holders of the Exchangeable Shares duly called and held at which holders of at least 10 percent of the then outstanding Exchangeable Shares are present in person or represented by proxy. In the event that no such quorum is present at such meeting within one-half hour after the time appointed therefore, then the meeting will be adjourned to such place and time (not less than ten days later) as may be determined at the original meeting and the holders of Exchangeable Shares present in person or represented by proxy at the adjourned meeting will constitute a quorum thereat and may transact the business for which the meeting was originally called. At the adjourned meeting, a resolution passed by the affirmative vote of not less than two-thirds of the votes cast thereon (other than shares beneficially owned by us or any of our subsidiaries and other affiliates) will constitute the approval or consent of the holders of the Exchangeable Shares.

Actions by Us under the Support Agreement and the Voting and Exchange Trust Agreement

Under the Exchangeable Share Provisions, Zargon Oil & Gas Ltd. has agreed to take all such actions and do all such things as are necessary or advisable to perform and comply with its obligations under, and to ensure the performance and compliance by us and ExchangeCo with its obligations under, the Support Agreement and the Voting and Exchange Trust Agreement.

Support Agreement and Voting and Exchangeable Trust Agreement

The Support Agreement and the Voting and Exchange Agreement have been filed on SEDAR at *www.sedar.com*.

INFORMATION RELATING TO US

Trust Units

An unlimited number of Trust Units may be created and issued pursuant to the Trust Indenture. The Trust Units represent equal undivided beneficial interests in the Trust. All Trust Units share equally in all distributions made by us and all Trust Units carry equal voting rights at meetings of Unitholders. No Unitholder will be liable to pay any further calls or assessments in respect of the Trust Units. No conversion, retraction, redemption or pre-emptive rights attach to the Trust Units.

Special Voting Units

The Trust Indenture also provides for the issuance of special voting units and which are entitled to such number of votes at meetings of Unitholders equal to the number of Trust Units reserved for issuance that such special voting units represent, such number of votes and any other rights or limitations prescribed by the Board of Directors when the Board of Directors authorizes issuing such special voting units. The Trust Units and the special voting units vote together as a single class on all matters. In the event of any of our liquidation, dissolution or winding-up, the holders of special voting units will not be entitled to receive any of our assets available for distribution to its holders of Trust Units. The holders of special voting units will not be entitled to receive dividends or other distributions from us.

A single special voting unit was issued to Valiant Trust Company as trustee under the Voting and Exchange Trust Agreement for the benefit of holders of the Exchangeable Shares issued in connection with the Arrangement. This special voting unit is entitled to a number of votes, exercisable at any meeting at which trust unitholders are entitled to vote, equal to the number of Trust Units (rounded down to the nearest whole number), into which the Exchangeable Shares are then exchangeable multiplied by the number of votes to which the holder of one Trust Unit is then entitled. Valiant Trust Company is required to vote the special voting units in the manner that holders of exchangeable shares instruct, and to abstain from voting on the exchangeable shares for which Valiant Trust Company does not receive instructions.

Trust Indenture

The Trust Indenture, among other things, provides for the calling of meetings of Unitholders, the conduct of business thereof, notice provisions, the appointment and removal of the Trustee and the form of Trust Unit certificates. The Trust Indenture may be amended from time to time. Substantive amendments to the Trust Indenture, including early termination of the Trust and the sale or transfer of our property as an entirety or substantially as an entirety requires approval by special resolution of the Unitholders. Any approval or consent of Unitholders in relation to any matter required by any regulatory body will require a majority of, or such other level of approval of Unitholders as may be stipulated by such regulatory authority, including as to the exclusion of interested or other Unitholders in the calculation of such level of approval. See "*Information Relating to Us – Meetings and Voting*" below.

The following is a summary of certain provisions of the Trust Indenture. For a complete description of such indenture, reference should be made to the Trust Indenture, a copy of which has been filed on SEDAR at *www.sedar.com*.

Trustee

Valiant Trust Company is our trustee and also acts as the transfer agent for the Trust Units. The Trustee is responsible for, among other things, accepting subscriptions for Trust Units and issuing Trust Units pursuant thereto and maintaining our books and records and providing timely reports to holders of Trust Units. The Trust Indenture provides that the Trustee shall exercise its powers and carry out its functions thereunder as Trustee honestly, in good faith and in our best interests and in the best interest of the Unitholders and, in connection therewith, shall exercise that degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances.

The initial term of the Trustee's appointment is until the third annual meeting of Unitholders. The Unitholders shall, at the third annual meeting of the Unitholders, re-appoint, or appoint a successor to the Trustee for an additional three year term, and thereafter, the Unitholders are required to reappoint or appoint a successor to the Trustee at the annual meeting of Unitholders three years following the reappointment or appointment of the successor to the Trustee. The Trustee may also be removed by special resolution of the Unitholders. Such resignation or removal becomes effective upon the acceptance or appointment of a successor trustee.

Zargon Oil & Gas Ltd. presently administers us on behalf of the Trustee. Zargon Oil & Gas Ltd., on behalf of the Trustee, keeps such books and records as are necessary for the proper recording of our business transactions.

The Trust Indenture provides that the Trustee shall be under no liability for any action or failure to act unless such liabilities arise out of the Trustee's gross negligence, wilful default or fraud. The Trustee, where it has met its standard of care, shall be indemnified out of our assets for any taxes or other government charges imposed upon the Trustee in consequence of its performance of its duties but shall have no additional recourse against Unitholders. In addition, the Trust Indenture contains other customary provisions limiting the liability of the Trustee.

Future Offerings

The Trust Indenture provides that Trust Units, including rights, warrants and other securities to purchase, to convert into or to exchange into Trust Units, may be created, issued, sold and delivered on such terms and conditions and at such times as the Trustee, upon the recommendation of the Board of Directors may determine. The Trust Indenture also provides that Zargon Oil & Gas Ltd. may authorize the creation and issuance of debentures, notes and other evidences of indebtedness by us which debentures, notes or other evidences of indebtedness may be created and issued from time to time on such terms and conditions to such persons and for such consideration as Zargon Oil & Gas Ltd. may determine.

Meetings and Voting

Annual meetings of the Unitholders will be held annually. Special meetings of Unitholders may be called at any time by the Trustee and shall be called by the Trustee upon the written request of Unitholders holding in aggregate not less than 20 percent of the Trust Units. Notice of all meetings of Unitholders shall be given to Unitholders at least 21 days prior to the meeting.

Unitholders will be entitled at each annual meeting to appoint our auditors and to elect all the members of the Board of Directors.

Our Management

The Board of Directors has generally been delegated all of our significant management decisions. In particular, the Trustee has delegated to Zargon Oil & Gas Ltd. responsibility for any and all matters relating to the following: (i) an offering; (ii) ensuring compliance with all applicable laws, including in relation to an offering; (iii) all matters relating to the content of any offering documents, the accuracy of the disclosure contained therein, and the certification thereof; (iv) all matters concerning the terms of, and amendment from time to time of our material contracts; (v) all matters concerning any underwriting or agency agreement providing for the sale of Trust Units or rights to Trust Units; (vi) all matters relating to the redemption of Trust Units; (vii) all matters relating to the voting rights on any investments in the trust fund or any subsequent investments; (viii) all matters relating to the specific powers and authorities as set forth in the Trust Indenture.

Zargon Oil & Gas Ltd. has accepted all such delegation and has agreed that, in respect of such matters, it shall carry out its functions honestly, in good faith and in our best interests and the best interests of the Unitholders and, in connection therewith, shall exercise that degree of care, diligence and skill that a reasonable person would exercise in comparable circumstances.

Limitation on Non-Resident Ownership

In order that we maintain our status as a "mutual fund trust" under the *Income Tax Act* (Canada), certain provisions of the *Income Tax Act* (Canada) require that we not be established nor maintained primarily for the benefit of non-residents of Canada ("non-residents"). Accordingly, in order to comply with such provisions, the Trust Indenture contains restrictions on the ownership of Trust Units by Unitholders who are non-residents. In this regard, we shall, among other things, take all necessary steps to monitor the ownership of the Trust Units to carry out such intentions. If at any time we become aware that the beneficial owners of 50 percent or more of the Trust Units then outstanding are or may be non-residents or that such a situation is imminent, we shall take such action as may be necessary to carry out the forgoing intentions.

