ZARGON ENERGY TRUST

2008 First Quarter Report

FINANCIAL & OPERATING HIGHLIGHTS

Zargon Energy Trust is pleased to report its financial results for the first quarter of 2008. Funds flow from operations was $24.75 million ($1.23 per diluted trust unit) in the 2008 first quarter compared with $20.10 million ($1.02 per diluted trust unit) in the 2007 fourth quarter and $21.80 million ($1.12 per diluted trust unit) in the 2007 first quarter.

Highlights from the three months ended March 31, 2008 are noted below:

- First quarter 2008 production averaged 9,015 barrels of oil equivalent per day, three percent above the preceding quarter and an increase of six percent from the corresponding quarter of 2007. First quarter production volumes increased from the prior quarter primarily due to the addition of volumes related to the acquisition of Rival Energy Ltd. ("Rival"), which closed on January 23, 2008. For the first three months of 2008, Zargon's production averaged 446 barrels of oil equivalent per day per million trust units outstanding compared to 445 and 436 barrels of oil equivalent per day per million trust units outstanding for the prior quarter and corresponding quarter of 2007, respectively.
- Revenue and funds flow from operations in the 2008 first quarter increased 27 percent and 23 percent, respectively, from the prior quarter. Increased realized oil prices of 19 percent and increased realized natural gas prices of 27 percent from the prior quarter were partially offset by realized risk management losses and increased production costs during the quarter.
- The Trust declared three monthly cash distributions of $0.18 per trust unit in the first quarter of 2008 for a total of $9.55 million. These cash distributions were equivalent to a payout ratio of 44 percent of the Trust's first quarter funds flow on a diluted trust unit basis and, after considering the effect of the exchangeable shares not receiving distributions, the distributions amounted to 39 percent of funds flow from operations.
- The Trust's first quarter exploration and development capital expenditures (excluding acquisitions and dispositions) decreased 50 percent from the prior quarter to $9.42 million primarily as a result of reduced completion, equipping and facilities expenditures. In the first quarter, Zargon also completed $2.44 million of net property acquisitions primarily relating to the Carrot Creek oil exploitation property in the West Central Alberta core area.
- The acquisition of Rival was completed on January 23, 2008. The total consideration was 573,300 Zargon trust units and $16.69 million cash (including acquisition costs) for all the issued and outstanding Rival common shares along with the assumption of $17.57 million of net debt for a total transaction value of approximately $47.63 million. The Rival assets are currently producing in excess of 1,000 barrels of oil equivalent per day and bring significant oil exploitation potential at Bellshill Lake, Alberta.
- Debt net of working capital (excluding unrealized risk management assets and liabilities) increased to $94.35 million at March 31, 2008, as a result of cash consideration and assumed net debt related to the acquisition of Rival. The Trust's balance sheet remains strong with a debt net of working capital to annualized funds flow ratio of 1.0 times.
- On March 12, 2008, the Trust announced the acquisition of Newpact Energy Corp. ("Newpact"), which is expected to be completed in late May, 2008, for a total consideration of approximately 426,000 Zargon trust units and the assumption of $3.65 million of net debt for a total transaction value of approximately $14.00 million. This acquisition brings over 350 barrels of oil equivalent per day of production along with significant exploitation potential at the St. Anne property, in the West Central Alberta core area.

(unaudited)	Three Months Ended March 31, 2008	2007	Percent Change
FINANCIAL			
Income and Investments ($ millions)			
Petroleum and natural gas revenue	**52.24**	38.53	36
Funds flow from operations	**24.75**	21.80	14
Cash distributions	**9.55**	9.12	5
Net earnings	**4.56**	5.22	(13)
Net capital expenditures	**59.61**	20.93	185
Per Unit, Diluted			
Funds flow from operations ($/unit)	**1.23**	1.12	10
Net earnings ($/unit)	**0.26**	0.31	(16)
Cash Distributions ($/trust unit)	**0.54**	0.54	-
Balance Sheet at Period End ($ millions)			
Property and equipment, net	**366.43**	299.79	22
Bank debt	**92.18**	37.68	145
Unitholders' equity	**170.70**	165.40	3
Total Units Outstanding at Period End (millions)	**20.41**	19.54	4
OPERATING			
Average Daily Production			
Oil and liquids (bbl/d)	**4,171**	3,742	11
Natural gas (mmcf/d)	**29.06**	28.44	2
Equivalent (boe/d)	**9,015**	8,483	6
Equivalent per million trust units (boe/d)	**446**	436	2
Average Selling Price (before the impact of financial risk management contracts)			
Oil and liquids ($/bbl)	**84.93**	57.04	49
Natural gas ($/mcf)	**7.56**	7.55	-
Wells Drilled, Net	**9.2**	14.4	(36)
Undeveloped Land at Period End (thousand net acres)	**414**	386	7

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.

For net capital expenditures, amounts include capital expenditures acquired for cash, equity issuances, acquisition costs and net debt assumed on corporate acquisitions.

Funds flow from operations is a non-GAAP term that represents net earnings 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.

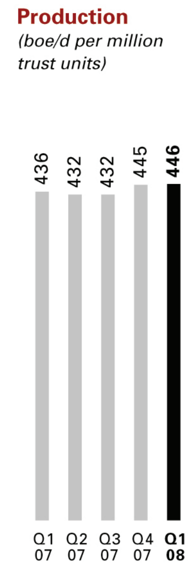
Total units outstanding include trust units plus exchangeable shares outstanding at period end. The exchangeable shares are converted at the exchange ratio at the end of the period.

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.

PRODUCTION [1]

Natural gas production volumes in the first quarter of 2008 averaged 29.06 million cubic feet per day, a five percent decrease from the previous quarter and a two percent increase from the corresponding period of 2007. The first quarter natural gas production decreased primarily due to cold weather related shut-ins, high initial natural declines from the fall 2007 multi-well Alberta Plains Hamilton Lake development program as well as water encroachment issues at four unrelated gas wells. For the remainder of the year, we anticipate natural gas production volumes to increase due to the addition of the Newpact properties, with naturally occurring declines being offset by the tie-in of four West Central Alberta natural gas wells (Pembina, Progress and Saddle Hills) and the ongoing tie-in of the Alberta Plains Jarrow natural gas exploration successes.

Oil and liquids production was 4,171 barrels per day in the 2008 first quarter, a 14 percent increase from the preceding quarter and an 11 percent increase from the corresponding 2007 quarter. Production volumes increased compared to the prior quarter as a result of incremental volumes from the acquisition of Rival in late January. Subsequent to the Rival acquisition, pumping modifications at 11 Bellshill Lake oil wells have resulted in an incremental 100 barrels of oil per day of production. Throughout the remainder of this year, further Bellshill Lake production gains are anticipated from pumping modifications and development drilling. These production gains are anticipated to be augmented by volumes from the acquired Newpact properties and from this summer's Williston Basin oil exploitation drilling program.



CAPITAL EXPENDITURES [1]

Reflecting an increased emphasis on returns and efficiencies, Zargon's first quarter field capital program totalled only $9.42 million, a 55 percent reduction from the 2007 first quarter field capital expenditures. Preliminary indications from 2008 drilling are encouraging, as Zargon drilled 10 gross wells (9.2 net) that resulted in 9.2 net natural gas wells for a 100 percent success ratio. Natural gas wells drilled in the first quarter include 6.9 net wells at Jarrow in the Alberta Plains core area and 2.3 net wells in the Peace River Arch in the West Central Alberta core area. This successful first quarter drilling program met expectations at Jarrow and provided new exploration successes at the Peace River Arch properties of Kakut, Hamelin Creek and Saddle Hills, that should provide incremental production volumes this upcoming winter.

Following spring break-up, Zargon will return to drilling programs in all three of its core areas. In the Williston Basin, three horizontal wells are planned to be drilled at Elswick, Elswick South and Steelman, Saskatchewan along with three vertical wells at Pinto and Frys, Saskatchewan. In Alberta Plains, three wells are anticipated to be drilled with one gas exploration well at Jarrow, an oil exploration well at Bellshill Lake and one Taber horizontal oil exploitation well. In West Central Alberta, two Peace River Arch natural gas exploration wells are planned at Progress South and Rycroft.

