ZARGON ENERGY TRUST

2008 Third Quarter Report

FINANCIAL & OPERATING HIGHLIGHTS

Zargon Energy Trust is pleased to report its financial results for the third quarter of 2008. Funds flow from operating activities were $29.75 million ($1.42 per diluted trust unit) in the 2008 third quarter compared with $32.02 million ($1.55 per diluted trust unit) in the 2008 second quarter and $17.38 million ($0.88 per diluted trust unit) in the 2007 third quarter.

Highlights from the three and nine months ended September 30, 2008, are noted below:

- Third quarter 2008 production averaged 9,340 barrels of oil equivalent per day, one percent above the preceding quarter and a 10 percent increase over the corresponding 2007 quarter. Third quarter production volume increases compared to the corresponding 2007 quarter were primarily due to the first half 2008 corporate acquisitions of Rival Energy Ltd. ("Rival") and Newpact Energy Corp. ("Newpact"), which closed on January 23, 2008, and May 16, 2008, respectively. For the third quarter of 2008, Zargon's production averaged 445 barrels of oil equivalent per day per million trust units outstanding compared to 447 and 432 barrels of oil equivalent per day per million trust units outstanding for the prior quarter and the corresponding quarter of 2007, respectively.
- Petroleum and natural gas revenue and funds flow from operating activities in the 2008 third quarter decreased five percent and seven percent, respectively, from the record prior quarter. These reductions resulted from decreased realized oil prices of two percent and decreased realized natural gas prices of 16 percent from the prior quarter and were partially offset by a reduction in realized risk management losses. The substantial increase in net earnings for the quarter to $40.05 million was primarily a result of non-cash unrealized risk management gains relating to the period's significant decrease in forward market prices for both crude oil and natural gas, which resulted in $46.58 million of pre-tax mark-to-market gains on outstanding commodity risk management positions.
- The Trust declared three monthly cash distributions of $0.18 per trust unit in the third quarter of 2008 for a total of $9.87 million. These cash distributions were equivalent to a payout ratio of 38 percent of the Trust's third 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 33 percent of funds flow from operating activities.
- The Trust's third quarter exploration and development capital expenditures (excluding acquisitions and dispositions) increased 43 percent from the prior quarter to $16.33 million primarily as a result of increased drilling, completion, equipping and facilities expenditures. In the third quarter, Zargon also completed $1.14 million of property acquisitions in the Pembina area of West Central Alberta.
- Surplus funds flow during the quarter were allocated to debt reduction, resulting in debt net of working capital (excluding unrealized risk management assets and liabilities) decreasing four percent from the prior quarter to $84.62 million at September 30, 2008. The Trust's balance sheet remains strong with a debt net of working capital to annualized funds flow ratio of 0.7 times. As at September 30, 2008, Zargon had approximately $100 million of unutilized committed credit facilities.

(unaudited)	Three Months Ended September 30, 2008	2007	Percent Change	Nine Months Ended September 30, 2008	2007	Percent Change
FINANCIAL						
Income and Investments ($ millions)						
Petroleum and natural gas revenue	**66.35**	36.64	81	**188.25**	114.38	65
Funds flow from operating activities	**29.75**	17.38	71	**86.51**	59.74	45
Cash flows from operating activities	**33.58**	24.64	36	**85.29**	62.08	37
Cash distributions	**9.87**	9.19	7	**29.13**	27.49	6
Net earnings	**40.05**	5.50	629	**40.09**	22.35	79
Net capital expenditures	**17.47**	16.43	6	**103.36**	48.32	114
Per Unit, Diluted						
Funds flow from operating activities ($/unit)	**1.42**	0.88	61	**4.21**	3.06	38
Cash flows from operating activities ($/unit)	**1.60**	1.25	28	**4.15**	3.18	31
Net earnings ($/unit)	**2.20**	0.32	588	**2.24**	1.32	70
Cash Distributions ($/trust unit)	**0.54**	0.54	-	**1.62**	1.62	-
Balance Sheet at Period End ($ millions)						
Property and equipment, net				**385.37**	304.76	26
Bank debt				**74.95**	44.10	70
Unitholders' equity				**203.00**	167.11	21
Total Units Outstanding at Period End (millions)				**21.05**	19.70	7
OPERATING						
Average Daily Production						
Oil and liquids (bbl/d)	**4,367**	3,588	22	**4,263**	3,679	16
Natural gas (mmcf/d)	**29.84**	29.48	1	**29.61**	28.83	3
Equivalent (boe/d)	**9,340**	8,501	10	**9,198**	8,483	8
Equivalent per million trust units (boe/d)	**445**	432	3	**446**	433	3
Average Selling Price (before the impact of financial risk management contracts)						
Oil and liquids ($/bbl)	**109.34**	68.19	60	**102.15**	62.49	63
Natural gas ($/mcf)	**8.17**	5.21	57	**8.50**	6.56	30
Wells Drilled, Net	**7.7**	20.9	(63)	**22.0**	37.9	(42)
Undeveloped Land at Period End (thousand net acres)				**464**	387	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.