Right of Redemption

Trust Units are redeemable at any time on demand by the holders thereof upon delivery to us of the certificate or certificates representing such Trust Units, accompanied by a duly completed and properly executed notice requiring redemption. Upon receipt of the notice to redeem Trust Units by us, the holder thereof shall only be entitled to receive a price per Trust Unit (the "**Market Redemption Price**") equal to the lesser of: (i) 90 percent of the "market price" of the Trust Units on the principal market on which the Trust Units are quoted for trading during the 10 trading day period commencing immediately after the date on which the Trust Units are tendered to us for redemption; and (ii) the closing market price on the principal market on which the Trust Units are quoted for trading on the date that the Trust Units are so tendered for redemption.

For the purposes of this calculation, "market price" will be an amount equal to the simple average of the closing price of the Trust Units for each of the trading days on which there was a closing price; provided that, if the applicable exchange or market does not provide a closing price but only provides the highest and lowest prices of the Trust Units traded on a particular day, the market price shall be an amount equal to the simple average of the average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the 10 trading days, the market price shall be the simple average of the following prices established for each of the 10 trading days: (i) the average of the last bid and last ask prices for each day on which there was no trading; (ii) the closing price of the Trust Units for each day that there was trading if the exchange or market provides a closing price; and (iii) the average of the highest and lowest prices of the Trust Units for each day that there was trading, if the market provides only the highest and lowest prices of Trust Units traded on a particular day. The closing market price shall be: an amount equal to the closing price of the Trust Units if there was a trade on the date; an amount equal to the average of the highest and lowest prices of the Trust Units if there was trading and the exchange or other market provides only the highest and lowest prices of Trust Units traded on a particular day; and the average of the last bid and last ask prices if there was no trading on the date.

The aggregate Market Redemption Price payable by us in respect of any Trust Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the following month. The entitlement of Unitholders to receive cash upon the redemption of their Trust Units is subject to the limitation that the total amount payable by us in respect of such Trust Units and all other Trust Units tendered for redemption in the same calendar quarter shall not exceed $100,000; provided that we may, in its sole discretion, waive such limitation in respect of any calendar quarter. If this limitation is not so waived, the Market Redemption Price payable by us in respect of Trust Units tendered for redemption in such calendar month shall be paid on the last day of the following month as follows: (i) firstly, by us distributing Notes having an aggregate principal amount equal to the aggregate Market Redemption Price of the Trust Units tendered for redemption; and (ii) secondly, to the extent that we do not hold Notes having a sufficient principal amount outstanding to effect such payment, by us issuing our own promissory notes to the Unitholders who exercised the right of redemption having an aggregate principal amount equal to any such shortfall, which promissory notes, (herein referred to as "**Redemption Notes**") shall have terms and conditions substantially identical to those of the Notes.

If at the time Trust Units are tendered for redemption by a Trust Unitholder, the outstanding Trust Units are not listed for trading on the TSX and are not traded or quoted on any other stock exchange or market which Zargon Oil & Gas Ltd. considers, in its sole discretion, provides representative fair market value price for the Trust Units or trading of the outstanding Trust Units is suspended or halted on any stock exchange on which the Trust Units are listed for trading or, if not so listed, on any market on which the Trust Units are quoted for trading, on the date such Trust Units are tendered for redemption or for more than five trading days during the 10 trading day period, commencing immediately after the date such Trust Units were tendered for redemption then such Trust Unitholder shall, instead of the Market Redemption Price, be entitled to receive a price per Trust Unit (the "**Appraised Redemption Price**") equal to 90 percent of the fair market value thereof as determined by Zargon Oil & Gas Ltd. as at the date on which such Trust Units were tendered for redemption. The aggregate Appraised Redemption Price payable by us in respect of Trust Units tendered for redemption in any calendar month shall be paid on the last day of the third following month by, at our option: (i) a cash payment; or (ii) a distribution of Notes and/or Redemption Notes as described above.

It is anticipated that this redemption right will not be the primary mechanism for holders of Trust Units to dispose of their Trust Units. Notes or Redemption Notes which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in such Notes or Redemption Notes. Notes or Redemption Notes may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans.

Termination of the Trust

The Unitholders may vote to terminate the Trust at any meeting of the Unitholders, subject to the following: (a) a vote may only be held if requested in writing by the holders of not less than 20 percent of the Trust Units; (b) a quorum of 50 percent of the issued and outstanding Trust Units is present in person or by proxy; and (c) the termination must be approved by special resolution of the Unitholders.

Unless the Trust is earlier terminated or extended by vote of the Unitholders, the Trustee shall commence to wind-up the affairs of the Trust on December 31, 2099. In the event that the Trust is wound-up, the Trustee will liquidate all our assets, pay, retire, discharge or make provision for some or all of our obligations and then distribute the remaining proceeds of sale to Unitholders.

Reporting to Unitholders

Our financial statements will be audited annually by an independent recognized firm of chartered accountants. Our audited financial statements, together with the report of such chartered accountants, will be mailed by the Trustee to Unitholders and the unaudited interim financial statements will be mailed to Unitholders within the periods prescribed by securities legislation. Our year end is December 31. We are also subject to the continuous disclosure obligations under all applicable securities legislation.

Unitholders are entitled to inspect, during normal business hours, at the offices of the Trustee, and, upon payment of reasonable reproduction costs, to receive photocopies of the Trust Indenture and a listing of the registered holders of Trust Units.

CORPORATE GOVERNANCE

General

In general, Zargon Oil & Gas Ltd. has been delegated responsibility for substantially all of the management decisions of the Trust. The Unitholders are entitled to elect all of the Board of Directors pursuant to the terms of the Trust Indenture.

Trust Indenture

Pursuant to the Trust Indenture, Unitholders are entitled to direct the manner in which we will vote our common shares in Zargon Oil & Gas Ltd. at all meetings in respect of matters, relating to the election of the directors of Zargon Oil & Gas Ltd., approving its financial statements and appointing auditors of Zargon Oil & Gas Ltd. who shall be the same as our auditors. Prior to us voting our common shares in Zargon Oil & Gas Ltd., in respect of such matters, each Unitholder is entitled to vote in respect of the matter on the basis of one vote per Trust Unit held, and we are required to vote our common shares in Zargon Oil & Gas Ltd. in accordance with the result of the vote of Unitholders.

Decision Making

The Board of Directors has a mandate to supervise the management of our business and affairs, Zargon Oil & Gas Ltd. and our other direct or indirect subsidiaries and partnership and to act with a view to our best interest. The Board of Directors' mandate includes: (i) an offering of securities by us; (ii) ensuring compliance with all applicable laws, including in relation to an offering of our securities; (iii) all matters relating to the content of any documents relating to an offering of our securities; the accuracy of the disclosure contained therein, and the certification thereof; (iv) all matters concerning the terms of, and amendment from time to time of, our material contracts; (v) all matters concerning any subscription agreement or underwriting or agency agreement providing for the sale or issue of Trust Units or securities convertible for or exchangeable into Trust Units or rights to acquire Trust Units; (vi) all matters relating to the redemption of Trust Units; (vii) all matters relating to the voting rights on any of our investments; (viii) all matters relating to the specific powers and authorities as set forth in the Trust Indenture (ix) the adoption of a Unitholder rights plan and other miscellaneous matters relating to the maximization of Unitholder value; and (x) all matters relating to amending Zargon Oil & Gas Ltd. articles to create a class or classes of each exchangeable shares. The Board of Directors holds regularly scheduled meetings at least quarterly to review the business and affairs of our subsidiaries, partnerships and trusts and make any necessary decisions relating thereto.

The Trust Indenture gives to the Board of Directors the authority to exercise the rights, powers and privileges for all matters relating to the maximization of Unitholder value in the context of an Offer including any Unitholder rights protection plan, any defensive action to an Offer, any Directors Circular in response to an Offer, any regulatory or court proceeding relating to an Offer and any related or ancillary matter.

Additional information in respect of corporate governance matters is contained in the Information Circular which has been filed on SEDAR at *www.sedar.com*.

Distributions and Distribution Policy

Cash distributions are made on the 15th day (or if such date is not a business day, on the next business day) following the end of each calendar month to Unitholders of record on the last business day of each such calendar month or such other date as determined from time to time by the Trustee.