In the first quarter of 2008, the addition of the Rival undeveloped lands, augmented by the purchase of 17 thousand net acres of Crown lands at an average price of $72 per acre, allowed Zargon to increase its quarter end undeveloped land inventory to 414 thousand net acres, up 52 thousand net acres from the balance reported at the end of 2007. For the remainder of the year, Zargon will continue to be an active participant at Alberta Crown land sales during this period of lower Crown land sale costs.

Recently, Zargon has taken advantage of the improved market for property and corporate acquisitions with the announcement and closing of the Rival acquisition and the March announcement of the acquisition of Newpact along with some smaller property acquisitions. The combination of a strong balance sheet and the industry's current attractive acquisition metrics (on a cash flow multiple basis) should provide Zargon additional property and corporate acquisition opportunities over the next few quarters that can be funded by debt or equity.

GUIDANCE [1]

In the March 12, 2008 press release announcing the acquisition of Newpact, Zargon provided updated production guidance of 9,100 barrels of oil equivalent per day for the first quarter of 2008 and actual production was slightly under this guidance at 9,015 barrels of oil equivalent per day. Also at that time, the second quarter 2008 production guidance was set at 9,500 barrels of oil equivalent per day assuming completion of the Newpact acquisition in late April and the second half 2008 production was guided to average between 9,600 to 9,900 barrels of oil equivalent per day with the variance being largely dependent on the timing and availability of further property acquisitions. Due to a delay in the closing of the Newpact acquisition until late May, Zargon is modifying second quarter guidance to 9,400 barrels of oil equivalent per day. Zargon's guidance range for the second half of 2008 remains unchanged at 9,600 to 9,900 barrels of oil equivalent per day.

This guidance range continues to be premised on the previously announced 2008 capital budget of $65 million ($50 million for field capital and $15 million for property acquisitions) that excludes the Rival and Newpact corporate acquisitions. The revised allocation of the field capital program is $21 million to the Alberta Plains, $15 million to the Williston Basin and $14 million to the West Central Alberta core areas and includes the drilling of 39 net wells in 2008.

(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") should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2008 and the annual audited consolidated financial statements and MD&A for the year ended December 31, 2007. All amounts are in Canadian dollars unless otherwise noted. All references to "Zargon" or the "Trust" refer to Zargon Energy Trust.

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 operations" ("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 operations may not be comparable to that reported by other trusts. The reconciliation between cash flows from operating activities and funds flow from operations can be found in the table below and in the unaudited interim consolidated statements of cash flows in the unaudited interim consolidated financial statements. The Trust evaluates its performance based on net earnings and funds flow from operations. The Trust considers funds flow from operations 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 operations per unit is calculated using the diluted weighted average number of units for the period.*

Funds Flow from Operations Reconciliation

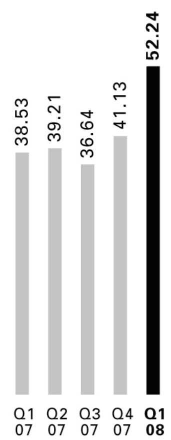
	Three Months Ended March 31,	
($ millions)	**2008**	2007
Cash flows from operating activities	**15.27**	18.35
Changes in non-cash working capital	**9.48**	3.45
Funds flow from operations	**24.75**	21.80

- *The Trust also uses the term "debt net of working capital". 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 and liabilities.*
- *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.*

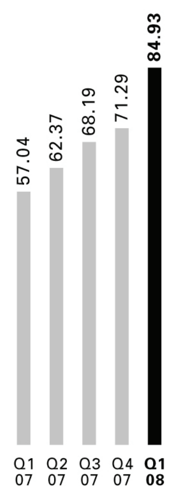
References to "production volumes" or "production" in this MD&A refer to sales volumes.

Forward-Looking Statements - This document contains statements that are forward-looking, 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. Forward-looking statements are provided to allow investors to have a greater understanding of our business.

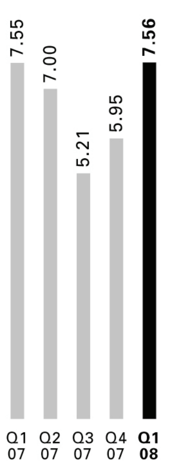
Petroleum and Natural Gas Revenue
($ million)



Oil and Liquids Prices
($/bbl)



Natural Gas Prices
($/mcf)



By their nature, forward-looking statements are subject to numerous risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, actual results may differ materially from those predicted. The forward-looking statements contained in this document are as of May 13, 2008 and are subject to change after this date. Readers are cautioned that the assumptions 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. Zargon disclaims, except as required by law, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

This MD&A has been prepared as of May 13, 2008.

SUMMARY OF SIGNIFICANT EVENTS IN THE FIRST QUARTER

- During the first quarter of 2008, the Trust realized funds flow from operations of $24.75 million and declared total distributions of $9.55 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 19 percent to $84.93 per barrel and 27 percent to $7.56 per thousand cubic feet, respectively, compared to the fourth quarter of 2007.
- First quarter production volumes were 9,015 barrels of oil equivalent per day, a three percent increase from the fourth quarter 2007 production levels.
- During the first quarter of 2008, the Trust drilled 10 gross wells (9.2 net) with a 100 percent success rate. Total field exploration and development capital expenditures (excluding property acquisitions and dispositions) were $9.42 million for the quarter compared to $18.67 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 and liabilities) of $94.35 million, which represents slightly less than 12 months of the 2008 year-to-date annualized funds flow.
- On January 23, 2008, Zargon completed the corporate acquisition of Rival Energy Ltd. (“Rival”) for total consideration of 573,300 Zargon trust units and $16.69 million in cash (including acquisition costs) for all the issued and outstanding Rival common shares. Net debt of approximately $17.57 million was assumed as part of this acquisition.
- On January 31, 2008, Zargon amended its syndicated credit facilities in conjunction with the Rival corporate acquisition, which resulted in an increase in the available facilities and the borrowing base by $30 million to $150 million. These expanded facilities continue to be available for general corporate purposes and the potential acquisition of oil and natural gas properties.
- On March 12, 2008, Zargon entered into an Acquisition Agreement pursuant to which Zargon has agreed to make an offer to acquire all the issued and outstanding common shares of Newpact Energy Corp. (“Newpact”). Pursuant to the Acquisition Agreement, Newpact shareholders will receive approximately 0.0534 trust units for each Newpact common share. This corporate acquisition is expected to be completed prior to May 31, 2008.

FINANCIAL ANALYSIS

First quarter 2008 revenue of $52.24 million was 27 percent above the $41.13 million in the fourth quarter of 2007 and 36 percent above the $38.53 million in the first quarter of 2007. A 27 percent increase in natural gas prices received and a 19 percent increase in oil and liquids prices received were the primary reasons for the increased revenues when compared to the prior quarter amounts. Average daily production volumes also showed gains with a three percent increase over the prior quarter rate. First quarter 2008 realized oil and liquids field prices averaged $84.93 per barrel before the impact of financial risk management contracts and were 19 percent higher than the preceding quarter’s $71.29 per barrel and were 49 percent higher than the $57.04 per barrel recorded in the 2007 first quarter. Zargon’s crude oil field price differential from the Edmonton par price decreased to $12.57 per barrel in the first quarter of 2008 compared to $15.13 per barrel in the fourth quarter of 2007. Natural gas field prices received averaged $7.56 per thousand cubic feet before the impact of financial risk management contracts in the first quarter of 2008, relatively even with the 2007 first quarter prices received and a 27 percent increase from the preceding quarter levels. Zargon’s realized field prices differ from the benchmark AECO average daily price due to a combination of fixed price physical contracts (See note 14 to the interim unaudited consolidated financial statements) and from the impact of Zargon receiving AECO monthly index pricing for a portion of its natural gas production.

