ZARGON ENERGY TRUST 2010 Q1 FINANCIAL REPORT

FINANCIAL & OPERATING HIGHLIGHTS

(unaudited)	Three Months Ended March 31, 2010	2009	Percent Change
Financial			
Income and Investments ($ millions)			
Petroleum and natural gas revenue	**48.46**	31.98	52
Funds flow from operating activities	**22.24**	17.85	25
Cash flows from operating activities	**21.00**	15.73	34
Cash distributions	**12.55**	10.03	25
Net earnings	**5.16**	0.37	1,295
Net capital expenditures	**18.74**	13.44	39
Per Unit, Diluted			
Funds flow from operating activities ($/unit)	**0.85**	0.84	1
Cash flows from operating activities ($/unit)	**0.80**	0.74	8
Net earnings ($/unit)	**0.22**	0.02	1,000
Cash Distributions ($/trust unit)	**0.54**	0.54	–
Balance Sheet at Period End ($ millions)			
Property and equipment, net	**430.59**	385.76	12
Bank debt	**84.23**	85.78	(2)
Unitholders' equity	**271.33**	274.82	(1)
Total Units Outstanding at Period End (millions)	**26.20**	21.34	23
Operating			
Average Daily Production			
Oil and liquids (bbl/d)	**5,554**	4,560	22
Natural gas (mmcf/d)	**27.05**	27.92	(3)
Equivalent (boe/d)	**10,062**	9,213	9
Equivalent per million trust units (boe/d)	**385**	432	(11)
Average Selling Price (before the impact of financial risk management contracts)			
Oil and liquids ($/bbl)	**73.63**	42.97	71
Natural gas ($/mcf)	**4.79**	5.71	(16)
Wells Drilled, Net	**12.8**	7.4	73
Undeveloped Land at Period End (thousand net acres)	**516**	431	20

Notes:

Throughout this report, the calculation of barrels of oil equivalent ("boe") is based on the conversion ratio that six thousand cubic feet of natural gas is equivalent to one barrel of oil. For a further discussion about this term, refer to the Management's Discussion and Analysis section in this report.

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

Total units outstanding include trust units plus exchangeable shares outstanding at period end. The exchangeable shares are converted at the exchange ratio at the end of the period.

Average daily production per million trust units is calculated using the weighted average number of units outstanding during the period plus the weighted average number of exchangeable shares outstanding for the period converted at the average exchange ratio for the period.

FINANCIAL & OPERATING HIGHLIGHTS

Zargon Energy Trust is pleased to report its financial results for the first quarter of 2010. Funds flow from operating activities was $22.24 million ($0.85 per diluted trust unit) in the 2010 first quarter compared with $24.75 million ($0.95 per diluted trust unit) in the 2009 fourth quarter and $17.85 million ($0.84 per diluted trust unit) in the 2009 first quarter.

Highlights from the three months ended March 31, 2010 are noted below:

- First quarter 2010 production averaged 10,062 barrels of oil equivalent per day, five percent below the preceding quarter and an increase of nine percent from the corresponding quarter of 2009. Lower first quarter production volumes compared to the prior quarter were primarily due to the impact of high initial production rates in the prior quarter from flush production at our Steelman oil wells and our non-operated Kakut gas wells.
- Revenue and funds flow from operating activities in the 2010 first quarter increased three percent and decreased 10 percent, respectively, from the prior quarter. Fund flows from operating activities totalled $22.24 million in the first quarter.
- The Trust declared three monthly cash distributions of $0.18 per trust unit in the first quarter of 2010 for a total of $12.55 million. These cash distributions were equivalent to a payout ratio of 56 percent of funds flow from operating activities.
- The Trust's first quarter exploration and development capital expenditures (excluding property acquisitions and dispositions) increased 22 percent from the prior quarter to $15.07 million primarily as a result of increased drilling, seismic and well equipping. In the first quarter, Zargon also completed three smaller property acquisitions and one disposition for a net total expenditure of $3.56 million.
- Debt net of working capital (excluding unrealized risk management assets/liabilities and future income taxes) increased eight percent from the prior quarter to $95.37 million at March 31, 2010, which represents approximately 53 percent of the Trust's available credit facilities at March 31, 2010. The Trust's balance sheet remains strong with a debt net of working capital to annualized funds flow from operating activities ratio of 1.1 times.
- Subsequent to quarter end, Zargon entered into an agreement to purchase working interests in various Southern Alberta medium and heavy gravity oil pools producing approximately 350 barrels of oil equivalent per day for a cash purchase price of approximately $25 million. With the completion of this acquisition, Zargon will hold a 100 percent working interest in Zargon's proposed Little Bow Mannville I Pool Alkaline Surfactant Polymer ("ASP") tertiary recovery flood.

Production
(boe/d)

Production
(boe/d per million trust units)

Production [1]

Oil and liquids production averaged 5,554 barrels per day in the 2010 first quarter, a one percent increase from the preceding quarter and a 22 percent increase from the corresponding 2009 quarter. Reflecting Zargon's emphasis on oil exploitation, in the first quarter oil and liquids production was 55 percent of total production based on a six to one oil equivalent basis compared to 52 percent in the previous quarter. Further oil production increases are anticipated for the balance of 2010 as recently drilled wells are placed on production and new production is added throughout the year from our oil weighted drilling program.

Natural gas production volumes in the first quarter of 2010 averaged 27.05 million cubic feet per day, a 12 percent decrease from the previous quarter and a three percent decrease from the corresponding period of 2009. The first quarter 2010 natural gas production decreased primarily due to natural declines, the passing of flush production volumes at our non-operated Kakut gas wells, third party processing shut-ins and weather related outages. Over the next few months, we are anticipating very low natural gas prices and, accordingly, we are restricting our field natural gas capital programs to high-graded workovers, stimulations and the drilling of selected wells that advance long term exploitation projects. Consequently, for the remainder of the year, we anticipate that our corporate natural gas production volumes will show minor declines until we reactivate our natural gas capital programs in the fourth quarter.

Capital Expenditures [1]

Zargon's first quarter field capital program totalled $15.07 million, an 18 percent increase from the 2009 first quarter field capital expenditures. During the quarter, Zargon drilled 14 gross wells (12.8 net) that resulted in 11.5 net oil wells and 1.3 net natural gas wells for a 100 percent success ratio. The drilling program included two Killam natural gas wells, three Bellshill oil wells, three Taber horizontal oil wells and one Killam horizontal oil well in the Alberta Plains core area, plus two Manor horizontal oil wells, one Steelman horizontal oil well and one Frys (Fertile) horizontal oil well in the Williston Basin core area and finally one oil well (Spirit River) in the West Central Alberta core area. This oil focused exploitation program delivered strong predictable results although increased production volumes from selected Williston Basin and Taber horizontals have been delayed until later this spring due to spring break-up and regulatory spacing approval delays.

In the upcoming spring-summer months, Zargon will proceed with an oil exploitation focused drilling program that, in the Williston Basin core area, will include three Steelman Frobisher horizontals, three Elswick Midale horizontals and another Bakken/Torquary horizontal well at Cromer, Manitoba. In the Alberta Plains core area, two gas exploitation wells at Jarrow and one horizontal oil exploitation well at Taber are planned. In West Central Alberta, two Doig natural gas development targets at Kakut on the Peace River Arch and one vertical Banff oil exploitation well at Highvale South are planned.

In the first quarter of 2010, the purchase of 11 thousand net acres of Crown lands at an average price of $50 per acre allowed Zargon to partially offset expiries and sales resulting in a quarter end undeveloped land inventory of 516 thousand net acres, down 24 thousand net acres from the balance reported at the end of 2009.

In addition to our field related activities, Zargon seeks to make additional corporate or property acquisitions that can be funded by bank debt or equity issuances. We continue to believe that we will be able to conclude transactions this year that bring either tax pools and/or oil-in-place and/or gas-in-place resources that we can exploit. To this end, during the quarter Zargon incurred $3.56 million of net property acquisitions arising from the acquisition of $4.56 million of properties (primarily consisting of wells in the Provost area), less $1.00 million of miscellaneous property dispositions.

Subsequent to quarter end, Zargon entered into an agreement to purchase working interests in various Southern Alberta medium and heavy gravity oil pools with approximately 350 barrels of oil equivalent per day of existing production, along with approximately 5.8 thousand net undeveloped acres of land, for a cash purchase price of approximately $25 million. The majority of these assets are either situated adjacent to or in the vicinity of our Little Bow property. These assets bring significant volumes of oil-in-place that may, in part, be amenable to tertiary recovery methods through our proposed Little Bow Alkaline Surfactant Polymer ("ASP") chemical flood project.

Concurrently, we are attempting to capitalize on the current industry enthusiasm for oil projects by packaging and marketing some of our non-core minor oil properties that are producing 375 barrels of oil equivalent per day and, subsequent to quarter end, we concluded the sale of 2.5 net sections of mostly non-operated Cardium rights at Pembina for $6.30 million.

Guidance (1)

In the February 23, 2010 press release, which provided an operational update and release of the 2009 year end reserves information, Zargon provided updated production guidance of 10,100 barrels of oil equivalent per day for the first quarter of 2010, and 10,400 barrels of oil equivalent per day for the calendar year 2010. During the first quarter, Zargon's production averaged 10,062 barrels of oil equivalent, slightly lower than guidance. For the second quarter, production will be curtailed by spring access related shut-ins, third party processing shut-ins of approximately 230 barrels of oil equivalent per day and seasonally reduced field capital programs and, as a result, Zargon anticipates second quarter 2010 production to average 9,900 barrels of oil equivalent per day. For the last six months of 2010, production is anticipated to increase to average approximately 10,400 barrels of oil equivalent per day, exclusive of any adjustments due to the timing of proposed property dispositions or acquisitions. This guidance continues to be premised on the previously announced oil exploitation focused 2010 field capital budget of $58 million, although the allocation of this budget has recently been adjusted to reduce natural gas drilling activities and the related natural gas production volumes while further emphasizing our longer term oil exploitation initiatives.

Zargon continues to be well positioned with a strong balance sheet and a promising inventory of oil exploitation projects focused on increasing oil recovery factors in existing reservoirs through primary, secondary and now tertiary methods. We are pleased that our historical conservative hedging, debt and distribution policies have enabled our organization to maintain the current monthly $0.18 per unit distribution for 54 consecutive months while adhering to a 50 percent distribution policy. Going forward past the December 2010 trust sunset date, as a corporation, Zargon will continue with its disciplined approach pertaining to the matching of our cash flow sources with our future dividends and/or field capital and acquisition expenditures while endeavouring to distribute a stable dividend stream funded from approximately 35 percent of our funds flow from operating activities.

Management Change

During the quarter, Mark Lake, Vice President, Geosciences and West Central Alberta announced his retirement effective April 15, 2010. Mark will continue to provide consulting services on specific projects. Mark has been with Zargon for over 10 years and we thank him for his substantial contribution and valuable service to our organization.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") is a review of Zargon Energy Trust's 2010 first quarter financial results and should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2010 and the audited consolidated financial statements and related notes for the year ended December 31, 2009. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are in Canadian dollars unless otherwise noted. All references to "Zargon" or the "Trust" refer to Zargon Energy Trust and all references to the "Company" refer to Zargon Oil & Gas Ltd.