The Board of Directors on our behalf review the distribution policy from time to time. The current distribution policy incorporates the withholding of approximately 50 percent of funds flow from operations generated for the financing of capital expenditures in order to provide sustainable distributions in the long-term. Depending upon commodity prices and the size of the capital budget, Zargon Oil & Gas Ltd. estimates that 50 percent of the funds flow from operations available for distribution will fund a significant portion of our annual capital expenditure program, including exploration, exploitation expenditures and minor property acquisitions, but excluding major acquisitions.

Distributions are normally announced on a monthly basis in the context of prevailing and anticipated commodity prices. During periods of volatile commodity prices, we may vary the distribution rate monthly.

Pursuant to the provisions of the Trust Indenture all income earned by the Trust in a fiscal year, not previously distributed in that fiscal year, must be distributed to Unitholders of record on December 31. This excess income, if any, will be allocated to Unitholders of record at December 31 but the right to receive this income, if the amount is not determined and declared payable at December 31, will trade with the Trust Units until determined and declared payable in accordance with the rules of the Toronto Stock Exchange. To the extent that a Unitholder trades Trust Units in this period they will be allocated such income but will dispose of their right to receive such distribution.

Directors and Officers

The name, municipality of residence, principal occupation for the prior five years and position, of each of the directors and officers of Zargon Oil & Gas Ltd. are as follows:

Directors

Name and Municipality of Residence	Director Since	Principal Occupation
Craig H. Hansen Calgary, Alberta	1992	President & Chief Executive Officer Zargon Oil & Gas Ltd.
K. James Harrison (2) (3) Oakville, Ontario	1995	President – K. J. Harrison & Partners Inc. *(Investment Management)*
Kyle D. Kitagawa (1) (4) Calgary, Alberta	2001	Managing Director, North River Capital Corp. since 2003. Prior to 2003, Chief Executive Officer and President of Enron Canada Corp.
James J. Lawson (1) (3) Oakville, Ontario	2005	President and CEO, Westerkirk Capital Inc. *(Investment Management)*
John O. McCutcheon Vancouver, British Columbia	1987	Chairman of the Board
Margaret A. McKenzie(1) Calgary, Alberta	2007	Chief Financial Officer, Range Royalty Limited Partnership and Spur Resources Ltd.
Jim Peplinski (2) (4) Calgary, Alberta	1997	Managing Partner, Humberview Group VP Business Development, Calgary Flames Hockey Club
J. Graham Weir (1) (4) Calgary, Alberta	2003	Independent Businessman
Grant A. Zawalsky (2) (3) Calgary, Alberta	2000	Partner, Burnet, Duckworth & Palmer LLP *(Barristers and Solicitors)*

Notes:

(1) Member of audit committee.
(2) Member of compensation committee.
(3) Member of governance and nominating committee.
(4) Member of the reserves committee.
(5) Zargon Oil & Gas Ltd. does not have an executive committee.

Officers

Name and Municipality of Residence	Office
Craig H. Hansen Calgary, Alberta	President & Chief Executive Officer
Brent C. Heagy Calgary, Alberta	Executive Vice President & Chief Financial Officer
Mark I. Lake Calgary, Alberta	Vice President, Exploration
Daniel A. Roulston Calgary, Alberta	Executive Vice President, Operations
Sheila A. Wares Calgary, Alberta	Vice President, Accounting
Kenneth W. Young Calgary, Alberta	Vice President, Land
Jason B. Dranchuk Calgary, Alberta	Controller and Treasurer

As at March 19, 2007, the directors and officers of Zargon Oil & Gas Ltd., as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 906,978 Trust Units or approximately 5.4 percent of the issued and outstanding Trust Units and 951,909 Exchangeable Shares or approximately 44.6 percent of the issued and outstanding Exchangeable Shares resulting in an approximate total average ownership of 10.6 percent.

Corporate Cease Trade Orders or Bankruptcies

Except as otherwise disclosed herein, in the ten years preceding the date of this Annual Information Form, none of the proposed directors, officers or insiders of Zargon Oil & Gas Ltd. are or have been a director, officer or promoter of any other issuer that, while acting in such capacity:

(a) was the subject of a cease trade or similar order or an order that denied the issuer access to any statutory exemptions for a period of more than 30 consecutive days; or

(b) was declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy and insolvency or been subject to or instituted any proceedings, arrangement, or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person, other than Mr. Zawalsky who was a director of Efficient Energy Resources Ltd. (a private electrical generation company) which agreed to the voluntary appointment of a receiver in 2005.

Penalties or Sanctions

None of the proposed directors, officers or insiders of Zargon Oil & Gas Ltd. have been subject to any penalties or sanctions under securities legislations except as disclosed herein.

Personal Bankruptcies

None of the proposed directors, officers or insiders of Zargon Oil & Gas Ltd. have in the ten years preceding the date of this Annual Information Form become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold their assets except as disclosed herein.

Conflicts of Interest

Circumstances may arise where members of the Board of Directors serve as directors or officers of corporations which are in competition to our interests and the interests of Zargon Oil & Gas Ltd. No assurances can be given that opportunities identified by such board members will be provided to us or Zargon Oil & Gas Ltd.

The *Business Corporations Act* (Alberta) provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under such Act. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of such Act.

AUDIT COMMITTEE INFORMATION

Audit Committee Mandate and Terms of Reference

The Mandate of the Audit Committee of the board of director's is attached hereto as Schedule "C". The members of the Audit Committee are Kyle D. Kitagawa, James J. Lawson, Margaret A. McKenzie and J. Graham Weir.

Composition of the Audit Committee

The members of the Audit Committee are independent (in accordance with National Instrument 52-110) and are financially literate.

Relevant Education and Experience

Name	**Relevant Education and Experience**
Kyle D. Kitagawa *(Audit Committee Chairman)*	Managing Director, North River Capital Corp. Kyle Kitagawa brings over 20 years experience in commodity trading, equity investing, and structured finance in both energy and energy intensive industries. Prior to April 2003, he held senior executive positions in a global energy trading and capital corporation. Mr. Kitagawa also serves on the boards of Ferus Trust and ProspEx Resources Ltd. He is currently the Chairman of Canadian Energy Services L.P., Livingston Energy Ltd. and Wave Energy Ltd. He served as chairman of Advanced Mobile Power Systems, LLC, and was a past director of Esprit Exploration Ltd., Invasion Energy Inc., and Papier Masson Ltee. He holds a Master of Business Administration degree from Queen's University, a Bachelor of Commerce from the University of Calgary and is a Chartered Accountant.
James J. Lawson	Chief Executive Officer, Westerkirk Capital Inc. Mr. Lawson is the President and CEO of Westerkirk Capital Inc., a Toronto-based private investment firm with a current portfolio that includes substantial holdings in the hospitality, aviation, custom manufacturing, and real estate sectors. He has served over the course of his career as a Partner at Torys LLP and at Davies Ward Phillips & Vineberg LLP and as the Senior Vice President of XO Communications Canada. Mr. Lawson is a graduate of Brown University, Providence, Rhode Island. Mr. Lawson currently sits on the board of directors of a number of companies including Algoma Steel Inc., one of Canada's largest integrated steel producers; Cosmetica Laboratories Inc.; and sits on the Board of Stewards of the Jockey Club of Canada.
Margaret A. McKenzie	Chief Financial Officer, Range Royalty Limited Partnership and Spur Resources Ltd. Ms. McKenzie is currently the Chief Financial Officer of Range Royalty Limited Partnership and Spur Resources Ltd. She was previously Vice President Finance and Chief Financial Officer of Profico Energy Management Ltd. and Manager Treasury and Administration with Renaissance Energy Ltd. Ms. McKenzie holds a Bachelor of Commerce with Distinction degree from the University of Saskatchewan and is a member of the Institute of Chartered Accountants of Alberta since 1985. Ms. McKenzie currently sits on the board of directors of Bonavista Energy Trust and is a member of the Audit and Governance Committees.
J. Graham Weir	Independent Businessman Graham Weir is an independent businessman. From September 1990 to December 2000, he was Vice President and Director of Corporate Finance for Goepel McDermid Inc., where he initiated and completed acquisition, financing, financial advisory, merger and valuation assignments for mid-market public and private companies generally headquartered in Calgary and active in the oil and gas producer and service sectors. He graduated from Trent University in 1974 with a Bachelors Degree in Mathematics and the University of Manitoba in 1977 with a Masters Degree in Actuarial Mathematics. Mr. Weir received the designation Chartered Business Valuator in 1994 and completed a Masters Degree in Mathematical Finance at the University of Oxford in 2005. Mr. Weir serves as a director of several companies including: Wave Energy Ltd., Graymont Limited, Grupo Calidra and Pulse Data Inc.