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 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.

PRODUCTION (1)

Natural gas production volumes in the third quarter of 2008 averaged 29.84 million cubic feet per day, slightly lower than the previous quarter and a one percent increase from the corresponding period of 2007. As anticipated, third quarter natural gas production gains from Alberta Plains and West Central Alberta drilling and the tie-in of new wells were able to offset naturally occurring production declines in these core areas. For the remainder of the year, we anticipate natural gas production volumes to remain relatively flat as production additions from the drilling and tie-in of new wells are offset by naturally occurring declines.

For the 2008 third quarter, oil and liquids production was 4,367 barrels per day, a three percent increase from the preceding quarter and a 22 percent increase from the corresponding 2007 quarter as a result of the Rival and Newpact corporate acquisitions. By year end, we anticipate modest production increases from these levels as our oil exploitation drilling programs at the Alberta Plains Bellshill Lake and West Central Alberta Highvale properties plus the Williston Basin horizontal drilling programs at Steelman and Elswick provide incremental production volumes that should more than offset natural production declines.

CAPITAL EXPENDITURES (1)

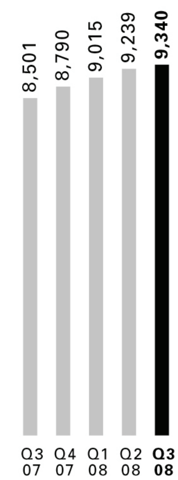
During the third quarter of 2008, Zargon drilled eight gross wells (7.7 net) that resulted in 4.9 net oil wells, 1.8 net natural gas wells and a 1.0 net dry and abandoned well for an 87 percent success ratio. Oil wells drilled in the third quarter included 1.0 net well at Taber in the Alberta Plains core area and in the Williston Basin, 1.9 net horizontal oil wells were drilled at Elswick and Weyburn and 2.0 net vertical wells were drilled at Pinto and Frys, Saskatchewan. During the quarter, Zargon also drilled 1.8 net natural gas wells located at Jarrow in the Alberta Plains core area and in the Peace River Arch location of the West Central Alberta core area.

For the first nine months of 2008, our $37.18 million field capital program ($16.33 million in the third quarter) has resulted in the year-to-date drilling of 22.0 net wells. In the fourth quarter, we are projecting an expanded $18 million field capital program with 17 net wells that will be primarily directed towards oil exploitation drilling, which will take the year's total field capital expenditures to approximately $55 million and 39 net wells. Specifically, in the Alberta Plains core area, we are planning to drill nine Bellshill Lake oil exploitation locations and three Jarrow natural gas locations and continued high-volume lift and related modifications at Taber and Bellshill Lake. In the Williston Basin, we are planning a vertical well at Frys and two horizontal wells at Steelman, Saskatchewan. Exploitation success at Steelman could lead to numerous additional exploitation locations in 2009. In the West Central Alberta core area, we plan on drilling two oil targets in the Greater Highvale area.

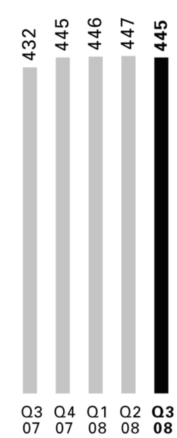
In the first nine months of 2008, Zargon took advantage of improved market values for corporate acquisitions with the closing of the Rival and Newpact acquisitions for a total of $59.85 million. Zargon also concluded four smaller property acquisitions totalling $6.35 million that take our total 2008 acquisition expenditures to just over $66 million. Our field capital program is forecast to total $55 million in 2008, a $5 million increase from the estimate provided in the 2008 second quarter report, as we have chosen to advance our higher-cost oil exploitation drilling programs into late fall of 2008 from the first quarter of 2009. To date, we continue to be pleased with both our acquisition and field capital programs and we anticipate improved 2008 capital efficiencies from those delivered in 2007.