Pricing

Average for the period	Three Months Ended March 31, 2008	2007	Percent Change
Natural Gas:			
NYMEX average daily spot price ($US/mmbtu)	**8.67**	7.21	20
AECO average daily spot price ($Cdn/mmbtu)	**7.97**	7.41	8
Zargon realized field price before the impact of financial risk management contracts ($Cdn/mcf)	**7.56**	7.55	-
Zargon realized field price before the impact of physical and financial risk management contracts ($Cdn/mcf)	**7.73**	7.24	7
Zargon realized field price after the impact of physical and financial risk management contracts ($Cdn/mcf)	**7.90**	7.97	(1)
Crude Oil:			
WTI ($US/bbl)	**97.86**	58.16	68
Edmonton par price ($Cdn/bbl)	**97.50**	67.09	45
Zargon realized field price before the impact of financial risk management contracts ($Cdn/bbl)	**84.93**	57.04	49
Zargon realized field price after the impact of financial risk management contracts ($Cdn/bbl)	**75.00**	60.74	23

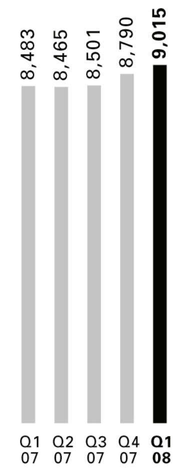
Natural gas production volumes decreased by five percent in the first quarter of 2008 to 29.06 million cubic feet per day from 30.74 million cubic feet per day in the fourth quarter of 2007 and were two percent higher than the 2007 first quarter. When compared to the prior quarter, the 2008 first quarter decrease in natural gas production volumes were as a result of weather related shut-ins and water encroachment issues in four natural gas wells. Oil and liquids production during the first quarter of 2008 was 4,171 barrels per day, which is 14 percent above the 2007 fourth quarter rate of 3,666 barrels per day and 11 percent above the first quarter of 2007 level. The year-over-year increase in oil and liquids was primarily due to production volume additions related to the Rival Energy Ltd. corporate acquisition. On a barrel of oil equivalent basis, Zargon produced 9,015 barrels of oil equivalent per day in the first quarter of 2008, which represents a three percent increase from the 8,790 barrels of oil equivalent per day in the fourth quarter of 2007 and a six percent increase when compared to the first quarter of 2007.

Production by Core Area

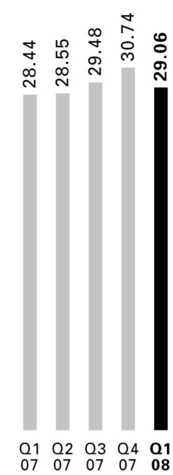
Three Months Ended March 31,	2008 Oil and Liquids (bbl/d)	2008 Natural Gas (mmcf/d)	2008 Equivalents (boe/d)	2007 Oil and Liquids (bbl/d)	2007 Natural Gas (mmcf/d)	2007 Equivalents (boe/d)
Alberta Plains	**1,134**	**19.36**	**4,361**	536	20.67	3,981
West Central Alberta	**240**	**9.30**	**1,790**	158	7.53	1,414
Williston Basin	**2,797**	**0.40**	**2,864**	3,048	0.24	3,088
	4,171	**29.06**	**9,015**	3,742	28.44	8,483

Zargon's commodity price risk management policy, which is approved by the Board of Directors, allows the use of forward sales and costless collars for a targeted range of 20 to 35 percent of oil and natural gas working interest production in order to partially offset the effects of large commodity price fluctuations. Zargon's

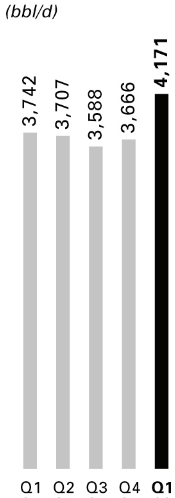
Production
(boe/d)



Natural Gas Production
(mmcf/d)



Oil and Liquids Production
(bbl/d)



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 2008 first quarter, relatively higher oil and natural gas prices brought about a net realized financial risk management loss totalling $2.87 million (consisting of a $0.90 million gain on natural gas contracts and a $3.77 million loss on oil contracts) that compares to a $0.30 million realized net loss in the fourth quarter of 2007 and a $2.33 million realized net gain in the first quarter of 2007.

The 2008 first quarter unrealized risk management loss resulted from oil contract losses ($2.47 million) and by unrealized risk management natural gas contract losses ($4.39 million) providing a total loss of $6.86 million for the quarter, which compares to a net $9.82 million loss for the 2007 fourth quarter and a net $5.84 million loss in the first quarter of 2007. These 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. Zargon’s commodity risk management positions are fully described in note 14 to the unaudited consolidated interim financial statements.

Royalties, inclusive of the Saskatchewan Resource Surcharge, totalled $10.71 million for the first quarter of 2008, an increase of 30 percent from the $8.26 million preceding quarter expense and an increase of 29 percent from $8.33 million in the first quarter of 2007. The variations generally track changes in production, prices and volumes. As a percentage of gross revenue, royalty rates moved in a relatively narrow range from 21.6 percent in the first quarter of 2007 to 20.1 percent in the fourth quarter of 2007 and 20.5 percent in the first quarter of 2008. For the remainder of the year Zargon expects that its royalty rate will remain in the 20 to 22 percent range. Commencing in 2009, the oil and natural gas royalty structure will change for Alberta production volumes. Further discussion regarding this issue is provided later in this report.

On a unit of production basis, production costs of $11.17 per barrel of oil equivalent in the first quarter of 2008 compares with $10.51 per barrel of oil equivalent in the preceding quarter and $10.32 per barrel of oil equivalent in the first quarter of 2007. The increase in the 2008 first quarter costs relate to the relatively higher operating cost properties acquired in the Rival corporate acquisition, adjustments and the industry-wide trend of increased unit operating costs. For the remainder of 2008, Zargon anticipates that production costs can be maintained in the $11.00 to $11.75 range.

Operating Netbacks

Three Months Ended March 31,	**2008**		2007	
	Oil and Liquids ($/bbl)	**Natural Gas ($/mcf)**	Oil and Liquids ($/bbl)	Natural Gas ($/mcf)
Production revenue	**84.93**	**7.56**	57.04	7.55
Realized risk management gain/(loss)	**(9.93)**	**0.34**	3.69	0.42
Royalties	**(17.34)**	**(1.56)**	(12.22)	(1.65)
Production costs	**(13.59)**	**(1.51)**	(13.14)	(1.35)
Operating netbacks	**44.07**	**4.83**	35.37	4.97

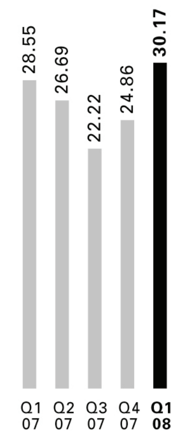
Measured on a unit of production basis (net of recoveries), general and administrative expenses were $2.72 per barrel of oil equivalent in the first three months of 2008 compared to $2.06 in the first three months of 2007 and $2.63 for the twelve month period of 2007. The year-over-year increase in general and administrative expenses on a per unit of production basis are primarily due to additional office lease costs and the costs related to the expansion of Zargon’s technical staff and consultants.

Expensing of unit-based compensation in the first three months of 2008 was $0.26 million, a 29 percent decrease from the first three months of 2007. The decrease is a result of increased cancellations of unit rights and a general decline in the valuation of new quarterly grants.

Zargon's borrowings are through its syndicated bank credit facilities. Interest and financing charges on these facilities in the 2008 first quarter were $1.33 million, $0.41 million higher than the previous quarter amount of $0.92 million and an increase of $0.76 million from $0.57 million in the first quarter of 2007. This year-over-year increase is primarily due to an increase in average bank debt levels. On January 31, 2008, in conjunction with its corporate acquisition of Rival Energy Ltd., Zargon amended its syndicated committed credit facilities, which resulted in an increase in the available facilities and borrowing base to $150 million from the previous amount of $120 million. The next renewal date is July 29, 2008.