Pre-Approval Policies and Procedures

The Audit Committee must pre-approve all non-audit services to be provided to Zargon or its subsidiaries by the external auditors. The Audit Committee may delegate to one or more members the authority to pre-approve non-audit services, provided that the member report to the Committee at the next scheduled meeting such pre-approval and the member comply with such other procedures as may be established by the Audit Committee from time to time.

External Auditor Service Fees

Audit Fees

The aggregate fees billed by the Trust's external auditor, including expenses, in each of the last two fiscal years for audit services were $150,525 in 2006 and $149,122 in 2005.

Audit Related Fees

The aggregate fees billed in each of the last two fiscal years for assurance related services by the Trust's external auditor, including expenses, that are reasonably related to the performance of the audit or review of the Trust's financial statements that are not reported under "Audit Fees" above were $11,150 in 2006 and $21,688 in 2005. The decrease in fees in this area was primarily due to the 2005 financial accounting system conversion audit.

Tax Fees

The aggregate fees billed in each of the last two fiscal years for professional services rendered by the Trust's external auditor, including expenses, for tax compliance, tax advice and tax planning were $197,205 in 2006 and $177,027 in 2005. The primary reason for the increase in tax related fees was due to additional tax advice on trust related matters.

All Other Fees

The aggregate fees billed in each of the last two fiscal years for products and services provided by the Corporation's auditors other than services reported above were $nil in 2006 and $nil in 2005.

DISTRIBUTIONS TO UNITHOLDERS

Since our formation, monthly cash distributions were declared in the following amounts:

For the Month Ended	Distributions per Unit	Payment Date
August 31, 2004	$0.14	September 15, 2004
September 30, 2004	$0.14	October 15, 2004
October 31, 2004	$0.14	November 15, 2004
November 30, 2004	$0.14	December 15, 2004
December 31, 2004	$0.14	January 17, 2005
Total	$0.70	

For the Month Ended	Distributions per Unit	Payment Date
January 31, 2005	$0.14	February 15, 2005
February 28, 2005	$0.14	March 15, 2005
March 31, 2005	$0.14	April 15, 2005
April 30, 2005	$0.14	May 16, 2005
May 31, 2005	$0.14	June 15, 2005
June 30, 2005	$0.14	July 15, 2005
July 31, 2005	$0.14	August 15, 2005
August 31, 2005	$0.16	September 15, 2005
September 30, 2005	$0.16	October 17, 2005
October 31, 2005	$0.16	November 15, 2005
November 30, 2005	$0.18	December 15, 2005
December 31, 2005	$0.68	January 16, 2006
Total	$2.32	

For the Month Ended	Distributions per Unit	Payment Date
January 31, 2006	$0.18	February 15, 2006
February 28, 2006	$0.18	March 15, 2006
March 31, 2006	$0.18	April 17, 2006
April 30, 2006	$0.18	May 15, 2006
May 31, 2006	$0.18	June 15, 2006
June 30, 2006	$0.18	July 17, 2006
July 31, 2006	$0.18	August 15, 2006
August 31, 2006	$0.18	September 15, 2006
September 30, 2006	$0.18	October 16, 2006
October 31, 2006	$0.18	November 15, 2006
November 30, 2006	$0.18	December 15, 2006
December 31, 2006	$0.18	January 15, 2007
Total	$2.16	

For Canadian income tax purposes, cash distributions paid to Unitholders in 2004, 2005 and 2006 were 100 percent taxable as other income.

MARKET FOR SECURITIES

The Trust Units and Exchangeable Shares are listed and traded on the TSX. The trading symbol for the Trust Units is ZAR.UN and for the Exchangeable Shares is ZOG.B. The following sets forth trading information for Trust Units in 2006 and 2007 up to March 19, 2007.

Period	High	Low	Volume
2006			
January	32.00	29.50	1,374,131
February	30.96	26.25	1,105,429
March	30.79	27.53	768,182
April	33.82	29.86	616,111
May	34.75	30.66	698,857
June	33.00	28.00	971,227
July	32.19	29.10	366,484
August	34.63	31.66	550,446
September	33.33	29.75	508,357
October	33.89	29.69	1,456,140
November	30.78	24.36	1,539,946
December	28.59	24.10	845,284
2007			
January	25.54	23.80	1,035,257
February	26.73	25.00	692,235
March (1 to 19)	25.75	24.12	355,059

The following sets forth trading information for Exchangeable Shares in 2006 and 2007 up to March 19, 2007.

Period	High	Low	Volume
2006			
January	34.80	33.20	6,825
February	34.00	31.00	2,613
March	33.77	32.00	3,018
April	36.00	34.00	705
May	39.00	36.00	831
June	36.50	34.46	49,278
July	35.00	34.85	400
August	40.00	39.00	300
September	37.80	36.20	7,100
October	38.00	36.10	300
November	33.00	30.75	3,700
December	33.09	29.76	5,325
2007			
January	29.75	28.78	2,886
February	31.35	30.98	5,116
March (1 to 19)	31.00	31.00	100

INDUSTRY CONDITIONS

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation, and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreements among the governments of Canada, Alberta, and Saskatchewan, all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these controls or regulations will affect the Corporation's operations in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and the Corporation is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry.

Pricing and Marketing - Oil and Natural Gas

The producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Oil prices are primarily based on worldwide supply and demand. The specific price depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products, the supply/demand balance, and other contractual terms. Oil exporters are also entitled to enter into export contracts with terms not exceeding one year in the case of light crude oil and two years in the case of heavy crude oil, provided that an order approving such export has been obtained from the National Energy Board of Canada (the "**NEB**"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB and the issuance of such licence requires the approval of the Governor in Council.

The price of natural gas is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to meet certain other criteria prescribed by the NEB and the Government of Canada. Natural gas exports for a term of less than 2 years or for a term of 2 to 20 years (in quantities of not more than 30,000 m3/day), must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or a larger quantity requires an exporter to obtain an export licence from the NEB and the issuance of such licence requires the approval of the Governor in Council.

The governments of Alberta and Saskatchewan also regulate the volume of natural gas that may be removed from those provinces for consumption elsewhere based on such factors as reserve availability, transportation arrangements, and market considerations.

Pipeline Capacity

Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market natural gas production. In addition, the pro-rationing of capacity on the inter-provincial pipeline systems also continues to affect the ability to export oil and natural gas.

The North American Free Trade Agreement

The North American Free Trade Agreement ("**NAFTA**") among the governments of Canada, United States of America, and Mexico became effective on January 1, 1994. NAFTA carries forward most of the material energy terms that are contained in the Canada United States Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to domestic use (based upon the proportion prevailing in the most recent 36 month period); (ii) impose an export price higher than the domestic price subject to an exception with respect to certain voluntary measures which only restrict the volume of exports; and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum or maximum export or import price requirements, provided, in the case of export price requirements, prohibition in any circumstances in which any other form of quantitative restriction is prohibited, and in the case of import-price requirements, such requirements do not apply with respect to enforcement of countervailing and anti-dumping orders and undertakings.

NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector by 2010 and prohibits discriminatory border restrictions and export taxes. NAFTA also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements, which is important for Canadian natural gas exports.

Provincial Royalties and Incentives

General

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection, and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas liquids, sulphur, and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery, and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are, from time to time, carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests, or net carried interests.

Occasionally the governments of the western Canadian provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays, and tax credits, and are generally introduced when commodity prices are low. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry. Royalty holidays and reductions would reduce the amount of Crown royalties paid by oil and gas producers to the provincial governments and would increase the net income and funds from operations of such producers. However, the trend in recent years has been for provincial governments to eliminate, amend or allow such incentive programs to expire without renewal, and consequently few such incentive programs are currently operative.