In the third quarter of 2008, Zargon purchased 10 thousand net acres of freehold and Crown lands at an average price of $51 per acre. These purchases allowed Zargon to slightly increase its quarter end undeveloped land inventory to 464 thousand net acres, up two thousand net acres from the balance reported at the end of the prior quarter. For the remainder of the year, Zargon will continue to be an active participant at land sales during this period of lower Alberta Crown land sale costs, particularly in the Alberta Plains core area.

Production
(boe/d)



Production
(boe/d per million trust units)



GUIDANCE [1]

In the August 13, 2008 press release announcing the second quarter results, Zargon provided updated production guidance of 9,300 barrels of oil equivalent per day for the third quarter of 2008, and actual production of 9,340 barrels of oil equivalent per day was in line with this estimate. Also at that time, the fourth quarter 2008 production guidance was set at 9,500 barrels of oil equivalent per day. Assuming no additional acquisitions, we anticipate that this guidance level will be exceeded by year end, but the magnitude of the quarter-over-quarter growth in our fourth quarter average volumes will depend on the timing of our ongoing completion and tie-in operations pertaining to our expanded Williston Basin and Alberta oil exploitation programs.

For 2009, Zargon is providing preliminary guidance at 9,300 barrels of oil equivalent per day, which is based on a 2009 capital program of $50 million that includes the drilling of 34 net wells and emphasizes oil exploitation projects in all three of our core areas. In addition, Zargon is budgeting $15 million for property acquisitions focused on developing further exploration, exploitation or development opportunities, although production volumes from these expenditures have not been included in the 2009 production guidance estimate.

Recently, the turmoil and volatility in financial markets related to the credit crisis, reduced equity values, reduced world wide economic activity and declining commodity prices have created a general environment of uncertainty for our industry. We expect that our disciplined approach coupled with our financial strength and flexibility will serve us well during this period of opportunity. Entering into 2009, Zargon is well positioned with a strong balance sheet, an attractive commodity hedge position and an inventory of promising exploitation, development and exploration opportunities that have been augmented with the acquisitions of Rival and Newpact.

From this strong position and looking forward into 2009, Zargon is focused on using internally generated funds flows to maintain distributions and fund a level of capital expenditures that maintains production levels. With this in mind, Zargon has prepared its 2009 budget assuming a US $75 per barrel (WTI oil), US $7 per mmbtu (NYMEX natural gas) and a $0.85 Cdn./US dollar exchange rate. Based on these and other royalty and operating assumptions, which reflect our existing commodity price hedging position, Zargon's current per unit distribution level of $0.18 per month and total budgeted 2009 capital program of $65 million can be fully funded from internally generated funds flows. Additionally, Zargon has approximately $100 million of unutilized committed credit facilities, which can be used to pursue value-added property and corporate acquisitions that will be focused on either exploitable oil properties, developable natural gas properties or shallow decline natural gas properties.

(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 and nine months ended September 30, 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 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 unaudited interim consolidated statements of cash flows in the unaudited interim consolidated financial statements. The Trust evaluates its performance based on net earnings/losses 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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
($ millions)	**2008**	2007	**2008**	2007
Cash flows from operating activities	**33.58**	24.64	**85.29**	62.08
Changes in non-cash operating working capital	**(3.83)**	(7.26)	**1.22**	(2.34)
Funds flow from operating activities	**29.75**	17.38	**86.51**	59.74

- *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 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 offers our assessment of Zargon's future plans and operations as at November 11, 2008, and contains forward-looking statements including:

- *our expectations for production referred to under the headings "Financial & Operating Highlights – Production" and "Financial & Operating Highlights – Guidance";*
- *our expectations for capital spending, drilling activity and finding and development costs referred under the heading "Financial & Operating Highlights – Capital Expenditures";*
- *our expectations for royalty rates referred to under the heading "Financial Analysis";*
- *our expectations for production costs referred to under the heading "Financial Analysis";*
- *our expected sources of funds for distributions and capital expenditures referred to under the heading "Liquidity and Capital Resources”;*
- *our expectations of the impact of legislated modifications to Alberta Crown royalties referred to under the heading "Business Risks – Alberta Royalty and Tax Regime"; and*
- *our distribution policy referred to under the heading “Financial & Operating Highlights – Guidance".*

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. 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 November 11, 2008.