In the MD&A, reserves and production are commonly stated in barrels of oil equivalent ("boe") on the basis that six thousand cubic feet of natural gas is equivalent to one barrel of oil. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalent conversion method primarily applicable to the burner tip and does not represent a value equivalent at the wellhead.

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

- *The MD&A contains the term "funds flow from operating activities" ("funds flow"), which should not be considered an alternative to, or more meaningful than, "cash flows from operating activities" as determined in accordance with Canadian GAAP as an indicator of the Trust's financial performance. This term does not have any standardized meaning as prescribed by GAAP and, therefore, the Trust's determination of funds flow from operating activities may not be comparable to that reported by other trusts. The reconciliation between cash flows from operating activities and funds flow from operating activities can be found in the table below and in the consolidated statements of cash flows in the consolidated financial statements. The Trust evaluates its performance based on net earnings and funds flow from operating activities. The Trust considers funds flow from operating activities to be a key measure as it demonstrates the Trust's ability to generate the cash necessary to pay distributions, repay debt and to fund future capital investment. It is also used by research analysts to value and compare oil and gas trusts, and it is frequently included in published research when providing investment recommendations. Funds flow from operating activities per unit is calculated using the diluted weighted average number of units for the period.*

Funds Flow from Operating Activities Reconciliation

($ millions)	Three Months Ended March 31, 2010	2009
Cash flows from operating activities	**21.00**	15.73
Changes in non-cash operating working capital	**1.24**	2.12
Funds flow from operating activities	**22.24**	17.85

- *The Trust also uses the term "debt net of working capital" or "net debt". Debt net of working capital, as presented, does not have any standardized meaning prescribed by Canadian GAAP and may not be comparable with the calculation of similar measures for other entities. Debt net of working capital, as used by the Trust, is calculated as bank debt and any working capital deficit excluding unrealized risk management assets/liabilities and future income taxes.*

- *Operating netbacks per boe equal total petroleum and natural gas revenue per boe adjusted for realized risk management gains and/or losses per boe, royalties per boe and production costs per boe. Operating netbacks are a useful measure to compare the Trust's operations with those of its peers.*

- *Funds flow netbacks per boe are calculated as operating netbacks less general and administrative expenses per boe, interest and financing charges per boe, asset retirement expenditures per boe and current income taxes per boe. Funds flow netbacks are a useful measure to compare the Trust's operations with those of its peers.*

References to "production volumes" or "production" in this document refer to sales volumes.

Forward-Looking Statements – This document offers our assessment of Zargon's future plans and operations as at May 12, 2010, and contains forward-looking statements including:

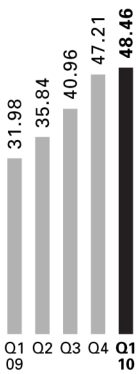
- *our expectations for royalties referred to under the heading "Financial Analysis";*
- *our expectations for production referred to under the heading "Financial and Operating Highlights";*
- *our expectations for capital expenditures referred to under the heading "Financial and Operating Highlights";*
- *our expectations for production costs referred to under the heading "Financial Analysis";*
- *our expectations for current taxes referred to under the heading "Financial Analysis";*
- *our distribution policy referred to under the headings "Financial and Operating Highlights" and "Liquidity and Capital Resources";*
- *our expected sources of funds for distributions and capital expenditures referred to under the headings "Financial and Operating Highlights" and "Liquidity and Capital Resources";*
- *our expectations for converting to a corporation from our current trust structure as referred to under the headings "Financial and Operating Highlights", "Financial Analysis" and "Liquidity and Capital Resources";*
- *our expectations for future commodity pricing and operating results referred to under the headings "Financial and Operating Highlights" and "Outlook";*
- *our expectations for designing and implementing International Financial Reporting Standards referred to under the heading "International Financial Reporting Standards"; and*
- *our expectations for the properties to be acquired and/or disposed referred to under the headings "Financial and Operating Highlights" and "Subsequent Event".*

Such statements are generally identified by the use of words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "plan", "intend", "believe" and similar expressions (including the negatives thereof). By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including such as those relating to results of operations and financial condition, general economic conditions, industry conditions, changes in regulatory and taxation regimes, volatility of commodity prices, escalation of operating and capital costs, currency fluctuations, the availability of services, imprecision of reserve estimates, geological, technical, drilling and processing problems, environmental risks, weather, the lack of availability of qualified personnel or management, stock market volatility, the ability to access sufficient capital from internal and external sources and competition from other industry participants for, among other things, capital, services, acquisitions of reserves, undeveloped lands and skilled personnel. Risks are described in more detail in our Annual Information Form, which is available on our website and at www.sedar.com. Forward-looking statements are provided to allow investors to have a greater understanding of our business.

You are cautioned that the assumptions, including among other things, future oil and natural gas prices; future capital expenditure levels; future production levels; future exchange rates; the cost of developing and expanding our assets; our ability to obtain equipment in a timely manner to carry out development activities; our ability to market our oil and natural gas successfully to current and new customers; the impact of increasing competition, our ability to obtain financing on acceptable terms; and our ability to add production and reserves through our development and acquisition activities used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance, or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them. The forward-looking information contained in this document is expressly qualified by this cautionary statement. Our policy for updating forward-looking statements is that Zargon disclaims, except as required by law, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

This MD&A has been prepared as of May 12, 2010.

Petroleum and Natural Gas Revenue
($ millions)



SUMMARY OF SIGNIFICANT EVENTS IN THE FIRST QUARTER

- During the first quarter of 2010, the Trust realized funds flow from operating activities of $22.24 million and declared total distributions of $12.55 million ($0.54 per trust unit) to unitholders. For Canadian income tax purposes, the distributions are currently estimated to be 100 percent taxable income to unitholders.
- Average field prices received (before the impact of financial risk management contracts) for oil and liquids and for natural gas increased seven percent to $73.63 per barrel and increased eight percent to $4.79 per thousand cubic feet, respectively, compared to the fourth quarter of 2009.
- First quarter production volumes were 10,062 barrels of oil equivalent per day, a nine percent increase from the first quarter 2009 production levels but a five percent decrease from the fourth quarter 2009 production levels.
- During the first quarter of 2010, the Trust drilled 14 gross wells (12.8 net) with a 100 percent success rate. Total field exploration and development capital expenditures (excluding property acquisitions and dispositions) were $15.07 million for the quarter compared to $12.36 million for the prior quarter.
- The Trust continues to maintain a strong balance sheet with a combined debt net of working capital (excluding unrealized risk management assets/liabilities and future income taxes) of $95.37 million, which represents approximately 53 percent of the Trust's available credit facilities at March 31, 2010.

FINANCIAL ANALYSIS

First quarter 2010 revenue of $48.46 million was three percent above the $47.21 million in the fourth quarter of 2009 and 52 percent above the $31.98 million in the first quarter of 2009. First quarter 2010 realized oil and liquids field prices averaged $73.63 per barrel before the impact of financial risk management contracts and were seven percent higher than the preceding quarter's $68.88 per barrel and were 71 percent higher than the $42.97 per barrel recorded in the 2009 first quarter. Zargon's crude oil field price differential from the Edmonton par price decreased to $6.44 per barrel in the first quarter of 2010 compared to $7.68 per barrel in the fourth quarter of 2009. Natural gas field prices received averaged $4.79 per thousand cubic feet in the first quarter of 2010, an eight percent increase from the preceding quarter levels and 16 percent below the 2009 first quarter prices.

Pricing

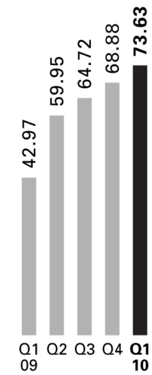
Average for the period	**2010**	2009	Percent Change
	Three Months Ended March 31,		
Natural Gas:			
NYMEX average daily spot price ($US/mmbtu)	**5.14**	4.57	12
AECO average daily spot price ($Cdn/mmbtu)	**4.97**	4.95	–
Zargon realized field price before the impact of financial risk management contracts ($Cdn/mcf) (1)	**4.79**	5.71	(16)
Zargon realized field price before the impact of physical and financial risk management contracts ($Cdn/mcf) (1)	**4.79**	4.84	(1)
Zargon realized field price after the impact of physical and financial risk management contracts ($Cdn/mcf) (1)	**4.79**	6.33	(24)
Zargon realized natural gas field price differential/(premium) (1) (2)	**0.18**	(0.76)	
Zargon realized natural gas field price differential before the impact of physical and financial risk management contracts	**0.18**	0.11	
Crude Oil:			
WTI ($US/bbl)	**78.71**	43.08	83
Edmonton par price ($Cdn/bbl)	**80.07**	49.52	62
Zargon realized field price before the impact of financial risk management contracts ($Cdn/bbl)	**73.63**	42.97	71
Zargon realized field price after the impact of financial risk management contracts ($Cdn/bbl)	**76.03**	57.73	32
Zargon realized oil field price differential (3)	**6.44**	6.55	

(1) Zargon was not subject to any physical or financial natural gas contracts for the 2010 first quarter.

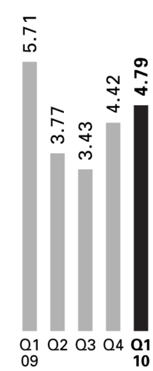
(2) Calculated as Zargon's realized field price before the impact of financial risk management contracts ($Cdn/mcf) as compared to AECO average daily spot price ($Cdn/mmbtu). Note: premiums occurred in 2009 as a result of the realization of fixed price physical contracts and the impact of Zargon receiving AECO monthly index pricing for a portion of its natural gas production.

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

Oil and Liquids Prices
($/bbl)

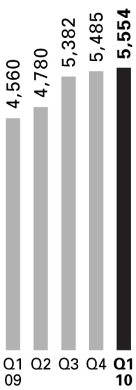


Natural Gas Prices
($/mcf)

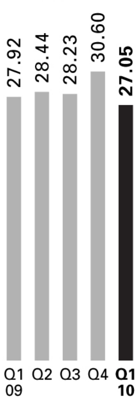


Natural gas production volumes decreased by 12 percent in the first quarter of 2010 to 27.05 million cubic feet per day from 30.60 million cubic feet per day in the fourth quarter of 2009 and were three percent lower than the 2009 first quarter. When compared to the prior quarter, the 2010 first quarter decrease in natural gas production volumes were primarily a result of flush production declines at the non-operated natural gas wells at the Kakut property on the Peace River Arch. Oil and liquids production during the first quarter of 2010 was 5,554 barrels per day, which is one percent above the 2009 fourth quarter rate of 5,485 barrels per day and 22 percent above the first quarter of 2009 level. The year-over-year increase in oil and liquids was primarily due to production volume additions from our Steelman horizontal exploitation drilling program as well as the impact of the Masters Energy Inc. ("Masters") and Churchill Energy Inc. ("Churchill") acquisitions in 2009. On a barrel of oil equivalent basis, Zargon produced 10,062 barrels of oil equivalent per day in the first quarter of 2010, which represents a five percent decrease from the 10,586 barrels of oil equivalent per day in the fourth quarter of 2009 and a nine percent increase when compared to the first quarter of 2009.