On March 3, 2003 the Department of Finance (Canada) released a technical paper entitled "Improving the Income Taxation of the Resource Sector in Canada" (the "**Technical Paper**"). In November, 2003 the Tax Act was amended to provide the following initiatives applicable to the oil and gas industry (to a maximum of $2,000,000) to be phased in over a five year period: (i) a reduction of the federal statutory corporate income tax rate on income earned from resource activities from 28% to 21%, beginning with a one percentage point reduction effective January 1, 2003, and (ii) a deduction for federal income tax purposes of actual provincial and other Crown royalties and mining taxes paid and the elimination of the 25% resource allowance.

Alberta

In Alberta, companies are granted the right to explore, produce and develop petroleum and natural gas resources in exchange for royalties, bonus bid payments and rents. Currently, the amount of royalties that are payable is influenced by the oil production, diversity of the oil, and the vintage of the oil. Originally, the vintage classified oil in "new oil" and "old oil" depending on when the oil pools were discovered. If prior to March 31, 1974 is considered "old oil", if after March 31, 1974 and before September 1, 1992, is considered "New oil". The Alberta government introduced in 1992 a Third Tier Royalty with a base rate of 10% and a rate cap of 25% for oil pools discovered after September 1, 1992. The new oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 30%. The old oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 35%.

The royalty reserved to the Crown in respect of natural gas production, subject to various incentives, is between 15% and 30%, in the case of new natural gas, and between 15% and 35%, in the case of old natural gas, depending upon a prescribed or corporate average reference price. Natural gas produced from qualifying intervals in eligible gas wells spudded or deepened to a depth below 2,500 metres is also subject to a royalty exemption, the amount of which depends on the depth of the well.

Oil sands projects are subject to a specific regulation made effective July 1, 1997, and expiring June 30, 2007, which, among other things, determines the Crown's share of crude and processed oil sands products.

Regulations made pursuant to the *Mines and Minerals Act* (Alberta) provided various incentives for exploring and developing oil reserves in Alberta. However, the Alberta Government announced in August of 2006 that four royalty programs were to be amended, a new program was to be introduced and the Alberta Royalty Tax Credit Program ("**ARTC**") was to be eliminated, effective January 1, 2007. The programs affected by this announcement are: (i) Deep Gas Royalty Holiday; (ii) Low Productivity Well Royalty Reduction; (iii) Reactivated Well Royalty Exemption; and (iv) Horizontal Re-Entry Royalty Reduction. The program being introduced is the Innovative Energy Technologies Program (the "**IETP**") which is intended to promote the producers' investment in research, technology and innovation for the purposes of improving environmental performance whilst creating commercial value. The IETP provides royalty reductions which are presumed to reduce financial risk. Alberta Energy will be the one to decide which projects qualify and the level of support that will be provided. The deadline for the IETP's third round of applications is May 31, 2007.

On February 16, 2007, the Alberta Government announced that a review of the province's royalty and tax regime (including income tax and freehold mineral rights tax) pertaining to oil, gas and oil sands will be conducted by a panel of experts, with the assistance of individual Albertans and key stakeholders. The purpose of this process is to ensure that Albertans are receiving a fair share from energy development through royalties, taxes and fees. The issues to be reviewed during this examination process are: (i) undertaking a comparison of Alberta's royalty system to other oil and gas producing jurisdictions, taking into account investment economics and industry returns and risks in Alberta; (ii) whether Alberta's royalty system is sufficiently sensitive to market conditions; (iii) whether the current revenue minus cost system for oil sands royalties is optimal; (iv) which programs built into the existing royalty system should be retained or strengthened, and which should be adapted or eliminated; (v) how the tax treatment of the oil and gas sector compares to other sectors and jurisdictions; (vi) the economic and fiscal impacts of any possible changes to the royalty and corporate tax structures; and (vii) how existing resource development should be treated if changes are to be made to the fiscal regime. The review panel is to produce a final report that will be presented to the Minister of Finance by August, 31, 2007.

Saskatchewan

In Saskatchewan, the amount payable as a royalty in respect of oil depends on the vintage of the oil, the type of oil, the quantity of oil produced in a month, and the value of the oil. For Crown royalty and freehold production tax purposes, crude oil is considered "heavy oil", "southwest designated oil", or "non-heavy oil other than southwest designated oil". The conventional royalty and production tax classifications ("fourth tier oil" introduced October 1, 2002, "third tier oil", "new oil", or "old oil") of oil production are applicable to each of the three crude oil types. The Crown royalty and freehold production tax structure for crude oil is price sensitive and varies between the base royalty rates of 5% for all "fourth tier oil" to 20% for "old oil". Marginal royalty rates are 30% for all "fourth tier oil" to 45% for "old oil".

The amount payable as a royalty in respect of natural gas is determined by a sliding scale based on a reference price (which is the greater of the amount obtained by the producer and a prescribed minimum price), the quantity produced in a given month, the type of natural gas, and the vintage of the natural gas. As an incentive for the production and marketing of natural gas which may have been flared, the royalty rate on natural gas produced in association with oil is less than on non-associated natural gas. The royalty and production tax classifications of gas production are "fourth tier gas" introduced October 1, 2002, "third tier gas", "new gas", and "old gas". The Crown royalty and freehold production tax for gas is price sensitive and varies between the base royalty rate of 5% for "fourth tier gas" and 20% for "old gas". The marginal royalty rates are between 30% for "fourth tier gas" and 45% for "old gas".

On October 1, 2002, the following changes were made to the royalty and tax regime in Saskatchewan:

- A new Crown royalty and freehold production tax regime applicable to associated natural gas (gas produced from oil wells) that is gathered for use or sale. The royalty/tax is payable on associated natural gas produced from an oil well that exceeds approximately 65 thousand cubic meters in a month.

- A modified system of incentive volumes and maximum royalty/tax rates applicable to the initial production from oil wells and gas wells with a finished drilling date on or after October 1, 2002, was introduced. The incentive volumes are applicable to various well types and are subject to a maximum royalty rate of 2.5% and a freehold production tax rate of zero per cent.

- The elimination of the re entry and short section horizontal oil well royalty/tax categories. All horizontal oil wells with a finished drilling date on or after October 1, 2002, will receive the "fourth tier" royalty/tax rates and new incentive volumes.

In 1975 the Government of Saskatchewan introduced a Royalty Tax Rebate ("**RTR**") as a response to the federal government disallowing crown royalties and similar taxes to be deducted as a business expense for income tax purposes. As of January 1, 2007 the RTR will be allowed to wind down since the federal government had the initiative to reintroduce the full deduction of provincial resource royalties from federal and provincial income tax.

Land Tenure

Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licences, and permits for varying terms from two years, and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of material fines and penalties.

Environmental legislation in the Province of Alberta has been consolidated into the *Environmental Protection and Enhancement Act* (Alberta) (the "**EPEA**"), which came into force on September 1, 1993, and the *Oil and Gas Conservation Act* (Alberta) (the "**OGCA**"). The EPEA and OGCA impose stricter environmental standards, require more stringent compliance, reporting and monitoring obligations, and significantly increased penalties. In 2006, the Alberta Government enacted regulations pursuant to the EPEA to specifically target sulphur oxide and nitrous oxide emissions from industrial operations including the oil and gas industry. No additional expenses are foreseen that are associated with complying with the new regulations. The Corporation will be committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and an expense nature as a result of the increasingly stringent laws relating to the protection of the environment, and will be taking such steps as required to ensure compliance with the EPEA and similar legislation in other jurisdictions in which it operates. The Corporation believes that it will be in material compliance with applicable environmental laws and regulations. The Corporation also believes that it is reasonably likely that the trend towards stricter standards in environmental legislation and regulation will continue.

In December, 2002, the Government of Canada ratified the Kyoto Protocol ("**Protocol**"). The Protocol calls for Canada to reduce its greenhouse gas emissions to 6% below 1990 "business-as-usual" levels between 2008 and 2012. Given revised estimates of Canada's normal emissions levels, this target translates into an approximately 40% gross reduction in Canada's current emissions. It remains uncertain whether the Kyoto target of 6% below 1990 emission levels will be enforced in Canada. The Federal Government has introduced legislation aimed at reducing greenhouse gas emissions using a "intensity based" approach, the specifics of which have yet to be determined. Bill C-288, which is intended to ensure that Canada meets its global climate change obligations under the Kyoto Protocol, was passed by the House of Commons on February 14, 2007. As details of the implementation of this legislation have not yet been announced, the effect on our operations cannot be determined at this time.