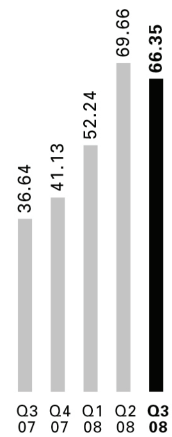
SUMMARY OF SIGNIFICANT EVENTS IN THE THIRD QUARTER

- During the third quarter of 2008, the Trust realized funds flow from operating activities of $29.75 million and declared total distributions of $9.87 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 decreased two percent to $109.34 per barrel and 16 percent to $8.17 per thousand cubic feet, respectively, compared to the second quarter of 2008.
- Third quarter production volumes were 9,340 barrels of oil equivalent per day, a one percent increase over the second quarter of 2008 production levels.
- During the third quarter of 2008, the Trust drilled eight gross wells (7.7 net) with an 87 percent success rate. Total field exploration and development capital expenditures were $16.33 million for the quarter compared to $11.43 million for the prior quarter. Zargon also completed $1.14 million of property acquisitions during the quarter, which was settled utilizing Zargon trust units.
- 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 $84.62 million, which represents slightly less than nine months of the 2008 year-to-date annualized funds flow.
- In July of 2008, Zargon amended and renewed its syndicated credit facilities, which resulted in an increase in the available facilities and the borrowing base by $30 million to $180 million. These expanded facilities continue to be available for general corporate purposes and the acquisition of oil and natural gas properties. In conjunction with this amendment and renewal, Zargon has added another major Canadian based financial institution to its existing banking syndicate.

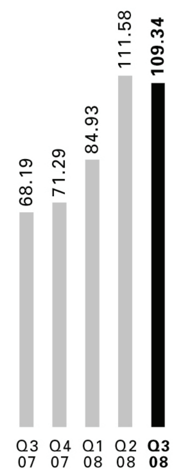
FINANCIAL ANALYSIS

Third quarter 2008 revenue of $66.35 million was five percent below the $69.66 million in the second quarter of 2008 and 81 percent above the $36.64 million in the third quarter of 2007. A 16 percent decrease in natural gas prices received and a two percent decrease in oil and liquids prices received were the primary reasons for the decrease in revenue when compared to the prior quarter amount. Average daily production volumes were relatively unchanged from the prior quarter rate. Third quarter 2008 realized oil and liquids field prices averaged $109.34 per barrel before the impact of financial risk management contracts and were two percent lower than the preceding quarter's $111.58 per barrel and were 60 percent higher than the $68.19 per barrel recorded in the 2007 third quarter. Zargon's crude oil field price differential from the Edmonton par price decreased to $12.51 per barrel in the third quarter of 2008 compared to $14.49 per barrel in the second quarter of 2008. Natural gas field prices received averaged $8.17 per thousand cubic feet before the impact of financial risk management contracts in the third quarter of 2008, 57 percent above the 2007 third quarter prices received and a 16 percent decrease 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.

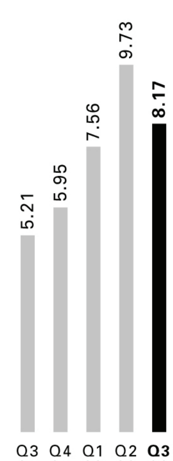
Petroleum and Natural Gas Revenue
($ millions)



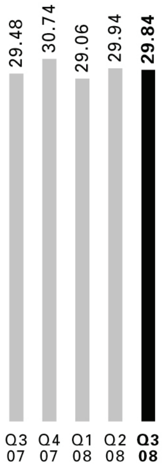
Oil and Liquids Prices
($/bbl)



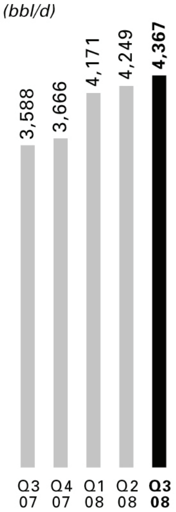
Natural Gas Prices
($/mcf)



Natural Gas Production
(mmcf/d)



Oil and Liquids Production
(bbl/d)