Current income taxes for the 2008 first quarter were $0.96 million, primarily relating to the United States operations, where increased taxable income resulted in higher United States income taxes. When compared to prior periods, current income taxes increased $0.48 million over the 2007 first quarter and increased $0.82 million relative to the fourth quarter of 2007. The increased 2008 taxable income is due to a reduced capital program for this geographic region, resulting in reduced tax pool claims and, therefore, resulting in higher United States taxes. Provided that oil prices remain high, a similar or slightly higher level of United States current income taxes is predicted for the remaining quarters of 2008. Tax pools as at March 31, 2008 are approximately $181 million, which represents an increase of 22 percent from the comparable $148 million of tax pools available to Zargon at December 31, 2007, primarily a result of the tax pools acquired as part of the Rival acquisition.

Funds Flow Netbacks
($/boe)



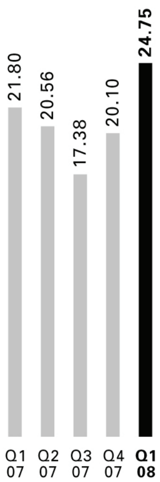
Trust Netbacks

($/boe)	Three Months Ended March 31, 2008	2007
Petroleum and natural gas revenue	**63.68**	50.47
Realized risk management gain/(loss)	**(3.49)**	3.05
Royalties	**(13.06)**	(10.91)
Production costs	**(11.17)**	(10.32)
Operating netbacks	**35.96**	32.29
General and administrative	**(2.72)**	(2.06)
Interest and financing charges	**(1.63)**	(0.75)
Asset retirement expenditures	**(0.27)**	(0.30)
Capital and current income taxes	**(1.17)**	(0.63)
Funds flow netbacks	**30.17**	28.55

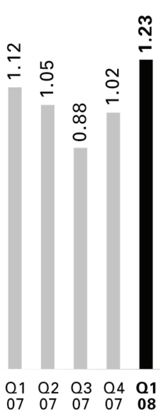
Depletion and depreciation expense for the first quarter of 2008 increased 10 percent to $14.23 million compared to $12.92 million in the prior quarter and increased 23 percent when compared to the first quarter of 2007 expense of $11.54 million. On a per barrel of oil equivalent basis, the depletion and depreciation rates were $15.12, $15.98 and $17.34 for the first and fourth quarters of 2007 and the first quarter of 2008, respectively. The primary reasons for the year-over-year expense increase are due to the impact of last year's increased finding, development and acquisition costs, the financial impact of the conversion of exchangeable shares pursuant to the application of EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts", increased production volumes and the capital asset additions resulting from the recent Rival corporate acquisition.

The provision for accretion of asset retirement obligations for the first three months of 2008 was $0.51 million, a 56 percent increase compared to the first three months of 2007. 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 year, changes resulting from revisions to the timing and the amounts of the original estimates of undiscounted cash flows and wells acquired with the recent Rival corporate acquisition.

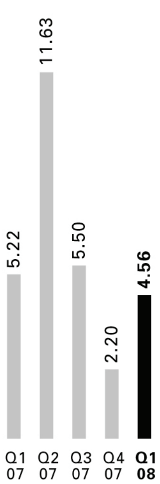
Funds Flow from Operations
($ million)



Funds Flow Per Unit
($/unit – diluted)



Net Earnings
($ million)



The recovery of future taxes for the first quarter of 2008 was $1.98 million when compared to a recovery of $6.35 million in the prior quarter and a recovery of $2.00 million in the first quarter of 2007. The 2008 first quarter decrease in the future tax recovery, when compared to the 2007 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 will result in taxation of distributions at the Trust level at a rate of 31.5 percent effective January 1, 2011. Subsequent 2007 fourth quarter legislation has lowered this tax rate to 29.5 percent in 2011 and 28.0 percent beyond 2011 to assimilate recent corporate tax rate changes. 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. Under the legislation, the Trust now estimates the effective tax rate on the post 2010 reversal of these temporary differences to be approximately 28.0 percent. 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.

According to the January 19, 2005 CICA pronouncement, EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts", Zargon Energy Trust must reflect the exchangeable securities issued by its subsidiary (Zargon Oil & Gas Ltd.) as a non-controlling interest. Prior to 2005, these exchangeable shares were reflected as a component of unitholders' equity. Accordingly, the Trust has reflected a non-controlling interest of $21.27 million on the Trust's consolidated balance sheet as at March 31, 2008. Consolidated net earnings have been reduced for net earnings attributable to the non-controlling interest of $0.70 million in the first quarter of 2008. 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 2008 resulted in an increase in property and equipment of $0.36 million, an increase in unitholders' equity of $0.94 million and an increase in future income tax liability of $0.12 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 $52.12 million, unitholders' equity and non-controlling interest by $54.29 million, future income tax liability by $17.34 million and an allocation of net earnings to exchangeable shareholders' of $19.51 million.

Funds flow from operations in the 2008 first quarter of $24.75 million was $4.65 million, or 23 percent higher than the preceding quarter and $2.95 million or 14 percent higher than the prior year first quarter. The increase in funds flow from the preceding quarter was primarily due to increased revenues (net of related royalties and realized risk management contract losses) as a result of higher average field commodity prices and increased production volumes. Compared to the prior year first quarter, a 26 percent increase in commodity prices and a six percent increase in production volumes were partially offset by rising production costs and the 2008 first quarter realized risk management contract losses. Funds flow on a per diluted trust unit basis was $1.23 for the first quarter of 2008, a 21 percent increase from the prior quarter and a 10 percent increase from the 2007 first quarter.

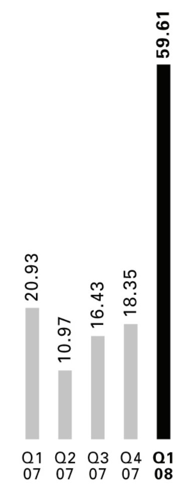
Net earnings of $4.56 million for the 2008 first quarter were 107 percent above the $2.20 million of net earnings in the preceding quarter and 13 percent below the $5.22 million in the first quarter of 2007. The net earnings track the funds flow from operations for the respective periods modified by 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.

Capital Expenditures

($ millions)	Three Months Ended March 31, 2008	2007
Undeveloped land	**2.20**	1.36
Geological and geophysical (seismic)	**1.30**	1.76
Drilling and completion of wells	**4.21**	11.76
Well equipment and facilities	**1.71**	5.93
Exploration and development	**9.42**	20.81
Property acquisitions	**2.46**	0.09
Property dispositions	**(0.02)**	-
Net property acquisitions	**2.44**	0.09
Corporate acquisitions (1)	**47.63**	-
Total capital expenditures excluding administrative assets (1)	**59.49**	20.90
Administrative assets	**0.12**	0.03
Total net capital expenditures (1)	**59.61**	20.93

(1) Amounts include cash consideration of $16.40 million, transaction costs of $0.29 million, net debt assumed of $17.57 million and the equity issuance of trust units valued at $13.37 million.

Net Capital Expenditures
($ million)



CORPORATE ACQUISITIONS

On January 23, 2008, a subsidiary of the Trust acquired all of the issued and outstanding common shares of Rival Energy Ltd. ("Rival"), a public oil and gas company, for consideration of $30.06 million. Consideration consisted of $16.40 million cash, the issuance of 573,300 Zargon trust units valued at $23.32 per unit and transaction costs of $0.29 million. Net debt of approximately $17.57 million was assumed as part of this acquisition.

The results of operations for Rival have been included in the consolidated financial statements since January 23, 2008. In relation to the first quarter 2008 results, the Rival acquisition has contributed approximately 680 barrels of oil equivalent per day of production volumes to Zargon's total quarterly production volumes of 9,015 barrels of oil equivalent per day.