Trends

There are a number of trends that have been developing in the oil and gas industry during the past several years that appear to be shaping the near future of the business.

The first trend is the volatility of commodity prices. Natural gas is a commodity influenced by factors within North America. A tight supply-demand balance for natural gas causes significant elasticity in pricing, whereas higher than average storage levels tend to depress natural gas pricing. Drilling activity, weather, fuel switching and demand for electrical generation are all factors that affect the supply-demand balance. Changes to any of these or other factors create price volatility.

Crude oil is influenced by the world economy, Organization of the Petroleum Exporting Countries' ability to adjust supply to world demand and weather. Crude oil prices have been kept high by political events causing disruptions in the supply of oil and concern over potential supply disruptions triggered by unrest in the Middle East and more recently have been impacted by weather and increased storage levels. Political events trigger large fluctuations in price levels.

The impact on the oil and gas industry from commodity price volatility is significant. During period of high prices, producers generate sufficient cash flows to conduct active exploration programs without external capital. Increased commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increase in price during these periods. During low commodity price periods, acquisitions costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service suppliers also decline.

A second trend within the Canadian oil and gas industry is the fairly consistent "renewal" of private and small junior oil and gas companies starting up business. These companies often have experienced management teams from previous industry organizations that have disappeared as a part of the ongoing industry consolidation. Many are able to raise capital and recruit well qualified personnel. The Corporation will have to compete with these companies and others to attract qualified personnel.

A third trend currently affecting the oil and gas industry is the impact on capital markets caused by investor uncertainty in the North American economy. The capital market volatility in Canada has also been affected by uncertainties surrounding the economic impact that the Protocol, and other environmental initiatives, will have on the sector and in more recent times, by the October 31, 2006 proposals of the Federal government of Canada (the "October 31, 2006 Proposals") relating to income trusts and other "specified investment flow-through" entities ("SIFTs"). Pursuant to the existing provisions of the *Income Tax Act* (Canada), to the extent that a SIFT has any income for a taxation year after certain inclusions and deductions, the SIFT will be permitted to deduct all amounts of income which are paid or become payable by it to unitholders in the year. Under the October 31, 2006 Proposals, SIFTs will be liable for tax at a rate consistent with the taxes currently imposed on corporations commencing in January 2011, provided that the SIFT experiences only "normal growth" and no "undue expansion" before then, in which case the tax could be imposed prior to the January 2011 deadline. Although the October 31, 2006 Proposals will not affect the method in which the Corporation will be taxed, they may have an impact on the ability of a SIFT to purchase producing assets from junior oil and gas companies (as well as the price that a SIFT is willing to pay for such an acquisition) thereby affecting exploration and production companies' ability to be sold to a SIFT which has been a key "exit strategy" in recent years for small to mid-sized oil and gas companies. This may be a benefit for the Corporation as it will compete with SIFTs for the acquisition of oil and gas properties from junior producers. However, it may also limit the Corporations ability to sell producing properties or pursue an exit strategy.

Generally during the past year, the economic recovery combined with increased commodity prices has caused an increase in new equity financings in the oil and gas industry, although the level of same was negatively impacted by the October 31, 2006 Proposals. The Corporation will compete with numerous new companies and their new management teams and development plans in its access to capital. The competitive nature of the oil and gas industry will cause opportunities for equity financings to be selective. The Corporation may have to rely on internally generated funds to conduct their exploration and developmental programs.

Proposed Federal Tax Changes

On October 31, 2006 the Federal Minister of Finance proposed to apply a tax at the trust level on distributions of certain income from publicly traded mutual fund trusts at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the unitholders (the "**October 31 Proposals**"). On December 21, 2006 the Federal Minister of Finance released draft legislation to implement the October 31, 2006 Proposals pursuant to which, commencing January 1, 2011 (provided Zargon only experiences "normal growth" and no "undue expansion" before then) certain distributions from Zargon which would have otherwise been taxed as ordinary income generally will be characterized as dividends in addition to being subject to tax at corporate rates at the Zargon level. Assuming the October 31 Proposals are ultimately enacted in their form, the implementation of such legislation would be expected to result in adverse tax consequences to Zargon and certain Unitholders (including most particularly Unitholders that are tax deferred or non-residents of Canada) and may impact cash distributions from Zargon.

Management believes that the October 31 Proposals may reduce the value of the Trust Units, which would be expected to increase the cost to Zargon of raising capital in the public capital markets. In addition management believes that the October 31 Proposals are expected to: (a) substantially eliminate the competitive advantage that Zargon and other Canadian energy trusts enjoy relative to their corporate peers in raising capital in a tax-efficient manner; and (b) place Zargon and other Canadian energy trusts at a competitive disadvantage relative to industry competitors, including U.S. master limited partnerships, which will continue to not be subject to entity level taxation. The October 31 Proposals are also expected to make the Trust Units less attractive as an acquisition currency. As a result, it may become more difficult for Zargon to compete effectively for acquisition opportunities. There can be no assurance that Zargon will be able to reorganize its legal and tax structure to substantially mitigate the expected impact of the October 31 Proposals.

Further, the proposals provide that, while there is no intention to prevent "normal growth" during the transitional period, any "undue expansion" could result in the transition period being "revisited", presumably with the loss of the benefit to us of that transitional period. As a result, the adverse tax consequences resulting from the proposals could be realized sooner than January 1, 2011. On December 15, 2006, the Department of Finance issued guidelines with respect to what is meant by "normal growth" in this context. Specifically, the Department of Finance stated that "normal growth" would include equity growth within certain "safe harbour" limits, measured by reference to a "specified investment flow-through's" ("**SIFT**") market capitalization as of the end of trading on October 31, 2006 (which would include only the market value of the SIFT's issued and outstanding publicly-traded trust units, and not any convertible debt, options or other interests convertible into or exchangeable for trust units). Those safe harbour limits are 40% for the period from November 1, 2006 to December 31, 2007, and 20% each for calendar 2008, 2009 and 2010. Moreover, these limits are cumulative, so that any unused limit for a period carries over into the subsequent period. Additional details of the Department of Finance's guidelines include the following:

(a) new equity for these purposes includes units and debt that is convertible into units (and may include other substitutes for equity if attempts are made to develop those);

(b) replacing debt that was outstanding as of October 31, 2006 with new equity, whether by a conversion into trust units of convertible debentures or otherwise, will not be considered growth for these purposes and will therefore not affect the safe harbour; and

(c) the exchange, for trust units, of exchangeable partnership units or exchangeable shares that were outstanding on October 31, 2006 will not be considered growth for those purposes and will therefore not affect the safe harbour where the issuance of the trust units is made in satisfaction of the exercise of the exchange right by a person other than the SIFT.

Our market capitalization as of the close of trading on October 31, 2006, having regard only to its issued and outstanding publicly-traded Trust Units, was approximately $551.19 million, which means our "safe harbour" equity growth amount for the period ending December 31, 2007 is approximately $220.47 million, and for each of calendar 2008, 2009 and 2010 is an additional approximately $110.24 million (in any case, not including equity, including convertible debentures, issued to replace debt that was outstanding on October 31, 2006).

While these guidelines are such that it is unlikely they would affect our ability to raise the capital required to maintain and grow its existing operations in the ordinary course during the transition period, they could adversely affect the cost of raising capital and our ability to undertake more significant acquisitions.

It is not known at this time when the October 31 Proposals will be enacted by Parliament, if at all, or whether the October 31 Proposals will be enacted in the form currently proposed.

RISK FACTORS

An investment in the Corporation should be considered highly speculative due to the nature of the Corporation's activities and the present stage of its development. Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings before making an investment decision:

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time, and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Corporation will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Corporation.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In particular, the Corporation may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the Corporation. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor are all such risks insurable. Although the Corporation maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on the Corporation.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Corporation may make acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets are periodically disposed of, so that the

Corporation can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Corporation, if disposed of, could be expected to realize less than their carrying value on the financial statements of the Corporation.