Pricing

	Three Months Ended September 30,			Nine Months Ended September 30,		
Average for the period	**2008**	2007	Percent Change	**2008**	2007	Percent Change
Natural Gas:						
NYMEX average daily spot price ($US/mmbtu)	**9.00**	6.16	46	**9.68**	6.97	39
AECO average daily spot price ($Cdn/mmbtu)	**7.73**	5.16	50	**8.64**	6.55	32
Zargon realized field price before the impact of financial risk management contracts ($Cdn/mcf)	**8.17**	5.21	57	**8.50**	6.56	30
Zargon realized field price before the impact of physical and financial risk management contracts ($Cdn/mcf)	**7.80**	5.03	55	**8.53**	6.37	34
Zargon realized field price after the impact of physical and financial risk management contracts ($Cdn/mcf)	**7.77**	5.72	36	**8.33**	6.95	20
Zargon realized natural gas field price differential/(premium) (1)	**(0.44)**	(0.05)		**0.14**	(0.01)	
Crude Oil:						
WTI ($US/bbl)	**117.98**	75.38	57	**113.27**	66.19	71
Edmonton par price ($Cdn/bbl)	**121.85**	79.95	52	**115.14**	72.99	58
Zargon realized field price before the impact of financial risk management contracts ($Cdn/bbl)	**109.34**	68.19	60	**102.15**	62.49	63
Zargon realized field price after the impact of financial risk management contracts ($Cdn/bbl)	**92.07**	67.31	37	**86.29**	63.94	35
Zargon realized oil field price differential (2)	**12.51**	11.76		**12.99**	10.50	

(1) 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 may occur 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.

(2) 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).

Natural gas production volumes remained relatively steady in the third quarter of 2008 at 29.84 million cubic feet per day compared to 29.94 million cubic feet per day in the second quarter of 2008 and were one percent higher than the 2007 third quarter rate of 29.48 million cubic feet per day. When compared to the same prior year quarter, the 2008 third quarter increase in natural gas production volumes were primarily as a result of the 2008 second quarter addition of volumes related to the acquisition of Newpact, offset by natural production declines. Oil and liquids production during the third quarter of 2008 was 4,367 barrels per day, which is three percent above the 2008 second quarter rate of 4,249 barrels per day and 22 percent above the third quarter of 2007 levels. The year-over-year increase in oil and liquids production was primarily due to production volume additions related to the 2008 first quarter Rival Energy Ltd. ("Rival") corporate acquisition. On a barrel of oil equivalent basis, Zargon produced 9,340 barrels of oil equivalent per day in the third quarter of 2008, which represents a one percent increase from the 9,239 barrels of oil equivalent per day in the second quarter of 2008 and a 10 percent increase when compared to the third quarter of 2007.

Production by Core Area

Three Months Ended September 30,	**2008**			2007		
	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	**1,313**	**19.44**	**4,554**	583	19.87	3,895
West Central Alberta	**328**	**9.93**	**1,983**	144	9.34	1,700
Williston Basin	**2,726**	**0.47**	**2,803**	2,861	0.27	2,906
	4,367	**29.84**	**9,340**	3,588	29.48	8,501

Nine Months Ended September 30,	**2008**			2007		
	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	**1,240**	**19.68**	**4,521**	543	19.90	3,859
West Central Alberta	**278**	**9.44**	**1,851**	159	8.66	1,602
Williston Basin	**2,745**	**0.49**	**2,826**	2,977	0.27	3,022
	4,263	**29.61**	**9,198**	3,679	28.83	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 30 percent of 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 2008 third quarter, relatively higher oil and natural gas prices resulted in a net realized financial risk management loss totalling $8.02 million (consisting of a $1.08 million loss on natural gas contracts and a $6.94 million loss on oil contracts) that compares to a $8.95 million realized net loss in the second quarter of 2008 and a $1.11 million realized net gain in the third quarter of 2007.

Subsequent to the 2008 third quarter, Zargon has entered into US/Cdn. foreign currency financial risk management contracts for calendar 2009 and the first half of 2010. The purpose of these financial risk management contracts is to secure future Canadian dollar cash flows on a portion of Zargon's future oil production. The 2009 foreign currency contract has effectively converted 500 barrels per day of Zargon's 2009 US dollar oil swap contracts from USD$99.73 per barrel of oil to Cdn$117.28 per barrel of oil. Additionally, for the first half of 2010, Zargon's US dollar oil swap contracts (300 barrels per day) have been converted from USD$132.98 per barrel of oil to Cdn$155.79 per barrel of oil.