On March 12, 2008, Zargon entered into an Acquisition Agreement pursuant to which Zargon has agreed to make an offer to acquire all the issued and outstanding common shares of Newpact Energy Corp. ("Newpact"). Pursuant to the Acquisition Agreement, Newpact shareholders will receive approximately 0.0534 trust units for each Newpact common share. This corporate acquisition is expected to be completed prior to May 31, 2008, at which time the results of operations will be included in the consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Total net capital expenditures (including net property acquisitions and consideration and net debt assumed for corporate acquisitions) of $59.61 million in the first three months of 2008 were 185 percent higher than the first three months of 2007, reflecting the $47.63 million attributed to the corporate acquisition of Rival Energy Ltd. Conversely, field expenditures of $9.42 million reflected a muted exploration and development field program when compared to $18.67 million for the 2007 fourth quarter and $20.81 million for the 2007 first quarter, representing a 50 percent and 55 percent decline, respectively. Drilling and completion expenses of $4.21 million were 64 percent lower than the prior year's first quarter amount of $11.76 million. During the first quarter of 2008, 9.2 net wells were drilled compared to 9.0 net wells in the fourth quarter of 2007 and 14.4 net wells in the first quarter of 2007. Field capital expenditures (excluding net property acquisitions) for the first three months of 2008 were allocated to Alberta Plains – $4.84 million, West Central Alberta – $3.09 million and Williston Basin – $1.49 million.

Funds flow from operations in the 2008 first three months of $24.75 million, proceeds from the issuance of trust units of $13.55 million and the increase in bank debt of $35.32 million funded the capital program including corporate and property acquisitions, the changes in working capital and the cash distributions to the unitholders.

At March 31, 2008, the Trust continues to maintain a strong balance sheet with a combined debt net of working capital (excluding unrealized risk management assets and liabilities) of $94.35 million, compared to $63.76 million at the end of the 2007 fourth quarter, and represents slightly less than 12 months of the 2008 year-to-date annualized funds flow. Unutilized credit facilities of $57.82 million were available at March 31, 2008.

The volatility of oil and natural gas prices and the uncertainty relating to Alberta royalties and Canadian income trust tax rules has partially restricted the oil and 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 maintain its capital and distribution programs during periods of limited access to debt and equity capital.

Cash Distributions Analysis

	Three Months Ended March 31,	
($ millions)	**2008**	2007
Cash flows from operating activities	**15.27**	18.35
Net earnings	**4.56**	5.22
Actual cash distributions paid or payable relating to the period	**(9.55)**	(9.12)
Excess of cash flows from operating activities over cash distributions paid	**5.72**	9.23
Shortfall of net earnings over cash distributions paid	**(4.99)**	(3.90)

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 are the main factors influencing the sustainability of the Trust's distributions.

For the three months ended March 31, 2008, cash flows from operating activities (after changes in non-cash working capital) of $15.27 million exceeded cash distributions of $9.55 million. This was consistent with the three months ended March 31, 2007, in which cash flows from operating activities (after changes in non-cash working capital) of $18.35 million exceeded cash distributions of $9.12 million.

For the three months ended March 31, 2008, cash distributions of $9.55 million exceeded net earnings of $4.56 million. For the three months ended March 31, 2007, cash distributions of $9.12 million exceeded net earnings of $5.22 million. Net earnings include significant non-cash charges, which were $20.42 million for the three months ended March 31, 2008, that do not impact cash flow. Net earnings also include fluctuations in future income taxes due to changes in tax rates and tax rules. In addition, other non-cash charges such as depletion and depreciation are not a good proxy for the cost of maintaining Zargon's productive capacity given the natural declines associated with crude oil and natural gas assets. In these 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 2008 first quarter, cash distributions and net capital expenditures totalled $69.16 million ($21.53 million excluding the $47.63 Rival corporate acquisition), which was $53.89 million higher than the cash flows from operating activities (after changes in non-cash working capital) of $15.27 million. For the three months ended March 31, 2007, cash distributions and net capital expenditures exceeded the cash flows from operating activities (after changes in non-cash working capital) by $11.70 million. Zargon relies on access to debt and capital markets to the extent 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 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.

During the first three months of 2008, Zargon has maintained a base monthly distribution of $0.18 per trust unit, and currently plans to maintain this level of distribution for the remainder of this year and into 2009.

At May 13, 2008, Zargon Energy Trust had 17.686 million trust units and 2.056 million exchangeable shares outstanding. Assuming full conversion of exchangeable shares at the effective May 13, 2008 exchange ratio of 1.33802, there would be 20.437 million trust units outstanding. Pursuant to the trust unit rights incentive plan there are currently an additional 1.580 million trust unit incentive rights issued and outstanding.

Capital Sources and Uses

	Three Months Ended March 31,	
($ millions)	**2008**	2007
Funds flow from operations	**24.75**	21.80
Changes in working capital and other	**(4.46)**	(0.34)
Change in bank debt	**35.32**	7.64
Cash distributions to unitholders	**(9.55)**	(9.12)
Issuance of trust units	**13.55**	0.95
Total capital sources	**59.61**	20.93

CHANGE IN ACCOUNTING POLICIES

As disclosed in the December 31, 2007 annual audited consolidated financial statements, on January 1, 2008, the Trust adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

-“Financial Instruments – Presentation”, Section 3863 and “Financial Instruments – Disclosures”, Section 3862. The new disclosure standards increase Zargon's disclosure regarding the nature and extent of the risks associated with financial instruments and how those risks are managed (See note 14 of the interim unaudited consolidated financial statements). The new presentation standard carries forward the former presentation requirements.

-“Capital Disclosures”, Section 1535. The new standard requires Zargon to disclose its objectives, policies and processes for managing its capital structure (See note 10 of the interim unaudited consolidated financial statements).

In addition, the Trust has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Trust:

As of January 1, 2009, Zargon will be required to adopt the CICA Handbook Section 3064, “Goodwill and Intangible Assets”, which will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard is not expected to have a material impact on Zargon’s consolidated financial statements.

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. As Zargon will be required to report its results in accordance with IFRS starting in 2011, the Trust is assessing the potential impacts of this changeover and developing its plan accordingly.

MANAGEMENT AND FINANCIAL REPORTING SYSTEMS

Zargon is required to comply with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", otherwise referred to as Canadian SOX ("C-Sox"). The 2008 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 has materially affected, or is 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 2008.

Because of their inherent limitations, disclosure controls and procedures and 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.

BUSINESS RISKS

ENVIRONMENTAL REGULATION AND RISK

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to specified levels. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases.

Recently the Federal Government released its Action Plan to Reduce Greenhouse Gases and Air Pollution (the "Action Plan"), also known as "ecoACTION", which includes the Regulatory Framework for Air Emissions and the Alberta Government has also introduced legislation regarding greenhouse gas emissions.

On March 8, 2007, the Alberta Government introduced legislation to reduce greenhouse gas emission intensity. Bill 3 states that facilities emitting more than 100,000 tonnes of greenhouse gases per year must reduce their emissions intensity by 12 percent over the average emissions levels of 2003, 2004 and 2005; if they are not able to do so, these facilities will be required to pay $15 per tonne for every tonne above the 12 percent target, beginning on July 1, 2007. At this time, the Trust has determined that there is currently no impact of this legislation on Zargon's existing facilities ownership.

Although Zargon is not a large emitter of greenhouse gases, the Trust continues to monitor developments in this area. Although environmental legislation is evolving in a manner which could result in stricter standards and enforcement, larger fines and liability, and potentially increased capital expenditures and operating costs, at this time it is not possible to predict the impact of these requirements on the Trust and its operations and financial condition.

ALBERTA ROYALTY AND TAX REGIME

On February 16, 2007, the Alberta Government announced that a review of the Province's royalty and tax regime (including income tax and freehold mineral rights tax) pertaining to oil and gas resources, including oil sands, conventional oil and gas and coalbed methane, will be conducted by a panel of experts, with the assistance of individual Albertans and key stakeholders. On September 18, 2007, the Royalty Review Panel delivered its final report and recommendations to the Government of Alberta. The report titled "Our Fair Share" recommended significant increases to royalties levied on natural gas, conventional oil and oil sands produced in Alberta. On October 25, 2007, the Alberta Government released details of its planned implementation of the final Royalty Review Panel report, titled "The New Royalty Framework" ("NRF"). Zargon has reviewed the modifications proposed by the Government of Alberta to its royalty program, which is scheduled to take effect on January 1, 2009. While more detailed analysis is ongoing, the following observations have been noted:

- Currently, approximately 33 percent of Zargon's production is from properties located outside Alberta and is therefore, not affected by the NRF.
- Royalties determined under the NRF will be determined based on commodity prices, well productivity and depth of wells. A significant portion of Zargon's wells are lower productivity wells that, on a relative basis, are less impacted by the NRF than higher productivity wells.