Operational Dependence

Other companies operate some of the assets in which the Corporation has an interest. As a result, the Corporation will have limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect the Corporation's financial performance. The Corporation's return on assets operated by others will therefore depend upon a number of factors that may be outside of the Corporation's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Project Risks

The Corporation will manage a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. The Corporation's ability to execute projects and market oil and natural gas will depend upon numerous factors beyond the Corporation's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, the Corporation could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Competition

The petroleum industry is competitive in all its phases. The Corporation will compete with numerous other organizations in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. The Corporation's competitors will include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Corporation. The Corporation's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery and storage. Competition may also be presented by alternate fuel sources.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. See "Industry Conditions". Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. At this time, the Alberta Government is in the process of examining the royalty and tax regime applicable to oil, gas and oil sands – see "Industry Conditions – Provincial Royalties and Incentives". The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase the Corporation's costs, any of which may have a material adverse effect on the Corporation's intended business, financial condition and results of operations. In order to conduct oil and gas operations, the Corporation will require licenses from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". The Corporation's exploration and production facilities and other operations and activities emit greenhouse gases which will likely subject the Corporation to possible future legislation regulating emissions of greenhouse gases. The Government of Canada has proposed a Bill, which suggests further legislation will set greenhouse gases emission reduction requirements for various industrial activities, including oil and gas exploration and production. Future federal legislation, together with provincial emission reduction requirements, such as those included in Alberta's Climate Change and Emissions Management Act (partially in force), may require the reduction of emissions (or emissions intensity) produced by the Corporation's expected operations and facilities. The direct or indirect costs of these regulations may adversely affect the expected business of the Corporation. See "Industry Conditions – Environmental Regulation".

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it will be in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Kyoto Protocol or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Corporation. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Corporation and its operations and financial condition. See "Industry Conditions – Environmental Regulation".

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Corporation is and will continue to be affected by numerous factors beyond its control. The Corporation's ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. The Corporation may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing and storage facilities and operational problems affecting such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

The Corporation's revenues, profitability and future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of oil and gas. The Corporation's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Corporation. These factors include economic conditions, in the United States and Canada, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and gas would have an adverse effect on the Corporation's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations.

The exchange rate between the Canadian and U.S. dollar also affects the profitability of the Corporation and the Canadian dollar has strengthened recently against the U.S. dollar.

Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, bank borrowings available to the Corporation in part determined by the Corporation's borrowing base. A sustained material decline in prices from historical average prices could reduce the Corporation's borrowing base, therefore reducing the bank credit available to the Corporation which could require that a portion, or all, of the Corporation's bank debt be repaid.

Substantial Capital Requirements

The Corporation anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Corporation's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations and prospects.

Additional Funding Requirements

The Corporation's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Corporation may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Corporation's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on favourable terms acceptable to the Corporation.

Issuance of Debt

From time to time the Corporation may enter into transactions to acquire assets or the shares of other organizations. These transactions may be financed in whole or in part with debt, which may increase the Corporation's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, the Corporation may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time, could impair the Corporation's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Market Risk Management Activities

From time to time the Corporation may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases and the Corporation may nevertheless be obligated to pay royalties on such higher prices, even though not received by it, after giving effect to such agreements. Similarly, from time to time the Corporation may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Corporation will not benefit from the fluctuating exchange rate.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. To the extent the Corporation is not the operator of its oil and gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Title to Assets

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the Corporation's claim which could result in a reduction of the revenue received by the Corporation.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth herein are estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. The Corporation's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, the Corporation's independent reserves evaluator has used both constant and forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from the Corporation's oil and gas reserves will vary from the estimates contained in the reserve evaluation, and such variations could be material. The reserve evaluation is based in part on the assumed success of activities the Corporation intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of a specific effective date and has not been updated and thus does not reflect changes in the Corporation's reserves since that date.

Insurance

The Corporation's involvement in the exploration for and development of oil and natural gas properties may result in the Corporation becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although the Corporation maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation.

Geo-Political Risks

The marketability and price of oil and natural gas that may be acquired or discovered by the Corporation is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or conversely peaceful developments, arising in the Middle-East, and other areas of the world, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of the Corporation's net production revenue.

In addition, the Corporation's oil and natural gas properties, wells and facilities could be subject to a terrorist attack. If any of the Corporation's properties, wells or facilities are the subject of terrorist attack it could have a material adverse effect on the Corporation. The Corporation will not have insurance to protect against the risk from terrorism.

Dilution

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

Management of Growth

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Corporation to deal with this growth could have a material adverse impact on its business, operations and prospects.

Expiration of Licences and Leases

The Corporation's properties are held in the form of licences and leases and working interests in licences and leases. If the Corporation or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Corporation's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the Corporation's results of operations and business.

Dividends

The Corporation has not paid any dividends on its outstanding shares. Payment of dividends in the future will be dependent on, among other things, the cash flow, results of operations and financial condition of the Corporation, the need for funds to finance ongoing operations and other business considerations as the board of directors of the Corporation considers relevant.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. The Corporation is not aware that any claims have been made in respect of its properties and assets; however, if a claim arose and was successful this could have an adverse effect on the Corporation and its operations.

Seasonality

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of the Corporation.

Third Party Credit Risk

The Corporation may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures could have a material adverse effect on the Corporation and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner.

Conflicts of Interest

The directors or officers of the Corporation may also be directors or officers of other oil and gas companies or otherwise involved in natural resource exploration and development and situations may arise where they are in a conflict of interest with the Corporation. Conflicts of interest, if any, which arise will be subject to and governed by procedures prescribed by the *Business Corporations Act* (Alberta) (the "ABCA") which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Corporation disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

Reliance on Key Personnel

The Corporation's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse affect on the Corporation. The contributions of the existing management team to the immediate and near term operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts entered into by us within the most recently completed financial year, or before the most recently completed financial year but are still material and are still in effect, are the following:

(a) the Trust Indenture;

(b) the Exchangeable Share provisions and the support agreement and the voting and exchange agreement;

(c) the note indenture creating the Notes; and

(d) the Credit Agreement.

Copies of each of these documents have been filed on SEDAR at *www.sedar*.com.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no outstanding legal proceedings or regulatory actions material to us or to which we are a party or in respect of which any of our properties is subject, nor are there any such proceedings known to be contemplated.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Trust Units and Exchangeable Shares is Valiant Trust Company at its principal office in Calgary, Alberta and through its co-agent, Equity Transfer Services Inc., at its principal office in Toronto, Ontario.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of directors and senior officers of Zargon Oil & Gas Ltd., any holder of Trust Units or Exchangeable Shares who beneficially owns more than 10 percent of the outstanding Trust Units or

Exchangeable Shares, or any known associate or affiliate of such persons, in any transaction within the last fiscal year and in any proposed transaction which has materially affected or would materially affect us.

INTERESTS OF EXPERTS

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by us during, or related to, our most recently completed financial year other than McDaniel, our independent engineering evaluator, and Ernst & Young LLP, our auditors. None of the principals of McDaniel had any registered or beneficial interests, direct or indirect, in any of our securities or other property or of our associates or affiliates either at the time they prepared the statement, report or valuation prepared by it, at any time thereafter or to be received by them. Ernst & Young LLP is independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accounts of Alberta.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of Zargon Oil & Gas Ltd. or of any of our associate or affiliate entities**,** except for Grant A. Zawalsky, a director of Zargon Oil & Gas Ltd., is a partner at Burnet, Duckworth & Palmer LLP, which law firm renders legal services to us.

ADDITIONAL INFORMATION

Additional information including remuneration of directors and officers of Zargon Oil & Gas Ltd., principal holders of the Trust Units, Exchangeable Share and rights to purchase Trust Units, is contained in the Information Circular which relates to the Annual Meeting of Unitholders to be held on April 26, 2007, and additional financial information is provided in our consolidated financial statements and management discussion and analysis of financial results for the year ended December 31, 2006 which have been filed on SEDAR at *www.sedar.com*.

We shall provide to any person, upon request to the Secretary of Zargon Oil & Gas Ltd. acting on our behalf:

1. when our securities are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,

    (a) one copy of our Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form;

    (b) one copy of our consolidated financial statements for the most recently completed fiscal year together with the accompanying report of the auditor and one copy of any subsequent interim financial statements;

    (c) one copy of our information circular; and

    (d) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (a) to (c) above; or

2. at any other time, one copy of any other documents referred to in (1)(a), (b) and (c) above, provided we may require the payment of a reasonable charge if the request is made by a person who is not a holder of our securities.