The 2008 third quarter unrealized risk management gain resulted from oil contract gains ($37.09 million) and natural gas contract gains ($9.49 million) resulting in a total gain of $46.58 million for the quarter, which compares to a net $29.63 million loss for the 2008 second quarter and a net $2.36 million loss in the third quarter of 2007. 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 financial 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 impact net earnings/losses. 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 $13.46 million for the third quarter of 2008, a decrease of four percent from the $14.04 million preceding quarter expense and an increase of 76 percent from the $7.63 million in the third 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 20.8 percent in the third quarter of 2007 to 20.2 percent in the second quarter of 2008 and 20.3 percent in the third quarter of 2008. For the remainder of the 2008 year, assuming current commodity prices and rates of production, 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 $12.10 per barrel of oil equivalent in the third quarter of 2008 compares with $11.22 per barrel of oil equivalent in the preceding quarter and $10.95 per barrel of oil equivalent in the third quarter of 2007. The increase in the 2008 third quarter costs relate to increased workovers, seasonal fall repairs and annual maintenance programs and the relatively higher operating cost properties acquired in the Rival and Newpact corporate acquisitions. For calendar 2008, Zargon anticipates that production costs will, in aggregate, average less than $11.75 per barrel of oil equivalent. For 2009, Zargon anticipates some moderation in the upward cost pressures, but still anticipates an increase in operating costs into the $12.25 to $12.75 per barrel of oil equivalent range.

Operating Netbacks

Three Months Ended September 30,	**2008**		2007	
	Oil and Liquids ($/bbl)	**Natural Gas ($/mcf)**	Oil and Liquids ($/bbl)	Natural Gas ($/mcf)
Production revenue	**109.34**	**8.17**	68.19	5.21
Realized risk management gain/(loss)	**(17.27)**	**(0.39)**	0.88	(0.51)
Royalties	**(22.82)**	**(1.56)**	(14.47)	(1.05)
Production costs	**(16.02)**	**(1.44)**	(14.83)	(1.35)
Operating netbacks	**53.23**	**4.78**	39.77	2.30

Nine Months Ended September 30,	**2008**		2007	
	Oil and Liquids ($/bbl)	**Natural Gas ($/mcf)**	Oil and Liquids ($/bbl)	Natural Gas ($/mcf)
Production revenue	**102.15**	**8.50**	62.49	6.56
Realized risk management gain/(loss)	**(15.86)**	**(0.16)**	(1.45)	(0.39)
Royalties	**(21.00)**	**(1.69)**	(13.56)	(1.38)
Production costs	**(14.54)**	**(1.48)**	(13.77)	(1.31)
Operating netbacks	**50.75**	**5.17**	33.71	3.48

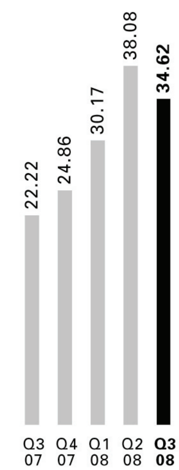
Measured on a unit of production basis (net of recoveries), general and administrative expenses were $2.96 per barrel of oil equivalent for the first nine months of 2008 compared to $2.41 for the first nine months of 2007 and $2.63 for the twelve month period of 2007. The year-over-year increase in general 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. Additionally, commencing January 1, 2008, Zargon records, on a monthly basis, anticipated staff bonuses, which had previously only been recorded in the second half of prior years.

Expensing of unit-based compensation for the first nine months of 2008 was $0.84 million, a 27 percent decrease from the corresponding first nine months of 2007 expense. 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 third quarter were $1.25 million, eight percent lower than the previous quarter amount of $1.36 million and an increase of $0.41 million from $0.85 million in the third quarter of 2007. This year-over-year increase is primarily due to an increase in average bank debt levels. On July 28, 2008, Zargon amended and renewed its syndicated committed credit facilities, which resulted in an increase in the available facilities and borrowing base to $180 million from the previous amount of $150 million. The next renewal date is July 28, 2009. In conjunction with this amendment and renewal, Zargon has added another major Canadian based financial institution to its existing banking syndicate. These expanded facilities continue to be available for general corporate purposes and the potential acquisition of oil and natural gas properties.