- Zargon has recalculated its January 1, 2007, and January 1, 2008, reserves using Zargon's independent engineering firm of McDaniel & Associates Consultants Ltd., using the respective escalated price forecasts (present value before tax at 10 percent) under both the existing and NRF proposed royalty rates. The impact of the proposed change in royalty rates on the net present value of Zargon's proved and probable reserves, was less than one percent of Zargon's net asset value but we would expect a greater impact if commodity prices continue to increase as they have over recent months.
- The NRF will have a more significant negative impact on the economics of Zargon's ongoing natural gas exploration programs, which target moderate rate natural gas wells in our West Central Alberta and Alberta Plains core areas.

OUTLOOK

With a strong balance sheet, 414 thousand net acres of undeveloped land and a promising internally generated project inventory, Zargon continues to be well positioned to meet its value creating objectives in 2008. Consistent with its history, Zargon will adhere to a focused strategy of exploring and exploiting its existing asset base while executing value-added corporate and property acquisitions, which if available, will be funded by bank debt or equity issuances.

SUMMARY OF QUARTERLY RESULTS

			2007		**2008**
	Q1	Q2	Q3	Q4	**Q1**
Petroleum and natural gas revenue ($ millions)	38.53	39.21	36.64	41.13	**52.24**
Net earnings ($ millions)	5.22	11.63	5.50	2.20	**4.56**
Net earnings per diluted unit ($)	0.31	0.68	0.32	0.13	**0.26**
Funds flow from operations ($ millions)	21.80	20.56	17.38	20.10	**24.75**
Funds flow from operations per diluted unit ($)	1.12	1.05	0.88	1.02	**1.23**
Cash distributions ($ millions)	9.12	9.17	9.19	9.21	**9.55**
Cash distributions declared per trust unit ($)	0.54	0.54	0.54	0.54	**0.54**
Net capital expenditures ($ millions) [(1)]	20.93	10.97	16.43	18.35	**59.61**
Total assets ($ millions)	324.31	324.96	327.54	340.19	**396.90**
Bank debt ($ millions)	37.68	46.74	44.10	56.87	**92.18**
Average daily production (boe)	8,483	8,465	8,501	8,790	**9,015**
Average realized commodity field price before the impact of financial risk management contracts ($/boe)	50.47	50.91	46.84	50.86	**63.68**
Funds flow netback ($/boe)	28.55	26.69	22.22	24.86	**30.17**

(1) First quarter 2008 expenditures include Rival Energy Ltd. corporate acquisition amounts as follows; cash consideration of $16.40 million, transaction costs of $0.29 million, net debt assumed of $17.57 million and the equity issuance of trust units valued at $13.37 million.

	2006			
	Q1	Q2	Q3	Q4
Petroleum and natural gas revenue ($ millions)	40.94	38.66	37.93	36.50
Net earnings ($ millions)	11.92	13.22	12.31	7.05
Net earnings per diluted unit ($)	0.72	0.79	0.73	0.43
Funds flow from operations ($ millions) (2)	22.12	22.06	19.87	18.84
Funds flow from operations per diluted unit ($) (2)	1.15	1.14	1.02	0.97
Cash distributions ($ millions)	8.89	8.96	9.00	9.05
Cash distributions declared per trust unit ($)	0.54	0.54	0.54	0.54
Net capital expenditures ($ millions)	15.19	8.78	18.99	20.41
Total assets ($ millions)	282.35	283.86	294.14	310.57
Bank debt ($ millions)	26.64	18.14	20.71	30.04
Average daily production (boe)	8,812	8,322	8,194	8,366
Average realized commodity field price before the impact of financial risk management contracts ($/boe)	51.63	51.06	50.32	47.42
Funds flow netback ($/boe) (2)	27.89	29.13	26.36	24.47

(1) First quarter 2008 expenditures include Rival Energy Ltd. corporate acquisition amounts as follows; cash consideration of $16.40 million, transaction costs of $0.29 million, net debt assumed of $17.57 million and the equity issuance of trust units valued at $13.37 million.

(2) Throughout this report, funds flow from operations, funds flow from operations per diluted unit and funds flow netbacks are now calculated inclusive of asset retirement expenditures. All prior period calculations have been restated to reflect this change.

ADDITIONAL INFORMATION

Additional information regarding the Trust and its business operations, including the Trust's Annual Information Form for December 31, 2007, is available on the Trust's SEDAR profile at www.sedar.com.

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

Calgary, Alberta
May 13, 2008

CONSOLIDATED BALANCE SHEETS

(unaudited)

($ thousands)	March 31, 2008	December 31, 2007
ASSETS [note 7]		
Current		
Accounts receivable [note 14]	**25,682**	21,668
Prepaid expenses and deposits	**1,325**	1,690
Unrealized risk management asset [note 14]	**-**	1,432
	27,007	24,790
Long term deposit	**1,536**	1,455
Goodwill [notes 4 and 5]	**1,929**	-
Property and equipment, net [notes 4 and 6]	**366,427**	313,949
	396,899	340,194
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**25,993**	27,172
Cash distributions payable [note 15]	**3,183**	3,074
Unrealized risk management liability [note 14]	**16,322**	11,127
	45,498	41,373
Long term debt [note 7]	**92,184**	56,868
Unrealized risk management liability [note 14]	**1,536**	1,303
Asset retirement obligations [note 8]	**25,572**	21,184
Future income taxes	**40,143**	37,258
	204,933	157,986
NON-CONTROLLING INTEREST		
Exchangeable shares [note 3]	**21,268**	20,730
UNITHOLDERS' EQUITY		
Unitholders' capital [note 9]	**103,697**	89,688
Contributed surplus [note 9]	**3,914**	3,714
Accumulated earnings	**193,375**	188,819
Accumulated cash distributions [note 15]	**(130,288)**	(120,743)
	170,698	161,478
	396,899	340,194

See accompanying notes.

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME AND ACCUMULATED EARNINGS

(unaudited)	Three Months Ended March 31,	
($ thousands, except per unit amounts)	**2008**	2007
REVENUE		
Petroleum and natural gas revenue	**52,239**	38,532
Unrealized risk management loss [note 14]	**(6,860)**	(5,835)
Realized risk management gain/(loss) [note 14]	**(2,867)**	2,326
Royalties	**(10,711)**	(8,326)
	31,801	26,697
EXPENSES		
Production	**9,161**	7,878
General and administrative	**2,233**	1,577
Unit-based compensation [note 9]	**255**	359
Interest and financing charges [note 7]	**1,333**	573
Unrealized foreign exchange gain	**(150)**	(61)
Accretion of asset retirement obligations [note 8]	**507**	324
Depletion and depreciation	**14,229**	11,544
	27,568	22,194
EARNINGS BEFORE INCOME TAXES	**4,233**	4,503
INCOME TAXES		
Current	**961**	479
Future (recovery)	**(1,984)**	(2,004)
	(1,023)	(1,525)
EARNINGS FOR THE PERIOD BEFORE NON-CONTROLLING INTEREST	**5,256**	6,028
Non-controlling interest – exchangeable shares [note 3]	**(700)**	(807)
NET EARNINGS AND COMPREHENSIVE INCOME FOR THE PERIOD	**4,556**	5,221
ACCUMULATED EARNINGS, BEGINNING OF PERIOD	**188,819**	164,267
ACCUMULATED EARNINGS, END OF PERIOD	**193,375**	169,488
NET EARNINGS PER UNIT [note 11]		
Basic	**0.26**	0.31
Diluted	**0.26**	0.31

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)	Three Months Ended March 31,	
($ thousands)	**2008**	2007
OPERATING ACTIVITIES		
Net earnings for the period	**4,556**	5,221
Add (deduct) non-cash items:		
Non-controlling interest – exchangeable shares	**700**	807
Unrealized risk management loss	**6,860**	5,835
Depletion and depreciation	**14,229**	11,544
Accretion of asset retirement obligations	**507**	324
Unit-based compensation	**255**	359
Unrealized foreign exchange gain	**(150)**	(61)
Future income taxes (recovery)	**(1,984)**	(2,004)
Asset retirement expenditures	**(223)**	(229)
	24,750	21,796
Changes in non-cash working capital	**(9,476)**	(3,446)
	15,274	18,350
FINANCING ACTIVITIES		
Advances of bank debt	**18,402**	7,643
Cash distributions to unitholders	**(9,545)**	(9,121)
Exercise of unit rights	**184**	951
Changes in non-cash financing working capital	**109**	27
	9,150	(500)
INVESTING ACTIVITIES		
Additions to property and equipment	**(11,995)**	(20,925)
Proceeds on disposal of property and equipment	**20**	-
Corporate acquisitions (cash portion) [note 4]	**(16,687)**	-
Long term deposit	**(81)**	-
Changes in non-cash investing working capital	**4,319**	3,075
	(24,424)	(17,850)
NET CHANGE IN CASH DURING THE PERIOD AND CASH, END OF PERIOD	**-**	-

See accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2008 and 2007 (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, 2007, 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 report for the year ended December 31, 2007.