For additional copies of the Annual Information Form and the materials listed in the preceding paragraphs please contact:

Zargon Energy Trust
c/o Zargon Oil & Gas Ltd.
700, 333 - 5th Avenue S.W.
Calgary, Alberta, T2P 3B6
Tel: (403) 264-9992
Fax: (403) 265-3026

APPENDIX A

REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION

(Form 51-101F3)

Management of Zargon Oil & Gas Ltd. on behalf of Zargon Energy Trust (collectively "**Zargon**") are responsible for the preparation and disclosure of information with respect to the Zargon's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

(a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2006 using forecast prices and costs; and

(ii) the related estimated future net revenue; and

(b) (i) proved oil and gas reserves estimated as at December 31, 2006 using constant prices and costs; and

(ii) the related estimated future net revenue.

An independent qualified reserves evaluator has evaluated the Zargon's reserves data. The report of the independent qualified reserves evaluator is presented below.

The Reserves Committee of the board of directors has

(b) reviewed Zargon's procedures for providing information to the independent qualified reserves evaluator;

(c) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and

(d) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors has reviewed Zargon's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserves Committee, approved

(e) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;

(e) the filing of the report of the independent qualified reserves evaluator on the reserves data; and

(f) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

(signed) C.H. Hansen
President and Chief Executive Officer

(signed) B.C. Heagy
Executive Vice President and Chief Financial Officer

(signed) J.G. Weir
Director and Chairman of the Reserves Committee

(signed) J. Peplinski
Director and Member of the Reserves Committee

February 21, 2007

APPENDIX B

MCDANIEL REPORT ON RESERVES DATA

(Form 51-101 F2)

To the Board of Directors of Zargon Oil & Gas Ltd. on behalf of Zargon Energy Trust (collectively "**Zargon**"):

1. We have evaluated Zargon's reserves data as at December 31, 2006. The reserves data consist of the following:

   (a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2006 using forecast prices and costs; and

   (ii) the related estimated future net revenue; and

   (b) (i) proved oil and gas reserves estimated as at December 31, 2006 using constant prices and costs; and

   (ii) the related estimated future net revenue.

2. The reserves data are the responsibility of Zargon's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

   We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of Zargon evaluated by us for the year ended December 31, 2006, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to Zargon's board of directors:

Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue (thousands before income taxes, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
McDaniel & Associates Consultants Ltd.	February 21, 2007	Canada	$nil	$383,047	$nil	$383,047
		United States		$65,763		$65,763

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.

6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation date.

7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

(signed) McDaniel & Associates Consultants Ltd.
Calgary, Alberta
February 21, 2007

APPENDIX C

MANDATE & TERMS OF REFERENCE OF THE

AUDIT COMMITTEE

Role and Objective

The Audit Committee (the "**Committee**") is a committee of the board of directors of Zargon Oil & Gas Ltd. ("**Zargon**") to which the board has delegated its responsibility for oversight of the nature and scope of the annual audit, management's reporting on internal accounting standards and practices, financial information and accounting systems and procedures, financial reporting and statements and recommending, for board of director approval, the audited financial statements and other mandatory disclosure releases containing financial information, and review of the annual reserves. The objectives of the Committee are as follows:

1. To assist directors meet their responsibilities (especially for accountability) in respect of the preparation and disclosure of the financial statements of Zargon and related matters;

2. To provide better communication between directors and external auditors;

3. To enhance the external auditor's independence;

4. To increase the credibility and objectivity of financial reports; and

5. To strengthen the role of the outside directors by facilitating in depth discussions between directors on the Committee, management and external auditors.

Membership of Committee

1. The Committee shall be comprised of at least three (3) directors of Zargon, none of whom are members of management of Zargon and all of whom are "independent" (as such term is used in Multilateral Instrument 52-110 — Audit Committees ("**MI 52-110**").

2. The Board of Directors shall have the power to appoint the Committee Chairman.

3. All of the members of the Committee shall be "financially literate". The Board of Directors of Zargon has adopted the definition for "financial literacy" used in MI 52-110.

Meetings

1. At all meetings of the Committee every question shall be decided by a majority of the votes cast. In case of an equality of votes, the Chairman of the meeting shall not be entitled to a second or casting vote.

2. A quorum for meetings of the Committee shall be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those governing the board.

3. Meetings of the Committee should be scheduled to take place at least four times per year. Minutes of all meetings of the Committee shall be taken. The Chief Financial Officer shall attend meetings of the Committee, unless otherwise excused from all or part of any such meeting by the Chairman.

4. The Committee shall forthwith report the results of meetings and reviews undertaken and any associated recommendations to the board.

5. The Committee shall meet with the external auditor at least once per year (in connection with the preparation of the year end financial statements) and at such other times as the external auditor and the audit Committee consider appropriate.

Mandate and Responsibilities of Committee

1. It is the responsibility of the Committee to oversee the work of the external auditors, including resolution of disagreements between management and the external auditors regarding financial reporting.

2. It is the responsibility of the Committee to satisfy itself on behalf of the board with respect to Zargon's Internal Control Systems:

   - identifying, monitoring and mitigating business risks; and

   - ensuring compliance with legal, ethical and regulatory requirements.

3. It is a primary responsibility of the Committee to review the annual financial statements of Zargon prior to their submission to the board of directors for approval. The process should include but not be limited to:

   - reviewing changes in accounting principles, or in their application, which may have a material impact on the current or future years' financial statements;

   - reviewing significant accruals, reserves or other estimates such as the ceiling test calculation;

   - reviewing accounting treatment of unusual or non-recurring transactions;

   - ascertaining compliance with covenants under loan agreements;

   - reviewing disclosure requirements for commitments and contingencies;

   - reviewing adjustments raised by the external auditors, whether or not included in the financial statements;

   - reviewing unresolved differences between management and the external auditors; and

   - obtain explanations of significant variances with comparative reporting periods.

4. The Committee is to review the financial statements, prospectuses, management discussion and analysis (MD&A), annual information forms (AIF) and all public disclosure containing audited or unaudited financial information before release and prior to board approval. The Committee must be satisfied that adequate procedures are in place for the review of Zargon's disclosure of all other financial information and shall periodically access the accuracy of those procedures.

5. With respect to the appointment of external auditors by the board, the Committee shall:

   - recommend to the board the appointment of the external auditors;

   - recommend to the board the terms of engagement of the external auditor, including the compensation of the auditors and a confirmation that the external auditors shall report directly to the Committee;

   - when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change; and

   - review and approve any non-audit services to be provided by the external auditors' firm and consider the impact on the independence of the auditors.

6. Review with external auditors (and internal auditor if one is appointed by Zargon) their assessment of the internal controls of Zargon, their written reports containing recommendations for improvement, and management's response and follow-up to any identified weaknesses. The Committee shall also review annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of Zargon and its subsidiaries.

7. The Committee must pre–approve all non–audit services to be provided to Zargon or its subsidiaries by the external auditors. The Committee may delegate to one or more members the authority to pre–approve non–audit services, provided that the member report to the Committee at the next scheduled meeting such pre–approval and the member comply with such other procedures as may be established by the Committee from time to time.

8. The Committee shall review on an annual basis the reserves as evaluated by the external reserve evaluators. As part of this review, the Audit Committee shall be represented by at least one member at a reserve committee face-to-face meeting with management and the reserve evaluators.

9. The Committee shall review risk management policies and procedures of Zargon (i.e. hedging, litigation and insurance).

10. The Committee shall establish a procedure for:

    - the receipt, retention and treatment of complaints received by Zargon regarding accounting, internal accounting controls or auditing matters; and

    - the confidential, anonymous submission by employees of Zargon of concerns regarding questionable accounting or auditing matters.

11. The Committee shall review and approve Zargon's hiring policies regarding employees and former employees of the present and former external auditors of Zargon.

12. The Committee shall have the authority to investigate any financial activity of Zargon. All employees of Zargon are to cooperate as requested by the Committee.

13. The Committee may retain persons having special expertise and/or obtain independent professional advise to assist in filling their responsibilities at the expense of Zargon without any further approval of the board.