Oil and Liquids Production
(bbl/d)



Natural Gas Production
(mmcf/d)



Production by Core Area

Three Months Ended March 31,	**2010**			2009		
	Oil and Liquids (bbl/d)	**Natural Gas (mmcf/d)**	**Equivalents (boe/d)**	Oil and Liquids (bbl/d)	Natural Gas (mmcf/d)	Equivalents (boe/d)
Alberta Plains	**2,243**	**15.10**	**4,760**	1,395	17.16	4,255
West Central Alberta	**375**	**11.23**	**2,246**	377	10.32	2,097
Williston Basin	**2,936**	**0.72**	**3,056**	2,788	0.44	2,861
	5,554	**27.05**	**10,062**	4,560	27.92	9,213

Zargon's commodity price risk management policy, which is approved by the Board of Directors, allows the use of forward sales, costless collars and other instruments up to a 24 month term and approximately 30 percent of the combined oil and natural gas working interest production in order to partially offset the effects of large commodity price fluctuations. Zargon's management considers financial risk management contracts to be effective on an economic basis, but has decided not to designate these contracts as hedges for accounting purposes and, accordingly, for these contracts, an unrealized gain or loss is recorded based on the fair value (mark-to-market) of the contracts at the period end.

Specifically, in the 2010 first quarter, relatively lower oil prices (when compared to contract prices) brought about a small net realized financial risk management gain of $1.18 million, consisting of a $1.20 million gain on oil contracts (foreign exchange contracts are considered in conjunction with the oil contracts) and a $0.02 million loss on electricity contracts, that compares to a $5.78 million realized net gain in the fourth quarter of 2009 and a $7.63 million realized net gain in the first quarter of 2009.

The 2010 first quarter unrealized risk management loss of $3.33 million resulted from oil contract (including related foreign exchange contract) losses, which compares to a net $12.97 million loss for the 2009 fourth quarter and a net $6.17 million loss in the first quarter of 2009. These non-cash unrealized risk management gains or losses are generated by the change over the reporting period in the mark-to-market valuation of Zargon's risk management contracts. Recent volatility in commodity prices has resulted in significant fluctuations in the mark-to-market amount of unrealized risk management assets and liabilities. The period-over-period changes in these valuations directly impacts net earnings/losses. Zargon's commodity risk management positions are fully described in note 11 to the unaudited consolidated interim financial statements.

Royalties, inclusive of the Saskatchewan Resource Surcharge, totalled $8.96 million for the first quarter of 2010, an increase of eight percent from the $8.27 million preceding quarter expense and an increase of 60 percent from $5.59 million in the first quarter of 2009. The variations in royalty rates generally track changes in production volumes and prices. Commencing in 2009, the oil and natural gas royalty structure changed for Alberta production volumes (as disclosed in our 2009 Annual Financial Report). Reflecting the 2010 commodity prices and the modified royalty structure, on a consolidated basis, the first quarter of 2010 royalties resulted in a rate of 18.5 percent which compared to 17.5 percent in the fourth quarter of 2009. For the remainder of the year, Zargon expects that its royalty rate should remain in the 18 to 20 percent range, but will ultimately depend on the actual price received for our production.

On a unit of production basis, production costs of $13.08 per barrel of oil equivalent in the first quarter of 2010 compares with $13.09 per barrel of oil equivalent in the preceding quarter and $13.56 per barrel of oil equivalent in the first quarter of 2009. Despite the impact of acquiring higher cost oil-weighted properties in 2009, Zargon was able to achieve a moderate decrease in the 2010 first quarter costs. Zargon anticipates that production costs should remain relatively constant on a barrel of oil equivalent basis for the remainder of the year.

Operating Netbacks

Three Months Ended March 31,	2010		2009	
	Oil and Liquids ($/bbl)	**Natural Gas ($/mcf)**	Oil and Liquids ($/bbl)	Natural Gas ($/mcf)
Production revenue	**73.63**	**4.79**	42.97	5.71
Realized risk management gain	**2.40**	**–**	14.76	0.63
Royalties	**(14.81)**	**(0.64)**	(8.26)	(0.87)
Production costs	**(13.40)**	**(2.12)**	(15.65)	(1.92)
Operating netbacks	**47.82**	**2.03**	33.82	3.55

Measured on a unit of production basis (net of recoveries), general and administrative expenses were $3.95 per barrel of oil equivalent in the first three months of 2010 compared to $4.07 in the first three months of 2009 and $3.83 for the twelve month period of 2009.

Expensing of unit-based compensation in the first three months of 2010 was $0.37 million, a $0.23 million increase from the first three months of 2009. The increase is a result of unit rights granted in the first quarter of 2010 and a general increase in the valuation of these grants. Comparatively, there were no unit rights grants in the first quarter of 2009.

Zargon's borrowings are through its syndicated bank credit facilities. Interest and financing charges on these facilities in the 2010 first quarter were $1.07 million, $0.03 million lower than the previous quarter amount of $1.10 million and an increase of $0.45 million from $0.62 million in the first quarter of 2009. This year-over-year increase is primarily due to an increase in average borrowing costs. Zargon's current available syndicated committed credit facilities and borrowing base are $180 million, with approximately 53 percent unutilized at March 31, 2010. The next renewal date is June 29, 2010. These facilities continue to be available for general corporate purposes and the potential acquisition of oil and natural gas properties.

Current income taxes for the 2010 first quarter were $0.75 million, and related primarily to the United States operations. When compared to prior periods, current income taxes increased $0.28 million from the 2009 first quarter and decreased $0.16 million relative to the fourth quarter of 2009. Provided that oil prices remain stable, a similar level of United States current income taxes is predicted for the remaining quarters of 2010. Total corporate tax pools as at March 31, 2010, are approximately $301 million, which represents an increase of three percent from the comparable $293 million of tax pools available to Zargon at December 31, 2009, primarily a result of the 2010 first quarter field capital program.

Trust Netbacks

	Three Months Ended March 31,	
($/boe)	**2010**	2009
Petroleum and natural gas revenue	**53.51**	38.57
Realized risk management gain	**1.30**	9.20
Royalties	**(9.90)**	(6.74)
Production costs	**(13.08)**	(13.56)
Operating netbacks	**31.83**	27.47
General and administrative	**(3.95)**	(4.07)
Interest and financing charges	**(1.18)**	(0.74)
Asset retirement expenditures	**(1.31)**	(0.56)
Current income taxes	**(0.83)**	(0.57)
Funds flow netbacks	**24.56**	21.53

Funds Flow Netbacks
($/boe)

Depletion and depreciation expense for the first quarter of 2010 decreased six percent to $16.40 million compared to $17.50 million in the prior quarter and increased 11 percent when compared to the first quarter of 2009 expense of $14.72 million. On a per barrel of oil equivalent basis, the depletion and depreciation rates were $17.75, $17.97 and $18.11 for the first and fourth quarters of 2009 and the first quarter of 2010, respectively. The 2009 calendar year depletion and depreciation rate was $17.99 per barrel of oil equivalent. The primary reason for the current quarter depreciation expense increase is the financial impact of the conversion of exchangeable shares pursuant to the application of EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts".

The provision for accretion of asset retirement obligations for the first three months of 2010 was $0.78 million, a 32 percent increase compared to the first three months of 2009. The year-over-year increase is due to changes in the estimated future liability for asset retirement obligations as a result of wells added through Zargon's drilling program inclusive of wells acquired/disposed of in the current year and wells acquired with the prior year Masters and Churchill corporate acquisitions.

The recovery of future taxes for the first quarter of 2010 was $3.23 million compared to a recovery of $5.98 million in the prior quarter and a recovery of $3.73 million in the first quarter of 2009. The 2010 first quarter decrease in the future tax recovery, when compared to the 2009 fourth quarter recovery, is primarily related to an increase in net earnings as a result of the decrease in unrealized risk management losses in the quarter.

On October 31, 2006, the Federal Government announced tax proposals pertaining to taxation of distributions paid by trusts and the personal tax treatment of trust distributions. Currently, the Trust does not pay tax on distributions as tax is paid by the unitholders. On June 12, 2007, the Federal Government enacted these tax proposals, which would have resulted in taxation of distributions at the Trust level at a rate of 31.5 percent effective January 1, 2011. Subsequent 2007 fourth quarter legislation lowered this tax rate to 29.5 percent in 2011 and 28.0 percent beyond 2011. Prior to June 2007, the Trust estimated the future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes to have a nil effective tax rate. On February 26, 2008, the Federal Government, in its Federal Budget, announced further changes to the specified investment flow through ("SIFT") tax rules. The provincial component of the SIFT tax will be based on the provincial rates where the SIFT has a permanent establishment rather than using a 13.0 percent flat rate. During the 2009 first quarter this tax rate change had been substantively enacted, and the future income tax impact has been recorded in the financial statements. Under the legislation, the Trust now estimates the effective tax rate on the post 2010 reversal of these temporary differences to be approximately 26.5 percent for 2011 and 25.0 percent thereafter. Until 2011, Zargon's future tax obligations are reduced as distributions are made from the Trust and, consequently, it is anticipated that Zargon's effective tax rate will continue to be low until that time.

On December 15, 2006, the Canadian Federal Department of Finance stated its intention to allow conversions of SIFT income trusts to a corporation without any adverse tax consequences to investors. On July 14, 2008, the Department of Finance released the draft legislative proposals to allow the conversion of these SIFT trusts into corporations. Zargon is currently reviewing and assessing this legislation and is considering its potential impact on the organization while Zargon's management develops its strategic plan beyond 2010, which is the effective date of the new SIFT tax rules. Zargon's current plans are to convert from its trust structure to a corporation at the end of 2010. Zargon's management continues to believe that a partial cash flow distributing model is an effective model for our relatively mature sedimentary basins, and as such plans to distribute regular dividends under the corporate structure.

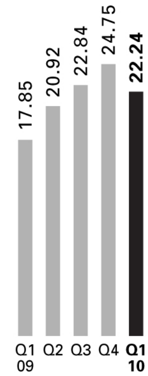
On January 1, 2010, the Trust adopted new CICA Handbook Section 1602 "Non Controlling Interests." The related EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts" was updated to reflect the changes in the new Handbook Section. According to EIC-151, the Trust must reflect the exchangeable securities issued by its subsidiary (Zargon Oil & Gas Ltd.) as a non-controlling interest. The January 1, 2010 updates to EIC-151 have only impacted the Trust's balance sheet classification, and as such, non-controlling interests are now reflected as a component of unitholders' equity. Accordingly, the

Trust has reflected a non-controlling interest of $25.43 million on the Trust's consolidated balance sheet as at March 31, 2010. Consolidated net earnings have been reduced for net earnings attributable to the non-controlling interest of $0.65 million in the first quarter of 2010. In accordance with EIC-151 and given the circumstances in Zargon's case, each exchangeable share redemption is accounted for as a step-purchase, which in the first quarter of 2010 resulted in an increase in property and equipment of $1.50 million, an increase in unitholders' equity of $1.75 million and an increase in future income tax liability of $0.40 million. Funds flow was not impacted by this change. The cumulative impact to date of the application of EIC-151 has been to increase property and equipment by $57.63 million, unitholders' equity and non-controlling interest by $68.67 million, future income tax liability by $18.85 million and an allocation of net earnings to exchangeable shareholders of $29.89 million.