Current income taxes for the 2008 third quarter were $0.70 million and primarily related to the United States operations. This quarter's current income taxes decreased $0.13 million when compared to the 2007 third quarter and decreased $0.30 million relative to the second quarter of 2008. On a year-over-year comparison, current income taxes have increased 32 percent due to increased nine-month 2008 taxable income related to higher revenue attributed to higher oil commodity prices and the impact of reduced US tax pool generating capital programs. In the fourth quarter, increased US withholding taxes will partially offset the impact of lower commodity prices and the corresponding lower taxable income. Zargon's total tax pools, as at September 30, 2008, are approximately $174 million, which represents an increase of 18 percent from the comparable $148 million of tax pools available to Zargon at December 31, 2007, primarily due to the tax pools acquired in the Rival and Newpact acquisitions.

Funds Flow Netbacks
($/boe)



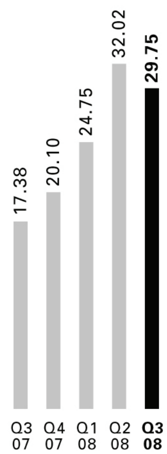
Trust Netbacks

	Three Months Ended September 30,		Nine Months Ended September 30,	
($/boe)	**2008**	2007	**2008**	2007
Petroleum and natural gas revenue	**77.22**	46.84	**74.69**	49.39
Realized risk management gain/(loss)	**(9.34)**	1.41	**(7.87)**	1.97
Royalties	**(15.66)**	(9.76)	**(15.16)**	(10.57)
Production costs	**(12.10)**	(10.95)	**(11.50)**	(10.42)
Operating netbacks	**40.12**	27.54	**40.16**	30.37
General and administrative	**(3.06)**	(2.70)	**(2.96)**	(2.41)
Interest and financing charges	**(1.46)**	(1.08)	**(1.56)**	(0.93)
Asset retirement expenditures	**(0.17)**	(0.48)	**(0.27)**	(0.37)
Capital and current income taxes	**(0.81)**	(1.06)	**(1.05)**	(0.87)
Funds flow netbacks	**34.62**	22.22	**34.32**	25.79

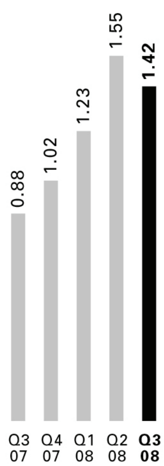
Depletion and depreciation expense for the third quarter of 2008 increased four percent to $15.30 million compared to $14.69 million in the prior quarter and increased 26 percent when compared to the third quarter of 2007 expense of $12.18 million. On a per barrel of oil equivalent basis, the depletion and depreciation rates were $17.80, $17.47 and $15.58 for the third and second quarters of 2008 and the third quarter of 2007, 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 and Newpact corporate acquisitions.

The provision for accretion of asset retirement obligations for the first nine months of 2008 was $1.61 million, a 64 percent increase compared to the first nine 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 and Newpact corporate acquisitions.

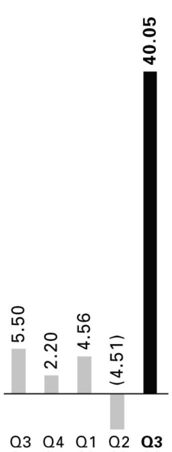
Funds Flow from Operating Activities
($ millions)



Funds Flow Per Unit
($/unit – diluted)



Net Earnings/ (Losses)
($ millions)



The future tax expense for the third quarter of 2008 was $14.27 million when compared to a recovery of $7.77 million in the prior quarter and a recovery of $3.77 million in the third quarter of 2007. The 2008 third quarter increase in the future tax expense, when compared to the 2008 second quarter recovery, is primarily related to an increase in net earnings as a result of the significant increase in unrealized risk management gains 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 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.

On December 15, 2006, the Canadian Federal Department of Finance stated its intention to allow conversions of specified investment flow through ("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 recent 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.

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 $24.21 million on the Trust's consolidated balance sheet as at September 30, 2008. Consolidated net earnings have been reduced for net earnings attributable to the non-controlling interest of $6.02 million in the third 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 third quarter of 2008, resulted in an increase in property and equipment of $2.80 million, a decrease in unitholders' equity and non-controlling interest of $8.04 million and an increase in future income tax liability of $0.78 million. Funds flow was not impacted by these changes. The cumulative impact to date of the application of EIC-151 has been to increase property and equipment by $54.96 million, unitholders' equity and non-controlling interest by $61.66 million, future income tax liability by $18.13 million and an allocation of net earnings/losses to exchangeable shareholders' of $24.83 million.