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

Zargon, for the first time, has recorded goodwill. See note 5 for a description of the accounting policy adopted.

As disclosed in the December 31, 2007 annual audited consolidated financial statements, on January 1, 2008, the Trust adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

-"Financial Instruments – Presentation", Section 3863 and "Financial Instruments – Disclosures", Section 3862. The new disclosure standards increase Zargon's disclosure regarding the nature and extent of the risks associated with financial instruments and how those risks are managed (See note 14). The new presentation standard carries forward the former presentation requirements.

-"Capital Disclosures", Section 1535. The new standard requires Zargon to disclose its objectives, policies and processes for managing its capital structure (See note 10).

In addition, the Trust has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Trust:

As of January 1, 2009, Zargon will be required to adopt the CICA Handbook Section 3064, "Goodwill and Intangible Assets", which will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard should not have a material impact on Zargon's consolidated financial statements.

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. As Zargon will be required to report its results in accordance with IFRS starting in 2011, the Trust is assessing the potential impacts of this changeover and developing its plan accordingly.

3. 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 distributions paid on the trust units. Cash distributions are not paid on the exchangeable shares. During the three months ended March 31, 2008, a total of 0.01 million exchangeable shares were converted into 0.02 million trust units based on the exchange ratio at the time of conversion. At March 31, 2008, the exchange ratio was 1.32753 trust units per exchangeable share.

Non-Controlling Interest – Exchangeable Shares

	Three Months Ended March 31, 2008	
(thousands, except exchange ratio)	Number of Shares	Amount ($)
Balance, beginning of period	2,071	20,730
Earnings attributable to non-controlling interest	-	700
Exchanged for trust units at book value and including earnings attributed during the period	(14)	(162)
Balance, end of period	2,057	21,268
Exchange ratio, end of period	1.32753	
Trust units issuable upon conversion of exchangeable shares, end of period	2,731	

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 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, beginning of period	89,688	20,730	110,418
Issued on redemption of exchangeable shares at book value	34	(34)	-
Effect of EIC-151	367	572	939
Unit-based compensation recognized on exercise of unit rights	55	-	55
Issued on corporate acquisition	13,369	-	13,369
Unit rights exercised for cash	184	-	184
Balance at March 31, 2008	103,697	21,268	124,965

4. ACQUISITION

On January 23, 2008, a subsidiary of the Trust acquired all of the outstanding shares of Rival Energy Ltd. ("Rival"), a public oil and gas company, for consideration of $30.06 million. Consideration consisted of $16.40 million cash, the issuance of 573,300 Zargon trust units valued at $23.32 per unit and acquisition costs of $0.29 million.

The results of operations for Rival have been included in the consolidated financial statements since January 23, 2008.

The acquisition was accounted for by the purchase method as follows:

Net Assets Acquired

($ thousands)	
Property and equipment	**54,065**
Goodwill	**1,929**
Working capital deficiency	**(661)**
Long term debt	**(16,914)**
Future income tax liability	**(4,596)**
Asset retirement obligations	**(3,767)**
Total net assets acquired	**30,056**

Consideration

($ thousands)	
Cash	**16,400**
Trust units issued	**13,369**
Acquisition costs	**287**
Total purchase price	**30,056**

5. GOODWILL

Goodwill is recognized on corporate acquisitions when the total purchase price exceeds the fair value of the net identifiable assets of the acquired company. Goodwill is tested for impairment on an annual basis in the fourth quarter. If indications of impairment are present, a loss would be charged to earnings for the amount that the carrying value of goodwill exceeds its fair value.

6. PROPERTY AND EQUIPMENT

		March 31, 2008	
($ thousands)	**Cost**	**Accumulated Depletion and Depreciation**	**Net Book Value**
Petroleum, natural gas properties and other equipment (1)	**605,663**	**239,236**	**366,427**

		December 31, 2007	
($ thousands)	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum, natural gas properties and other equipment (1)	538,957	225,008	313,949

(1) As a result of shareholders redeeming exchangeable shares, property and equipment has cumulatively increased $52.12 million, $0.36 million relating to the first three months of 2008, $8.82 million relating to 2007 and $42.94 million relating to prior years. The effect of these increases has resulted in additional depletion and depreciation expense of approximately $18.14 million, $1.42 million relating to the first three months of 2008, $6.16 million relating to 2007 and $10.56 million relating to prior years.

7. LONG TERM DEBT

On January 31, 2008, Zargon amended its syndicated committed credit facilities, the result of which is an increase in the available facilities and borrowing base to $150 million. These facilities consist of a $130 million tranche available to the Canadian borrower and a US $18 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 364 day period with the provision for an annual extension at the option of the lenders and upon notice from Zargon’s management. The next renewal date is July 29, 2008. Should the facilities not be renewed, they convert to one year non-revolving term facilities at the end of the revolving 364 day period. Repayment would not be required until the end of the non-revolving term, and, as such, these facilities have been classified as long term debt.

8. ASSET RETIREMENT OBLIGATIONS

The following table reconciles Zargon's asset retirement obligations:

	Three Months Ended March 31,	
($ thousands)	**2008**	2007
Balance, beginning of period	**21,184**	17,307
Net liabilities incurred/acquired	**4,072**	222
Liabilities settled	**(223)**	(229)
Accretion expense	**507**	324
Foreign exchange	**32**	(11)
Balance, end of period	**25,572**	17,613

9. UNITHOLDERS' EQUITY

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

Trust Units

	Three Months Ended March 31, 2008	
(thousands)	**Number of Units**	**Amount ($)**
Balance, beginning of period	**17,076**	**89,688**
Unit rights exercised for cash	**13**	**184**
Unit-based compensation recognized on exercise of unit rights	**-**	**55**
Issued on corporate acquisition	**573**	**13,369**
Issued on conversion of exchangeable shares	**19**	**401**
Balance, end of period	**17,681**	**103,697**

The proforma total units outstanding at March 31, 2008, 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 3), is 20.412 million units.

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

Contributed Surplus

($ thousands)	Three Months Ended March 31, 2008
Balance, beginning of period	**3,714**
Unit-based compensation expense	**255**
Unit-based compensation recognized on exercise of unit rights	**(55)**
Balance, end of period	**3,914**

Trust Unit Rights Incentive Plan and Unit-Based Compensation

The Trust has a unit rights incentive plan (the "Plan") that allows the Trust to issue rights to acquire trust units to directors, officers, employees and other service providers. The Trust is authorized to issue up to 2.36 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 Plan (the "modified price"). The modified price is calculated by deducting from the grant price the amount by which monthly distributions, on a per unit basis, made by the Trust after the grant date exceed a monthly return of 0.833 percent of the Trust's recorded net book value of oil and natural gas properties. Rights granted under the 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 2008 include a volatility factor of expected market price of 25.9 percent, a risk-free interest rate of 3.4 percent, a dividend yield of 9.8 percent and an expected life of the unit rights of four years. These unit rights, together with the continued vesting of unit rights granted in prior years resulted in unit-based compensation expense for the three months ended March 31, 2008 of $0.26 million (2007 - $0.36 million).