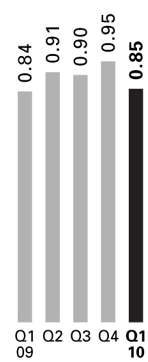
Funds flow from operating activities in the 2010 first quarter of $22.24 million was $2.51 million, or 10 percent lower than the preceding quarter and $4.39 million or 25 percent higher than the prior year first quarter. The decrease in funds flow from the preceding quarter was primarily due to decreased realized risk management gains as a result of higher average oil prices. Compared to the prior year first quarter, a nine percent increase in production volumes and an increase in commodity prices of 39 percent more than offset rising production costs, general and administrative costs and a decrease in realized risk management gains. Funds flow on a per diluted trust unit basis was $0.85 for the first quarter of 2010, an 11 percent decrease from the prior quarter and a one percent increase from the 2009 first quarter.

Net earnings of $5.16 million for the 2010 first quarter were $4.72 million above the $0.44 million of net earnings in the preceding quarter and $4.79 million above the $0.37 million in the first quarter of 2009. The net earnings track the funds flow from operating activities for the respective periods modified by asset retirement expenditures and non-cash charges, which include depletion and depreciation, unrealized risk management gains/losses, future income taxes/recoveries and non-controlling interest.

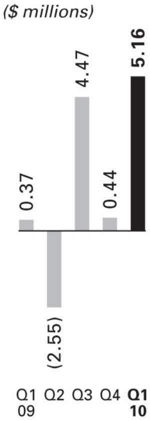
Funds Flow from Operating Activities
($ millions)



Funds Flow Per Unit
($/unit–diluted)



Net Earnings/ (Losses)
($ millions)



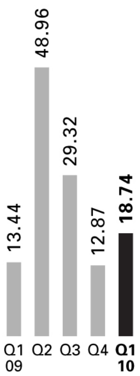
Capital Expenditures

($ millions)	Three Months Ended March 31, 2010	2009
Undeveloped land	**1.22**	1.40
Geological and geophysical (seismic)	**0.97**	0.72
Drilling and completion of wells	**8.15**	6.22
Well equipment and facilities	**4.73**	4.44
Exploration and development	**15.07**	12.78
Property acquisitions	**4.56**	0.56
Property dispositions	**(1.00)**	–
Net property acquisitions/(dispositions)	**3.56**	0.56
Total net capital expenditures excluding administrative assets	**18.63**	13.34
Administrative assets	**0.11**	0.10
Total net capital expenditures	**18.74**	13.44

SUBSEQUENT EVENT

Subsequent to quarter end, Zargon entered into an agreement to purchase working interests in various Southern Alberta medium and heavy gravity oil pools with approximately 350 barrels of oil equivalent per day of existing production, along with approximately 5.8 thousand net undeveloped acres of land, for a cash purchase price of approximately $25 million.

Net Capital Expenditures
($ millions)



LIQUIDITY AND CAPITAL RESOURCES

Total net capital expenditures (including net property acquisitions) of $18.74 million in the first three months of 2010 were 39 percent higher than the first three months of 2009. Field expenditures of $15.07 million reflected an increased development field program when compared to $12.36 million for the 2009 fourth quarter, a 22 percent increase, and represented an 18 percent increase over the 2009 first quarter $12.78 million field program. Drilling and completion expenses of $8.15 million were 31 percent higher than the prior year's first quarter amount of $6.22 million. During the first quarter of 2010, 12.8 net wells were drilled compared to 5.0 net wells in the fourth quarter of 2009 and 7.4 net wells in the first quarter of 2009. Field capital expenditures (excluding net property acquisitions) for the first three months of 2010 were allocated to Alberta Plains – $6.52 million, West Central Alberta – $3.05 million and Williston Basin – $5.50 million. During the quarter, Zargon incurred $3.56 million of net property acquisitions arising from the acquisition of $4.56 million of properties (primarily consisting of wells in the Provost area), less approximately $1.0 million of miscellaneous property dispositions.

Funds flow from operating activities in the 2010 first three months of $22.24 million, proceeds from the issuance of trust units of $1.79 million (due to unit right exercises) and the increase in bank debt of $7.65 million funded the capital program including net property acquisitions, the changes in working capital and the cash distributions to the unitholders.

Net Debt Per Unit
($/unit–diluted)

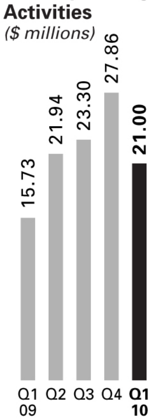
At March 31, 2010, the Trust continues to maintain a strong balance sheet with a combined debt net of working capital (excluding unrealized risk management assets and liabilities and future income taxes) of $95.37 million, compared to $88.01 million at the end of the 2009 fourth quarter, which represents approximately 53 percent of the Trust's available credit facilities at March 31, 2010.

The volatility of oil and natural gas prices, uncertainty or modifications regarding Alberta royalties and Canadian income trust tax rules and global economic concerns have on occasion restricted the oil and natural gas industry's ability to attract new capital from debt and equity markets. Zargon's historically conservative strategy of maintaining a relatively low cash distribution to funds flow ratio and conservative debt levels should enable Zargon to continue its capital and distribution programs during periods of limited access to debt and equity capital.

Cash Distributions Analysis

($ millions)	Three Months Ended March 31, 2010	2009
Cash flows from operating activities	**21.00**	15.73
Net earnings	**5.16**	0.37
Actual cash distributions paid or payable relating to the period	**(12.55)**	(10.03)
Excess of cash flows from operating activities over cash distributions paid	**8.45**	5.70
Excess (shortfall) of net earnings over cash distributions paid	**(7.39)**	(9.66)

Cash Flows from Operating Activities
($ millions)



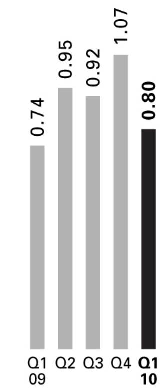
During the first three months of 2010, Zargon has maintained a base monthly distribution of $0.18 per trust unit, a level which has been maintained since November 2005. Management monitors the Trust's distribution policy with respect to forecasted net cash flows, debt levels and capital expenditures. Zargon's cash distributions are discretionary to the extent that these distributions do not cause a breach of the financial covenants under Zargon's credit facilities and to the extent the Trust (non-consolidated) is not taxable. As a crude oil and natural gas Trust, Zargon's reserve base is depleted with production and Zargon, therefore, relies on ongoing exploration, development and acquisition activities to replace reserves and to offset production declines. The success of these exploration, development and acquisition capital programs, along with commodity price fluctuations and the Trust's ability to manage costs, are the main factors influencing the sustainability of the Trust's distributions.

For the quarter ended March 31, 2010, cash flows from operating activities (after changes in non-cash working capital) of $21.00 million exceeded cash distributions of $12.55 million. Similarly, in the quarter ended March 31, 2009 cash flows from operating activities (after changes in non-cash working capital) of $15.73 million exceeded cash distributions of $10.03 million.

For the quarter ended March 31, 2010, cash distributions of $12.55 million exceeded net earnings of $5.16 million. Net earnings include significant non-cash charges ($18.27 million in the first quarter of 2010) that do not impact cash flow. For the quarter ended March 31, 2009, cash distributions of $10.03 million exceeded net earnings of $0.37 million. Net earnings also include fluctuations in future income taxes due to changes in tax rates and tax rules. In the instances where distributions exceed net earnings, a portion of the cash distribution paid to unitholders may represent an economic return of the unitholders' capital.

For the quarter ended March 31, 2010, cash distributions and net capital expenditures totalled $31.29 million, which was $10.29 million higher than the cash flows from operating activities (after changes in non-cash working capital) of $21.00 million. For the quarter ended March 31, 2009, cash distributions and net capital expenditures totalled $23.47 million, which was $7.74 million higher than the cash flows from operating activities (after changes in non-cash working capital) of $15.73 million. Zargon relies on access to debt and capital markets to the extent that cash distributions and net capital expenditures exceed cash flows from operating activities (after changes in non-cash working capital). Over the long term, Zargon expects to fund cash distributions/dividends and capital expenditures with its cash flows from operating activities; however, it will continue to fund acquisitions and growth through additional debt and equity issuances. In the crude oil and natural gas industry, because of the nature of reserve reporting, the natural reservoir declines and the risks involved in capital investment, it is not possible to distinguish between capital spent on maintaining productive capacity and capital spent on growth opportunities. Therefore, maintenance capital is not disclosed separately from development capital spending.

Cash Flows Per Unit
($/unit–diluted)



At May 12, 2010, Zargon Energy Trust had 23.347 million trust units and 1.699 million exchangeable shares outstanding. Assuming full conversion of exchangeable shares at the effective May 12, 2010 exchange ratio of 1.69785, there would be 26.232 million trust units outstanding. Pursuant to the trust unit rights incentive plans, there are currently an additional 1.838 million trust unit incentive rights issued and outstanding.

Capital Sources and Uses

	Three Months Ended March 31,	
($ millions)	**2010**	2009
Funds flow from operating activities	**22.24**	17.85
Change in bank debt	**7.65**	8.20
Issuance of trust units	**1.79**	1.22
Cash distributions to unitholders	**(12.55)**	(10.03)
Changes in working capital and other	**(0.39)**	(3.80)
Total capital sources	**18.74**	13.44

CHANGES IN CANADIAN ACCOUNTING POLICIES

On January 1, 2010, Zargon adopted the following three Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

CICA Handbook Section 1582 "Business Combinations", which replaces Section 1581 of the same name. Under this new guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at the date of exchange and contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value with changes recorded through earnings each period until settled. In addition, this new guidance generally requires all transaction costs to be expensed and negative goodwill is required to be recognized immediately in earnings. The adoption of this Section did not have an impact on the Trust's consolidated financial statements.

CICA issued Section 1601 "Consolidated Financial Statements", which replaces Section 1600 of the same name. This guidance requires uniform accounting policies to be consistent throughout all consolidated entities and the difference between reporting dates of a parent and a subsidiary to be no longer than three months. The adoption of this Section did not have an impact on the Trust's consolidated financial statements.

CICA issued Section 1602 "Non-Controlling Interests", which replaces Section 1600, "Consolidated Financial Statements". Non-controlling interest ("NCI") is now presented within equity. Under this new guidance, when there is a loss or gain of control, the Trust's previously held interest is re-valued at fair value. In addition, NCI may be reported at fair value or at the proportionate share of the fair value of the acquired net assets and allocation of the net income to the NCI will be on this basis. The adoption of this Section has reclassified the NCI from liabilities to equity on the Trust's consolidated balance sheet on a retrospective basis.