Compensation expense associated with rights granted under the 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 expense in the period in which they occur.

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

	Three Months Ended March 31, 2008	
	Number of Unit Rights (thousands)	**Weighted Average Exercise Price Initial and Modified ($/unit right)**
Outstanding at beginning of period	**1,488**	**26.41/24.60**
Unit rights granted	**130**	**22.10**
Unit rights exercised	**(13)**	**13.71**
Unit rights cancelled	**(6)**	**26.90**
Outstanding at end of period	**1,599**	**26.13/24.29**
Unit rights exercisable at period end	**1,003**	**26.40/23.94**

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 potential 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 operations. 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. Funds flow from operations represents net earnings 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, 2008**	December 31, 2007
Net debt	**94,353**	63,756
Annualized funds flow from operations	**99,000**	79,838
Net debt to funds flow from operations ratio	**1.0**	0.8

Zargon's net debt to funds flow from operations ratio increased to 1.0 from 0.8 at December 31, 2007, primarily due to the acquisition of Rival Energy Ltd.

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.

11. 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,	
(thousand units)	**2008**	2007
Basic	**17,523**	16,868
Diluted	**20,203**	19,454

12. 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)	**2008**	2007
Petroleum and Natural Gas Revenue		
Canada	**45,514**	33,454
United States	**6,725**	5,078
Total	**52,239**	38,532
Net Capital Expenditures (1)		
Canada	**59,200**	20,781
United States	**406**	144
Total	**59,606**	20,925

(1) For net capital expenditures, amounts include capital expenditures acquired for cash, equity issuances, acquisition costs and net debt assumed on corporate acquisitions.

($ thousands)	**March 31, 2008**	December 31, 2007
Property and Equipment, net		
Canada	**331,328**	278,444
United States	**35,099**	35,505
Total	**366,427**	313,949

13. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended March 31,	
($ thousands)	**2008**	2007
Cash interest paid	**683**	580
Cash taxes paid	**59**	763

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTRACTS

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

The fair values of accounts receivable, deposits, accounts payable, cash distributions payable and long term debt approximate their carrying amount.

Risk management assets and liabilities are recorded at their estimated fair value based on the mark-to-market method of accounting, using quoted market prices.

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. 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. The Trust has outstanding financial contracts as follows:

Financial Contracts at March 31, 2008:

	Rate	Weighted Average Price	Range of Terms	Fair Market Value Loss ($ thousands)
Oil swaps	600 bbl/d	$65.01 US/bbl	Apr. 1/08–Jun. 30/08	(2,016)
	600 bbl/d	$71.54 US/bbl	Apr. 1/08–Dec. 31/08	(4,752)
	500 bbl/d	$87.58 US/bbl	Apr. 1/08–Jun. 30/09	(2,531)
	600 bbl/d	$68.94 US/bbl	Jul. 1/08–Dec. 31/08	(3,398)
	500 bbl/d	$72.74 US/bbl	Jan. 1/09–Mar. 31/09	(1,126)
	200 bbl/d	$93.75 US/bbl	Jan. 1/09–Sep. 30/09	(135)
	500 bbl/d	$85.30 US/bbl	Jul. 1/09–Dec. 31/09	(940)
Natural gas swaps	8,000 gj/d	$7.31/gj	Apr. 1/08–Oct. 31/08	(2,670)
	2,000 gj/d	$8.71/gj	Nov. 1/08–Mar. 31/09	(290)
Total Fair Market Value, Financial Contracts				**(17,858)**

Oil swaps are settled against the NYMEX pricing index, whereas natural gas swaps are settled against the AECO pricing index.

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 based on the fair value (mark-to-market) of the contracts at the period end. The unrealized loss for the first three months of 2008 was $6.86 million and the unrealized loss for the first three months of 2007 was $5.84 million. The realized loss for the first three months of 2008 was $2.87 million and the realized gain for the first three months of 2007 was $2.33 million.

Contracts settled by way of physical delivery are recognized as part of the normal revenue stream. These instruments have no book values recorded in the interim consolidated financial statements. The Trust has outstanding physical contracts as follows:

Physical Contracts at March 31, 2008:

	Rate	Weighted Average Price	Range of Terms	Fair Market Value Loss ($ thousands)
Natural gas fixed price	2,000 gj/d	$7.88/gj	Apr. 1/08–Oct. 31/08	(425)
	4,000 gj/d	$8.69/gj	Nov. 1/08–Mar. 31/09	(592)
	1,000 gj/d	$7.87/gj	Apr. 1/09–Oct. 31/09	(45)
Total Fair Market Value, Physical Contracts				**(1,062)**

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 measure.

Fluctuations in commodity prices could have resulted in unrealized gains/(losses) on risk management contracts impacting net earnings as follows:

	Three Months Ended March 31, 2008	
($ thousands)	Favourable 10% Change	Unfavourable 10% Change
Natural gas price	**1,811**	**(1,811)**
Crude oil price	**7,572**	**(7,572)**

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 relating to commodity prices, interest rates and foreign exchange rates, credit risk and liquidity risk.

Market Risk

Market risk, the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices, 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 March 31, 2008, the increase or decrease in net earnings for each one percent change in interest rates amounts to $0.15 million.

- Foreign Exchange Risk

As Zargon operates in North America, fluctuations in the exchange rate between the U.S./Canadian dollar can have a significant effect on the Trust's reported results. A $0.01 change in the U.S. to Canadian dollar exchange rate would have resulted in a $0.29 million increase or decrease in net earnings at March 31, 2008.

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 and 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 significant individual accounts receivable at March 31, 2008, approximately 45 percent was owing from two companies and Zargon anticipates full collection.

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, 2008, Zargon had available unused committed bank credit facilities in the amount of $57.82 million. 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	**25,993**	**-**	**25,993**
Cash distributions payable	**3,183**	**-**	**3,183**
Risk management liabilities	**16,322**	**1,536**	**17,858**
Long term debt (1)	**-**	**92,184**	**92,184**

(1) See note 7 for the details on the fully revolving credit facilities.

15. CASH DISTRIBUTIONS

During the three month period, the Trust declared cash distributions to the unitholders in the aggregate amount of $9.55 million (2007 – $9.12 million) in accordance with the following schedule:

2008 Distributions	Record Date	Distribution Date	Per Trust Unit
January	January 31, 2008	February 15, 2008	$0.18
February	February 29, 2008	March 17, 2008	$0.18
March	March 31, 2008	April 15, 2008	$0.18

For Canadian income tax purposes, the distributions are currently estimated to be 100 percent taxable income to unitholders.

16. SUBSEQUENT EVENTS

On March 12, 2008, Zargon entered into an Acquisition Agreement pursuant to which Zargon has agreed to make an offer to acquire all the issued and outstanding common shares of Newpact Energy Corp. ("Newpact") and assume approximately $3.65 million of net debt subject to a number of conditions. Pursuant to the Newpact Acquisition Agreement, Newpact shareholders will receive approximately 426,000 Zargon trust units or approximately 0.0534 trust units for each Newpact common share and the acquisition is expected to close in late May, 2008.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

Corporate Information

BOARD OF DIRECTORS

Craig H. Hansen
Calgary, Alberta

K. James Harrison [4]
Chairman of the Board
Oakville, Ontario

Kyle D. Kitagawa [1] [2]
Calgary, Alberta

John O. McCutcheon [3]
Vancouver, British Columbia

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

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

OFFICERS

Craig H. Hansen
President and Chief Executive Officer

Brent C. Heagy
Executive Vice President and
Chief Financial Officer

Daniel A. Roulston
Executive Vice President, Operations

Henry J. Baird
Vice President, Exploitation

Jason B. Dranchuk
Controller and Treasurer

Tracy L. Howard
Corporate Secretary

Brian G. Kergan
Vice President, Corporate Development and Reserves

Mark I. Lake
Vice President, Exploration

Lorne D. Schwetz
Vice President, Land

STOCK EXCHANGE LISTING

The Toronto Stock Exchange

Zargon Energy Trust
Trust Units
Trading Symbol: ZAR.UN

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

TRANSFER AGENT

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