The above CICA Handbook Sections are converged with International Financial Reporting Standards.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Zargon for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

Zargon's IFRS project consists of three key phases:

- Scoping and diagnostic phase – this phase involves performing a high level impact analysis to identify areas that may be affected by the transition to IFRS.

- Impact analysis and evaluation phase – this phase involves analysis of policy choices allowed under IFRS and their impact on the financial statements.

- Implementation phase – involves implementation of all changes approved in the impact analysis phase and will include changes to information systems, business processes, modification of agreements (if applicable) and training of all staff who are impacted by the conversion.

Zargon has completed the scoping and diagnostic phase and has prepared draft analysis for the impact analysis and evaluation phase. Management has not yet finalized its accounting policies and as such is unable to quantify the impact of adopting IFRS on the consolidated financial statements.

IFRS 1 "First-Time Adoption of International Financial Reporting Standards" ("IFRS 1"), provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application of IFRS. We are currently preparing our preliminary IFRS opening balance sheet and we anticipate utilizing the following IFRS 1 exemptions:

- Property, Plant and Equipment ("PP&E") – IFRS 1 provides the option to value the PP&E assets at their deemed cost being the Canadian GAAP net book value assigned to these assets as at the date of transition, January 1, 2010. This amendment is permissible for entities that currently follow the full cost accounting guideline under Canadian GAAP. Under this current policy, Zargon accumulates all oil and gas assets into separate cost centres for Canada and the United States. Under IFRS, Zargon's PP&E assets must be divided into smaller cost centres. The net book value of the assets on the date of transition will be allocated to the new cost centres on the basis of Zargon's reserve volumes or values at that point in time.

- Business Combinations – IFRS 1 allows Zargon to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations. The IFRS business combination rules converge with the new CICA Handbook Section 1582 that is also effective for Zargon on January 1, 2011, which Zargon early adopted on January 1, 2010 as discussed earlier in this report.

The transition from Canadian GAAP to IFRS is a significant undertaking that may materially affect our reported financial position and results of operations. At this time, Zargon has identified key differences that will impact the financial statements as follows:

- Re-classification of Exploration and Evaluation ("E&E") expenditures from PP&E – Upon transition to IFRS, Zargon will re-classify all E&E expenditures that are currently included in the PP&E balance on the consolidated balance sheets. This will consist of the book value for Zargon's undeveloped land that relates to exploration areas. It is not anticipated that E&E assets will be depleted and the assets must be assessed for impairment when indicators of impairment exist.

- Calculation of depletion expense for PP&E assets – Upon transition to IFRS, Zargon has the option to calculate depletion using a reserve base of proved reserves, which is comparable to the Canadian GAAP method of calculation depletion, or using a reserve base of proved and probable reserves. Zargon has not concluded at this time which reserve base for calculating depletion will be used. Also, depletion must be calculated at a more granular level than what is currently required under Canadian GAAP.

- Impairment of PP&E assets – Under IFRS, impairment of PP&E must be calculated at a more granular level than what is currently required under Canadian GAAP. Impairment calculations will be performed at the cash generating unit ("CGU") level using either total proved or proved plus probable reserves. The most significant difference is that the Canadian GAAP "ceiling test" incorporates a 2-step approach for testing impairment, while IFRS uses a 1-step approach. Under Canadian GAAP, a discounted cash flow analysis is not required if the undiscounted cash flows from proved reserves exceed its carrying amount (step1). If the carrying amount exceeds the undiscounted future cash flows, then a prescribed discounted cash flow test is performed (step 2). Under IFRS, impairment testing based on discounted cash flows or fair value determinations is required and is performed at the CGU level.

- Due to the withdrawal of the exposure draft on International Accounting Standards ("IAS") 12 "Income Taxes" in November 2009 and the issuance of the exposure draft on IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in January 2010, management is still determining the impact of these revised standards on its IFRS transition.

In addition to accounting policy differences, Zargon's transition to IFRS will impact the internal controls over financial reporting ("ICFR") and information technology systems as follows:

- ICFR – As the review of Zargon's accounting policies is completed, an assessment will be made to determine changes required for ICFR. This will be an ongoing process throughout 2010 to ensure that all changes in accounting policies include the appropriate additional controls and procedures for future IFRS reporting requirements.

- Information technology systems – Zargon commenced upgrading systems during the first quarter of 2010 in preparation for IFRS reporting. These modifications are deemed critical in order to allow for reporting of both Canadian GAAP and IFRS financial statements in 2010. Additional system modifications may be required based on final policy choices.

MANAGEMENT AND FINANCIAL REPORTING SYSTEMS

Zargon is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", otherwise referred to as Canadian SOX ("C-Sox"). The 2010 certificate requires that the Trust disclose in the interim MD&A any changes in the Trust's internal controls over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect the Trust's internal control over financial reporting. The Trust confirms that no such changes were made to the internal controls over financial reporting during the first quarter of 2010.

Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control systems are met.

OUTLOOK

With a strong balance sheet, 516 thousand net acres of undeveloped land and a promising internally generated project inventory and its ability to execute accretive asset and/or corporate acquisitions, Zargon continues to be well positioned to meet its value-creating objectives in 2010 and beyond. At this time in early May 2010, future commodity markets indicate that in 2010 oil prices will be considerably higher than their 2009 averages while the outlook for natural gas prices continues to be weak.

Although the recent world-wide economic crisis, depressed natural gas commodity prices and changes to the Canadian income trust tax rules after 2010 have negatively impacted our industry, we are optimistic about Zargon's long term value-seeking strategy in this evolving business. Consistent with its history, Zargon will continue to adhere to a conservative and focused strategy of exploiting its existing asset base while executing accretive acquisitions which will be funded by debt or equity issuances.

SUMMARY OF QUARTERLY RESULTS

	2009				**2010**
	Q1	Q2	Q3	Q4	**Q1**
Petroleum and natural gas revenue ($ millions)	31.98	35.84	40.96	47.21	**48.46**
Net earnings/(losses) ($ millions)	0.37	(2.55)	4.47	0.44	**5.16**
Net earnings/(losses) per diluted unit ($)	0.02	(0.13)	0.20	0.02	**0.22**
Funds flow from operating activities ($ millions)	17.85	20.92	22.84	24.75	**22.24**
Funds flow from operating activities per diluted unit ($)	0.84	0.91	0.90	0.95	**0.85**
Cash flows from operating activities ($ millions)	15.73	21.94	23.30	27.86	**21.00**
Cash flows from operating activities per diluted unit ($)	0.74	0.95	0.92	1.07	**0.80**
Cash distributions ($ millions)	10.03	11.26	12.22	12.45	**12.55**
Cash distributions declared per trust unit ($)	0.54	0.54	0.54	0.54	**0.54**
Net capital expenditures ($ millions) (1) (2)	13.44	48.96	29.32	12.87	**18.74**
Total assets ($ millions)	440.76	466.60	473.47	464.38	**466.22**
Bank debt ($ millions)	85.78	70.43	77.05	76.58	**84.23**
Average daily production (boe)	9,213	9,520	10,088	10,586	**10,062**
Average realized commodity field price before the impact of financial risk management contracts ($/boe)	38.57	41.37	44.13	48.48	**53.51**
Funds flow netback ($/boe)	21.53	24.14	24.61	25.43	**24.56**

(1) Second quarter 2009 expenditures include corporate acquisition amounts as follows; cash consideration of $5.70 million, transaction costs of $0.36 million, net debt assumed of $12.93 million and the equity issuance of trust units valued at $21.04 million.

(2) Third quarter 2009 expenditures include corporate acquisition amounts as follows; cash consideration of $0.11 million, transaction costs of $0.27 million, net debt assumed of $6.58 million and the equity issuance of trust units valued at $9.36 million.

	2008			
	Q1	Q2	Q3	Q4
Petroleum and natural gas revenue ($ millions)	52.24	69.66	66.35	41.25
Net earnings/(losses) ($ millions)	4.56	(4.51)	40.05	28.19
Net earnings/(losses) per diluted unit ($)	0.26	(0.25)	2.20	1.53
Funds flow from operating activities ($ millions)	24.75	32.02	29.75	20.40
Funds flow from operating activities per diluted unit ($)	1.23	1.55	1.42	0.97
Cash flows from operating activities ($ millions)	15.27	36.44	33.58	24.84
Cash flows from operating activities per diluted unit ($)	0.76	1.76	1.60	1.18
Cash distributions ($ millions)	9.55	9.71	9.87	9.96
Cash distributions declared per trust unit ($)	0.54	0.54	0.54	0.54
Net capital expenditures ($ millions) (1) (2) (3)	59.61	26.28	17.47	16.37
Total assets ($ millions)	396.90	418.88	426.63	447.60
Bank debt ($ millions)	92.18	85.45	74.95	77.58
Average daily production (boe)	9,015	9,239	9,340	9,410
Average realized commodity field price before the impact of financial risk management contracts ($/boe)	63.68	82.85	77.22	47.65
Funds flow netback ($/boe)	30.17	38.08	34.62	23.56

(1) First quarter 2008 expenditures include corporate acquisition amounts as follows; cash consideration of $16.40 million, transaction costs of $0.29 million, net debt assumed of $17.77 million and the equity issuance of trust units valued at $13.37 million.

(2) Second quarter 2008 net capital expenditures include corporate acquisition amounts as follows; transaction costs of $0.15 million, net debt assumed of $2.49 million and the equity issuance of trust units valued at $9.39 million.

(3) Third quarter 2008 net capital expenditures include property acquisition amounts as follows; the equity issuance of trust units valued at $1.14 million.

ADDITIONAL INFORMATION

Additional information regarding the Trust and its business operations, including the Trust's Annual Information Form for December 31, 2009, is available on the Trust's SEDAR profile at www.sedar.com.

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

Calgary, Alberta
May 12, 2010

CONSOLIDATED BALANCE SHEETS

(unaudited)

($ thousands)	March 31, 2010	December 31, 2009
ASSETS [note 5]		
Current		
Accounts receivable	**25,028**	25,223
Prepaid expenses and deposits	**1,618**	2,013
Unrealized risk management asset [note 11]	**1,921**	4,289
Future income taxes	**1,761**	1,714
	30,328	33,239
Long term deposit	**1,845**	1,845
Unrealized risk management asset [note 11]	**18**	–
Goodwill	**2,969**	2,969
Property and equipment, net [notes 3 and 4]	**430,592**	425,964
Future income taxes	**468**	361
	466,220	464,378
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**33,589**	34,507
Cash distributions payable [note 15]	**4,202**	4,157
Unrealized risk management liability [note 11]	**6,540**	6,032
Future income taxes	**517**	1,219
	44,848	45,915
Long term debt [note 5]	**84,229**	76,580
Unrealized risk management liability [note 11]	**1,739**	1,270
Asset retirement obligations [note 6]	**35,818**	35,468
Future income taxes	**28,255**	30,327
	194,889	189,560
UNITHOLDERS' EQUITY		
Unitholders' capital [note 7]	**193,740**	188,840
Non-controlling interest – exchangeable shares [note 8]	**25,432**	26,477
Contributed surplus [note 7]	**5,525**	5,471
Accumulated earnings	**264,978**	259,823
Accumulated cash distributions [note 15]	**(218,344)**	(205,793)
	271,331	274,818
	466,220	464,378

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME AND ACCUMULATED EARNINGS

(unaudited)	Three Months Ended March 31,	
($ thousands, except per unit amounts)	**2010**	2009
REVENUE		
Petroleum and natural gas revenue	**48,456**	31,980
Unrealized risk management loss [note 11]	**(3,327)**	(6,171)
Realized risk management gain [note 11]	**1,180**	7,629
Royalties	**(8,964)**	(5,586)
	37,345	27,852
EXPENSES		
Production	**11,848**	11,245
General and administrative	**3,577**	3,376
Unit-based compensation [note 7]	**371**	143
Interest and financing charges [note 5]	**1,070**	620
Unrealized foreign exchange gain	**(26)**	(4)
Accretion of asset retirement obligations [note 6]	**781**	592
Depletion and depreciation	**16,399**	14,718
	34,020	30,690
EARNINGS/(LOSSES) BEFORE INCOME TAXES	**3,325**	(2,838)
INCOME TAXES		
Current	**748**	469
Future tax recovery	**(3,227)**	(3,727)
	(2,479)	(3,258)
CONSOLIDATED EARNINGS	**5,804**	420
LESS NET EARNINGS ATTRIBUTED TO NON-CONTROLLING INTEREST [note 8]	**649**	53
NET EARNINGS AND COMPREHENSIVE INCOME ATTRIBUTED TO ZARGON	**5,155**	367
ACCUMULATED EARNINGS, BEGINNING OF PERIOD	**259,823**	257,104
ACCUMULATED EARNINGS, END OF PERIOD	**264,978**	257,471
NET EARNINGS PER UNIT [note 9]		
Basic	**0.22**	0.02
Diluted	**0.22**	0.02

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)	**Three Months Ended March 31,**	
($ thousands)	**2010**	2009
OPERATING ACTIVITIES		
Net earnings for the period	**5,155**	367
Add (deduct) non-cash items:		
Non-controlling interest – exchangeable shares	**649**	53
Unrealized risk management loss	**3,327**	6,171
Depletion and depreciation	**16,399**	14,718
Accretion of asset retirement obligations	**781**	592
Unit-based compensation	**371**	143
Unrealized foreign exchange gain	**(26)**	(4)
Future income tax recovery	**(3,227)**	(3,727)
Asset retirement expenditures	**(1,188)**	(465)
	22,241	17,848
Changes in non-cash operating working capital [note 12]	**(1,239)**	(2,119)
	21,002	15,729
FINANCING ACTIVITIES		
Advances of bank debt	**7,649**	8,197
Cash distributions declared to unitholders	**(12,551)**	(10,032)
Exercise of unit rights	**1,793**	1,225
Changes in non-cash financing working capital [note 12]	**876**	20
	(2,233)	(590)
INVESTING ACTIVITIES		
Additions to property and equipment	**(19,737)**	(13,443)
Proceeds on disposal of property and equipment	**1,000**	–
Changes in non-cash investing working capital [note 12]	**(32)**	(1,696)
	(18,769)	(15,139)
NET CHANGE IN CASH DURING THE PERIOD AND CASH, END OF PERIOD	**–**	–

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009 (unaudited).

1. BASIS OF PRESENTATION

The interim unaudited consolidated financial statements of Zargon Energy Trust (the "Trust" or "Zargon") have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim unaudited consolidated financial statements have been prepared following the same accounting policies and methods in computation as the consolidated financial statements for the fiscal year ended December 31, 2009, except as noted below. The disclosures provided below are incremental to those included with the annual audited consolidated financial statements. These interim unaudited consolidated financial statements do not include all disclosures required in the annual consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto in the Zargon Energy Trust annual financial report for the year ended December 31, 2009.

The Trust's principal business activity is the exploration for and development and production of petroleum and natural gas in Canada and the United States ("US").

2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2010, Zargon adopted the following three Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

CICA Handbook Section 1582 "Business Combinations", which replaces Section 1581 of the same name. Under this new guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at the date of exchange and contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value with changes recorded through earnings each period until settled. In addition, this new guidance generally requires all transaction costs to be expensed and negative goodwill is required to be recognized immediately in earnings. The adoption of this Section did not have an impact on the Trust's consolidated financial statements.

CICA issued Section 1601 "Consolidated Financial Statements", which replaces Section 1600 of the same name. This guidance requires uniform accounting policies to be consistent throughout all consolidated entities and the difference between reporting dates of a parent and a subsidiary to be no longer than three months. The adoption of this Section did not have an impact on the Trust's consolidated financial statements.

CICA issued Section 1602 "Non-Controlling Interests", which replaces Section 1600, "Consolidated Financial Statements". Non-controlling interest ("NCI") is now presented within equity. Under this new guidance, when there is a loss or gain of control, the Trust's previously held interest is re-valued at fair value. In addition, NCI may be reported at fair value or at the proportionate share of the fair value of the acquired net assets and allocation of the net income to the NCI will be on this basis. The adoption of this Section has reclassified the NCI from liabilities to equity on the Trust's consolidated balance sheet on a retrospective basis.

The above CICA Handbook Sections are converged with International Financial Reporting Standards.

3. ACQUISITIONS

Churchill Energy Inc.

On September 23, 2009, a subsidiary of the Trust acquired all of the outstanding shares of Churchill Energy Inc. ("Churchill"), a public oil and gas company, for consideration of $9.74 million. Consideration consisted of $0.11 million cash, the issuance of 554,669 Zargon trust units valued at $16.87 per unit and acquisition costs of $0.27 million.

The results of operations for Churchill have been included in the consolidated financial statements since September 23, 2009.

The acquisition was accounted for by the purchase method and the preliminary purchase price allocation is as follows:

Net Assets Acquired

($ thousands)	
Property and equipment	**9,794**
Working capital deficiency	**(6,576)**
Future income tax asset	**8,920**
Asset retirement obligations	**(2,403)**
Total net assets acquired	**9,735**

Consideration

($ thousands)	
Cash	**108**
Trust units issued	**9,357**
Acquisition costs	**270**
Total purchase price	**9,735**

Masters Energy Inc.

On April 29, 2009, a subsidiary of the Trust acquired all of the outstanding shares of Masters Energy Inc. ("Masters"), a public oil and gas company, for consideration of $27.10 million. Consideration consisted of $5.70 million cash, the issuance of 1,475,468 Zargon trust units valued at $14.26 per unit and acquisition costs of $0.36 million. Zargon assumed Masters' long term debt, which was repaid on the closing date of the acquisition.

The results of operations for Masters have been included in the consolidated financial statements since April 29, 2009.

The acquisition was accounted for by the purchase method and the purchase price allocation is as follows:

Net Assets Acquired

($ thousands)	
Property and equipment	**44,030**
Working capital deficiency	**(105)**
Long term debt	**(12,825)**
Future income tax asset	**69**
Asset retirement obligations	**(4,072)**
Total net assets acquired	**27,097**

Consideration

($ thousands)	
Cash	**5,700**
Trust units issued	**21,040**
Acquisition costs	**357**
Total purchase price	**27,097**

4. PROPERTY AND EQUIPMENT

		March 31, 2010	
($ thousands)	**Cost**	**Accumulated Depletion and Depreciation**	**Net Book Value**
Petroleum, natural gas properties and other equipment (1)	**796,284**	**365,692**	**430,592**

		December 31, 2009	
($ thousands)	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum, natural gas properties and other equipment (1)	775,257	349,293	425,964

(1) As a result of shareholders redeeming exchangeable shares, property and equipment has cumulatively increased $57.62 million, $1.50 million relating to 2010, $0.97 million relating to 2009 and $55.15 million relating to prior years. The effect of these increases has resulted in additional depletion and depreciation expense of approximately $28.38 million, $1.16 million relating to 2010, $4.91 million relating to 2009 and $22.31 million relating to prior years.

5. LONG TERM DEBT

On July 27, 2009, Zargon amended and renewed its syndicated committed credit facilities, the result of which was the maintaining of the available facilities and borrowing base of $180 million. These facilities consist of a $170 million tranche available to the Canadian borrower and a US $8 million tranche available to the US borrower. A $300 million demand debenture on the assets of the subsidiaries of the Trust has been provided as security for these facilities. The facilities are fully revolving for a 336 day period with the provision for an annual extension at the option of the lenders and upon notice from Zargon's management. The next renewal date is June 29, 2010. Should the facilities not be renewed, they convert to one year non-revolving term facilities at the end of the revolving 336 day period. Repayment would not be required until the end of the non-revolving term, and, as such, these facilities have been classified as long term debt.

Interest rates fluctuate under the syndicated facilities with Canadian prime, US prime and US base rates plus an applicable margin between 125 basis points and 275 basis points as well as with Canadian banker's acceptance and LIBOR rates plus an applicable margin between 275 basis points and 425 basis points. At March 31, 2010, $84.23 million (December 31, 2009 - $76.58 million) had been drawn on the syndicated committed credit facilities with any unused amounts subject to standby fees. In the normal course of operations Zargon enters into various letters of credit. At March 31, 2010, the approximate value of outstanding letters of credit totalled $0.59 million (December 31, 2009 - $0.61 million). The letters of credit reduce the amount of Zargon's available credit facilities to $95.18 million at March 31, 2010 (December 31, 2009 - $102.81 million).

Zargon reviews its compliance with its bank debt covenants on a quarterly basis and has no violations as at March 31, 2010. Zargon's management is planning to convert to a corporation from its current trust structure towards the end of 2010. In order for this conversion to occur, Zargon will have to ensure that all legal and regulatory requirements are satisfied and will be required to obtain the consent of the lenders under Zargon's current syndicated credit facility.

6. ASSET RETIREMENT OBLIGATIONS

The following table reconciles Zargon's asset retirement obligations:

	Three Months Ended March 31,	
($ thousands)	**2010**	2009
Balance, beginning of period	**35,468**	28,592
Net liabilities incurred/acquired	**788**	211
Liabilities settled	**(1,188)**	(465)
Accretion expense	**781**	592
Foreign exchange	**(31)**	32
Balance, end of period	**35,818**	28,962

7. UNITHOLDERS' EQUITY

The Trust is authorized to issue an unlimited number of voting trust units.

Trust Units

	Three Months Ended March 31, 2010	
(thousands)	Number of units	Amount ($)
Balance, beginning of period	**23,097**	**188,840**
Unit rights exercised for cash	**107**	**1,793**
Unit-based compensation recognized on exercise of unit rights	**–**	**308**
Issued on conversion of exchangeable shares	**141**	**2,799**
Balance, end of period	**23,345**	**193,740**

The proforma total units outstanding at March 31, 2010, including trust units outstanding and trust units issuable upon conversion of exchangeable shares, after giving effect to the exchange ratio at the end of the period (see note 8) is 26.204 million units.

The following table summarizes information about the Trust's contributed surplus account:

Contributed Surplus

($ thousands)	Three Months Ended March 31, 2010
Balance, beginning of period	**5,471**
Unit-based compensation expense [(1)]	**362**
Unit-based compensation recognized on exercise of unit rights	**(308)**
Balance, end of period	**5,525**

(1) The Trust issued 10,000 unit appreciation rights ("UARS") with an intrinsic value of $0.01 as at March 31, 2010 ($0.02 million as at December 31, 2009). These UARS are awards entitling the recipients to receive cash in an amount equivalent to any excess of the market value of a stated number of units over a stated price. UARS are included in unit-based compensation expense; however rewards settled in cash are liabilities and therefore are not included in contributed surplus.

Trust Unit Rights Incentive Plan and Unit-Based Compensation

The Trust has a unit rights incentive plan (the "Old Plan") that allows the Trust to issue rights to acquire trust units to directors, officers, employees and other service providers. On April 22, 2009, a new unit rights incentive plan (the "New Plan") was approved by the unitholders. The Trust is authorized to issue up to an aggregate of 2.13 million unit rights; however, the number of trust units reserved for issuance upon exercise of the rights shall not at any time exceed 10 percent of the aggregate number of the total outstanding units, including units issuable upon exchange of exchangeable shares of Zargon and other fully paid securities of Zargon entities exchangeable into units, which are the economic equivalent of units including full voting rights. At the time of grant, unit right exercise prices approximate the market price for the trust units. At the time of exercise, the rights holder has the option of exercising at the original grant price or the exercise price as calculated under the Old Plan or the New Plan (the "modified price"). Under the Old Plan, the modified price was based on the increment of the amount the monthly distribution exceeded a monthly return of 0.833 percent of the Trust's recorded net book value of oil and natural gas properties (as defined in the Old Plan). Under the New Plan, if the monthly distribution exceeds the monthly return of 0.833 percent of the Trust's recorded net book value of oil and natural gas properties (as defined in the New Plan), the entire amount (not the increment) of the distribution is deducted from the original grant price. Rights granted under either Plan generally vest over a three-year period and expire approximately five years from the grant date. Zargon uses a fair value methodology to value the unit rights grants.

The weighted average assumptions made for unit rights granted for the three months ended March 31, 2010 include a volatility factor of expected market price of 33.3 percent, a risk-free rate of 2.3 percent and an expected life of the unit rights of four years. The fair value of the unit rights granted in the quarter was calculated at $5.77 per unit right. Unit-based compensation expense for the three months ended March 31, 2010 is $0.37 million (2009 – $0.14 million).

Compensation expense associated with unit rights granted under either Plan is recognized in earnings over the vesting period of the Plan with a corresponding increase in contributed surplus. The exercise of trust unit rights is recorded as an increase in trust units with a corresponding reduction in contributed surplus. Forfeiture of rights are recorded as a reduction in expenses in the period in which they occur if the rights have not yet vested.

The following table summarizes information about the Trust's unit rights under the Old Plan:

	Three Months Ended March 31, 2010	
	Number of Unit Rights (thousands)	Weighted Average Exercise Price Initial and Modified ($/unit right)
Outstanding at beginning of period	1,322	25.97 / 23.52
Unit rights granted	–	–
Unit rights exercised	(91)	17.21
Unit rights forfeited	(207)	28.99
Outstanding at end of period	1,024	25.73 / 23.76
Unit rights exercisable at period end	907	26.10 / 24.03

The following table summarizes information about the Trust's unit rights under the New Plan:

	Three Months Ended March 31, 2010	
	Number of Unit Rights (thousands)	Weighted Average Exercise Price Initial and Modified ($/unit right)
Outstanding at beginning of period	421	15.81 / 14.58
Unit rights granted	435	19.85
Unit rights exercised	(16)	14.49
Unit rights forfeited	(5)	15.56
Outstanding at end of period	835	17.92 / 17.25
Unit rights exercisable at period end	134	15.84 / 14.44

8. NON-CONTROLLING INTEREST – EXCHANGEABLE SHARES

Zargon Oil & Gas Ltd. is authorized to issue an unlimited number of exchangeable shares. The exchangeable shares are convertible into trust units at the option of the shareholder, based on the exchange ratio, which is adjusted monthly to reflect the distribution paid on the trust units. Cash distributions are not paid on the exchangeable shares. During the three months ended March 31, 2010, a total of 0.08 million (2009 – 0.01 million) exchangeable shares were converted into 0.14 million (2009 – 0.02 million) trust units based on the exchange ratio at the time of conversion. At March 31, 2010, the exchange ratio was 1.68264 trust units per exchangeable share.

Non-Controlling Interest – Exchangeable Shares

	Three Months Ended March 31, 2010	
(thousands, except exchange ratio)	Number of Shares	Amount ($)
Balance, beginning of period	1,784	26,477
Exchanged for trust units at book value and including earnings attributed during the period	(85)	(1,694)
Earnings attributable to non-controlling interest	–	649
Balance, end of period	1,699	25,432
Exchange ratio, end of period	1.68264	
Trust units issuable upon conversion of exchangeable shares, end of period	2,859	

Per EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts", if certain conditions are met, the exchangeable shares issued by a subsidiary must be reflected as non-controlling interest on the consolidated balance sheets and, in turn, net earnings must be reduced by the amount of net earnings attributed to the non-controlling interest.

The non-controlling interest on the consolidated balance sheets consists of the book value of exchangeable shares at the time of the Plan of Arrangement, plus net earnings attributable to the exchangeable shareholders, less exchangeable shares (and related cumulative earnings) redeemed. The net earnings attributable to the non-controlling interest on the consolidated statements of earnings and comprehensive income represents the cumulative share of net earnings attributable to the non-controlling interest based on the trust units issuable for exchangeable shares in proportion to total trust units issued and issuable each period end.

The effect of EIC-151 on Zargon's unitholders' capital and exchangeable shares is as follows:

($ thousands)	Zargon Energy Trust Units	Zargon Oil & Gas Ltd. Exchangeable Shares	Total
Balance at January 1, 2010	**188,840**	**26,477**	**215,317**
Issued on redemption of exchangeable shares at book value	**206**	**(206)**	**–**
Effect of EIC-151	**2,593**	**(839)**	**1,754**
Unit-based compensation recognized on exercise of unit rights	**308**	**–**	**308**
Unit rights exercised for cash	**1,793**	**–**	**1,793**
Balance at March 31, 2010	**193,740**	**25,432**	**219,172**

9. WEIGHTED AVERAGE NUMBER OF TOTAL UNITS

Basic per unit amounts are calculated using the weighted average number of trust units outstanding during the period. Diluted per unit amounts are calculated using the treasury stock method to determine the dilutive effect of unit-based compensation. Diluted per unit amounts also include exchangeable shares using the "if-converted" method. Due to the fact that at the time of exercise, the rights holder has the option of exercising at the original grant price or a modified price as calculated under the Plan, the prices used in the treasury stock calculation are the lower prices calculated under the Plan.

	Three Months Ended March 31,	
(thousands of units)	**2010**	2009
Basic	**23,184**	18,560
Diluted	**26,092**	21,224

10. CAPITAL DISCLOSURES

The Trust's capital structure is comprised of unitholders' equity plus long term debt. The Trust's objectives when managing its capital structure are to:

i) maintain financial flexibility so as to preserve Zargon's access to capital markets and its ability to meet its financial obligations; and

ii) finance internally generated growth as well as acquisitions.

The Trust monitors its capital structure and short term financing requirements using the non-GAAP financial metric of debt net of working capital ("net debt") to funds flow from operating activities. Net debt, as used by the Trust, is calculated as bank debt and any working capital deficit excluding the current portion of unrealized risk management assets and liabilities and future income taxes. Funds flow from operating activities represent net earnings/losses and asset retirement expenditures except for non-cash items. The metric is used to steward the Trust's overall debt position as a measure of the Trust's overall financial strength and is calculated as follows:

($ thousands, except ratio)	**March 31, 2010**	December 31, 2009
Net debt	**95,374**	88,008
Annualized funds flow from operating activities	**88,964**	86,352
Net debt to funds flow from operating activities ratio	**1.07**	1.02

As at March 31, 2010, Zargon's net debt to funds flow from operating activities ratio was 1.07, an increase from 1.02 at December 31, 2009, primarily due to an increase in long term debt. On July 27, 2009, Zargon amended and renewed its syndicated committed credit facilities of $180 million. The next renewal date is June 29, 2010. These facilities continue to be available for general corporate purposes and the potential acquisition of oil and natural gas properties.

To manage its capital structure, the Trust may adjust capital spending, adjust distributions paid to unitholders, issue new units, issue new debt or repay existing debt.

The Trust's capital management objectives, evaluation measures, definitions and targets have remained unchanged over the periods presented. Zargon is subject to certain financial covenants in its credit facility agreements and is in compliance with all financial covenants.

Zargon reviews its compliance with its bank debt covenants on a quarterly basis and has no violations as at March 31, 2010. Zargon's management is planning to convert to a corporation from its current trust structure towards the end of 2010. In order for this conversion to occur, Zargon will have to ensure that all legal and regulatory requirements are satisfied and will be required to obtain the consent of the lenders under Zargon's current syndicated credit facility.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTRACTS

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by CICA Section 3855.

Financial assets and financial liabilities classified as "held-for-trading" are measured at fair value with changes in fair value recognized in earnings. Financial assets classified as "available-for-sale" are measured at fair value, with changes in fair value recognized in other comprehensive income ("OCI") until the asset is removed from the consolidated balance sheets. Financial assets classified as "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization.

Fair Value of Financial Assets and Liabilities

Zargon's financial assets and liabilities are comprised of accounts receivable, deposits, accounts payable, cash distributions payable, unrealized risk management assets and liabilities and long term debt. Fair values of financial assets and liabilities, summarized information related to risk management positions and discussion of risks associated with financial assets and liabilities are presented as follows:

A) Fair Value of Financial Assets and Liabilities

Accounts receivable are designated as "loans and receivables". Accounts payable and accrued liabilities, cash distributions payable and long term debt are designated as "other liabilities". The fair values of these accounts approximate their carrying amounts.

Risk management assets and liabilities are derivative financial instruments classified as "held-for-trading". These accounts are recorded at their estimated fair value using quoted market prices.

Financial instruments of the Trust carried on the consolidated balance sheets are carried at amortized cost with the exception of risk management contracts, which are carried at fair value.

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

- Level I

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

- Level II

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

- Level III

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

The Trust's risk management contracts have been assessed on the fair value hierarchy described above. The Trust's risk management contracts are classified as Level II. Assessment of the significance of a particular input into the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

B) Risk Management Assets and Liabilities

The Trust is a party to certain financial instruments that have fixed the price of a portion of its oil and natural gas production and foreign exchange conversion rates. The Trust enters into these contracts for risk management purposes only, in order to protect a portion of its future cash flow from the volatility of oil and natural gas commodity prices and foreign exchange rates. For financial risk management contracts, the Trust considers these contracts to be effective on an economic basis but has decided not to designate these contracts as hedges for accounting purposes and, accordingly, any unrealized gains or losses are recorded in earnings based on the fair value (mark-to-market) of the contracts at each reporting period. The unrealized loss on the statement of earnings and comprehensive income and accumulated earnings for the first quarter of 2010 was $3.33 million and the unrealized loss for the first quarter of 2009 was $6.17 million.

As at March 31, 2010, the Trust had the following outstanding commodity, electricity and foreign exchange risk management contracts:

Commodity Financial Risk Management Contracts:

	Rate	Weighted Average Price	Range of Terms	Fair Market Value Asset/(Liability) ($ thousands)
Oil swaps	300 bbl/d	$132.98 US/bbl	Apr. 1/10 – Jun. 30/10	1,350
	1,400 bbl/d	$73.11 US/bbl	Apr. 1/10 – Dec. 31/10	(4,635)
	400 bbl/d	$77.40 US/bbl	Apr. 1/10 – Jun. 30/11	(1,475)
	300 bbl/d	$83.30 US/bbl	Jul. 1/10 – Dec. 31/10	(112)
	300 bbl/d	$77.25 US/bbl	Jan. 1/11 – Sep. 30/11	(736)
	1,100 bbl/d	$83.33 US/bbl	Jan. 1/11 – Dec. 31/11	(1,163)
Total Fair Market Value, Commodity Price Financial Contracts				**(6,771)**

Oil swaps are settled against the NYMEX WTI pricing index.

Foreign Exchange Financial Risk Management Contracts:

	Average Monthly US Dollar Volume ($ thousands)	Foreign Exchange Rate ($Cdn/$US)	Range of Terms	Fair Market Value Asset ($ thousands)
Foreign exchange swaps	1,210	1.1715	Apr. 1/10 – Jun. 30/10	565
Total Fair Market Value, Foreign Exchange Financial Contracts				**565**

The contracts are settled based on the average daily noon close rate for US dollars converted to Canadian dollars as published by the Bank of Canada.

Electricity Financial Risk Management Contracts:

	Rate	Weighted Average Price	Range of Terms	Fair Market Value Liability ($ thousands)
Electricity swaps	6 MWs/d	$80.42/MWh	Apr. 1/10 – Dec. 31/10	(59)
	6 MWs/d	$79.33/MWh	Jan. 1/11 – Dec. 31/11	(75)
Total Fair Market Value, Electricity Financial Contracts				**(134)**

Electricity swaps are settled against the AESO pricing index.

Physical Risk Management Contracts:

	Rate	Weighted Average Price	Range of Terms	Fair Market Value Loss ($ thousands)
Electricity swaps	32 MWs/d	$55.50/MWh	Apr. 1/10 – Mar. 31/11	(127)
Total Fair Market Value, Physical Contracts				**(127)**

Electricity contracts are settled by way of physical delivery and are recognized as part of the normal operating cost stream. These instruments have no book values recorded in the consolidated financial statements.

Commodity Price Sensitivities

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

Fluctuations of 10 percent in commodity prices could have resulted in unrealized gains or losses on risk management contracts impacting net earnings as follows:

	Three Months Ended March 31,	
($ thousands)	**2010**	2009
Natural gas price	**–**	214
Crude oil price	**9,845**	2,894

C) Risks Associated with Financial Assets and Liabilities

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

- Market Risk

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

- Commodity Price Risk

As a means of mitigating exposure to commodity price risk volatility, the Trust has entered into various derivative agreements. The use of derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors. The Trust's policy is to not use derivative financial instruments for speculative purposes.

Natural Gas – To partially mitigate the natural gas commodity price risk, the Trust enters into swaps, which fix the Canadian dollar AECO prices.

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

- Interest Rate Risk

Borrowings under bank credit facilities are market rate based (variable interest rates); thus, carrying values approximate fair values.

At the March 31, 2010 debt pricing levels, the increase or decrease in net earnings for each one percent change in interest rates would amount to $0.21 million (2009 - $0.21 million).

- Foreign Exchange Risk

As Zargon operates in North America, fluctuations in the exchange rate between the US/Canadian dollar can have a significant effect on the Trust's reported results. A $0.01 change in the US to Canadian dollar exchange rate would have resulted in a $0.20 million (2009 - $0.06 million) increase or decrease in net earnings at March 31, 2010. In order to mitigate the Trust's exposure to foreign exchange fluctuations, the Trust enters into foreign exchange derivative agreements.

• Credit Risk

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

The maximum credit risk exposure associated with accounts receivable, accrued revenues and risk management assets is the total carrying value. The Trust monitors these balances monthly to limit the risk associated with collection. Of Zargon's accounts receivable at March 31, 2010, approximately 27 percent (December 31, 2009 – 40 percent) was owing from two companies and Zargon anticipates full collection.

The Trust's allowance for doubtful accounts was $0.10 million as at March 31, 2010 and $0.10 million as at December 31, 2009. To date, in 2010, the Trust did not record any additional provisions for non-collectible accounts receivable.

When determining whether amounts that are past due are collectible, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Zargon considers all material amounts greater than 90 days to be past due. As at March 31, 2010, $1.27 million of accounts receivable are past due, excluding amounts described above, all of which are considered to be collectable.

• Liquidity Risk

Liquidity risk is the risk the Trust will encounter difficulties in meeting its financial liability obligations. The Trust manages its liquidity risk through cash and debt management. See note 10 for a more detailed discussion.

As at March 31, 2010, Zargon had available unused committed bank credit facilities of approximately $95.18 million compared to $102.81 million at December 31, 2009. The Trust believes it has sufficient funding through the use of these facilities to meet foreseeable borrowing requirements.

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

($ thousands)	1 year	2–3 years	Total
Accounts payable and accrued liabilities	**33,589**	**–**	**33,589**
Cash distributions payable	**4,202**	**–**	**4,202**
Risk management liabilities (1)	**6,540**	**1,739**	**8,279**
Long term debt	**–**	**84,229**	**84,229**

(1) See the section titled "Commodity Price Sensitivities" in this note for a better understanding of the volatility around these amounts.

12. CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended March 31,	
($ thousands)	**2010**	2009
Changes in non-cash working capital items:		
Accounts receivable	**195**	569
Prepaid expenses and deposits	**395**	(83)
Accounts payable and accrued liabilities	**(918)**	(4,488)
Cash distributions payable	**45**	20
Foreign exchange and other	**(112)**	187
	(395)	(3,795)
Changes relating to operating activities	**(1,239)**	(2,119)
Changes relating to financing activities	**876**	20
Changes relating to investing activities	**(32)**	(1,696)
	(395)	(3,795)

13. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended March 31,	
($ thousands)	**2010**	2009
Cash interest paid	**754**	826
Cash taxes paid	**2,020**	65

14. SEGMENTED INFORMATION

Zargon's entire operating activities are related to exploration, development and production of oil and natural gas in the geographic segments of Canada and the US.

	Three Months Ended March 31,	
($ thousands)	**2010**	2009
Petroleum and Natural Gas Revenue		
Canada	**44,211**	29,336
United States	**4,245**	2,644
Total	**48,456**	31,980
Net Capital Expenditures		
Canada	**18,457**	13,442
United States	**280**	1
Total	**18,737**	13,443

($ thousands)	**March 31, 2010**	December 31, 2009
Property and Equipment, net		
Canada	**399,291**	394,448
United States	**31,301**	31,516
Total	**430,592**	425,964
Goodwill		
Canada	**2,969**	2,969
United States	–	–
Total	**2,969**	2,969

15. CASH DISTRIBUTIONS

During the three month period, the Trust declared distributions to the unitholders in the aggregate amount of $12.55 million (2009 – $10.03 million) in accordance with the following schedule:

2010 Distributions	**Record Date**	**Distribution Date**	**Per Trust Unit**
January	January 31, 2010	February 15, 2010	$0.18
February	February 28, 2010	March 15, 2010	$0.18
March	March 31, 2010	April 15, 2010	$0.18

16. SUBSEQUENT EVENT

Subsequent to quarter end, Zargon entered into an agreement to purchase working interests in various Southern Alberta medium and heavy gravity oil pools with approximately 350 barrels of oil equivalent per day of existing production, along with approximately 5.8 thousand net undeveloped acres of land, for a cash purchase price of approximately $25 million.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Craig H. Hansen
Calgary, Alberta

K. James Harrison (3) (4)
Chairman of the Board
Oakville, Ontario

Kyle D. Kitagawa (1) (2)
Calgary, Alberta

Geoffrey C. Merritt (2)
Calgary, Alberta

Margaret A. McKenzie (1) (3)
Calgary, Alberta

Jim Peplinski (2) (4)
Calgary, Alberta

J. Graham Weir (1) (2)
Calgary, Alberta

Grant A. Zawalsky (3) (4)
Calgary, Alberta

OFFICERS

Craig H. Hansen
President and Chief Executive Officer

Brent C. Heagy
Executive Vice President and Chief Financial Officer

Henry J. Baird
Vice President, Reservoir Engineering

Jason B. Dranchuk
Vice President, Finance and Controller

Tracy L. Howard
Corporate Secretary

Brian G. Kergan
Vice President, Corporate Development and Alberta Plains South

Kevin C.Y. Lee
Vice President, Alberta Plains North

Daniel A. Roulston
Vice President, Engineering and Williston Basin

Lorne D. Schwetz
Vice President, Land

Al D. Thorsen
Vice President, Operations

(1) Audit Committee
(2) Reserves Committee
(3) Governance and Nominating Committee
(4) Compensation Committee

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Zargon Energy Trust
Trust Units
Trading Symbol: ZAR.UN

Zargon Oil & Gas Ltd.
Exchangeable Shares
Trading Symbol: ZOG.B

TRANSFER AGENT

Valiant Trust Company
310, 606 – 4th Street S.W.
Calgary, Alberta T2P 1T1

BANKERS

The Toronto Dominion Bank
910, 333 – 7th Avenue S.W.
Calgary, Alberta T2P 2Z1

Canadian Imperial Bank of Commerce
9th Floor, Bankers Hall East
855 – 2nd Street S.W.
Calgary, Alberta T2P 2P2

The Bank of Nova Scotia
2000, 700 – 2nd Street S.W.
Calgary, Alberta T2P 2N7

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
1400, 350 – 7th Avenue S.W.
Calgary, Alberta T2P 3N9

CONSULTING ENGINEERS

McDaniel & Associates Consultants Ltd.
2200, 255 – 5th Avenue S.W.
Calgary, Alberta T2P 3G6

AUDITORS

Ernst & Young LLP
1000, 440 – 2nd Avenue S.W.
Calgary, Alberta T2P 5E9

HEAD OFFICE

700, 333 – 5th Avenue S.W.
Calgary, Alberta T2P 3B6
Telephone: 403-264-9992
Fax: 403-265-3026
Email: zargon@zargon.ca

WEBSITE

www.zargon.ca