Funds flow from operating activities in the 2008 third quarter of $29.75 million was $2.27 million, or seven percent lower than the preceding quarter and $12.37 million, or 71 percent higher than the prior year third quarter. The decrease in funds flow from the preceding quarter was primarily due to decreased revenues (net of related royalties and realized risk management contract losses) as a result of lower average field commodity prices and relatively stable production volumes. Compared to the prior year third quarter, a 65 percent increase in commodity prices and a 10 percent increase in production volumes were partially offset by rising production costs and the 2008 third quarter realized risk management contract losses. Funds flow on a per diluted trust unit basis was $1.42 for the third quarter of 2008, an eight percent decrease from the prior quarter and a 61 percent increase from the 2007 third quarter.

Net earnings of $40.05 million for the 2008 third quarter were $44.56 million higher than the $4.51 million of net losses in the preceding quarter and $34.55 million above the $5.50 million of net earnings in the third quarter of 2007. The net earnings/losses 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. The primary reason for the third quarter 2008 net earnings are due to $46.58 million of non-cash unrealized risk management gains in the quarter.

Capital Expenditures

($ millions)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Undeveloped land	**1.67**	1.59	**6.05**	4.93
Geological and geophysical (seismic)	**0.43**	1.01	**2.93**	3.46
Drilling and completion of wells	**10.09**	8.91	**19.59**	23.04
Well equipment and facilities	**4.14**	4.27	**8.61**	13.44
Exploration and development	**16.33**	15.78	**37.18**	44.87
Property acquisitions	**1.14**	0.02	**6.35**	2.52
Property dispositions	**-**	-	**(0.17)**	-
Net property acquisitions	**1.14**	0.02	**6.18**	2.52
Corporate acquisitions (1) (2)	**-**	-	**59.85**	-
Total capital expenditures excluding administrative assets (1) (2)	**17.47**	15.80	**103.21**	47.39
Administrative assets	**-**	0.63	**0.15**	0.93
Total net capital expenditures (1) (2)	**17.47**	16.43	**103.36**	48.32

(1) For the three months ended September 30, 2008, amounts include the equity issuance of trust units valued at $1.14 million.

(2) For the nine months ended September 30, 2008, amounts include cash consideration of $16.40 million, transaction costs of $0.44 million, net debt assumed of $20.26 million and the equity issuance of trust units valued at $23.91 million.

CORPORATE ACQUISITIONS

On May 16, 2008, a subsidiary of the Trust acquired all of the issued and outstanding common shares of Newpact Energy Corp. ("Newpact"), a private oil and gas company, for consideration of $9.54 million. Consideration consisted of the issuance of 425,940 Zargon trust units valued at $22.04 per unit and transaction costs of $0.15 million. Net debt of approximately $2.49 million was assumed as part of this acquisition.

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 $17.77 million was assumed as part of this acquisition.

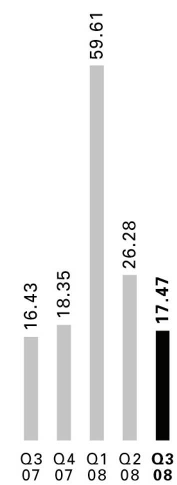
LIQUIDITY AND CAPITAL RESOURCES

Total net capital expenditures (including net property acquisitions, consideration and net debt assumed for corporate acquisitions) of $103.36 million in the first nine months of 2008 were 114 percent higher than the first nine months of 2007, reflecting the $59.85 million attributed to the corporate acquisitions of Rival and Newpact and the $1.14 million equity issuance for a small property acquisition. Conversely, 2008 first nine months field expenditures of $37.18 million were 17 percent lower than the $44.87 million of field expenditures reported for the comparable 2007 period. Similarly, the year-to-date drilling and completion expenses of $19.59 million were 15 percent lower than the prior year's first nine months amount of $23.04 million. During the third quarter of 2008, 7.7 net wells were drilled compared to 5.1 net wells in the second quarter of 2008 and 20.9 net wells in the third quarter of 2007. Field capital expenditures for the first nine months of 2008 were allocated to Alberta Plains – $16.14 million, West Central Alberta – $10.58 million and Williston Basin – $10.46 million.

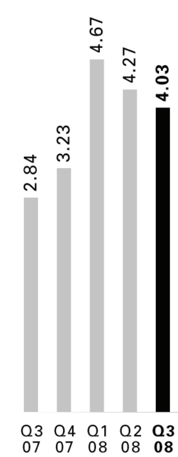
Funds flow from operating activities in the 2008 first nine months of $86.51 million, proceeds from the issuance of trust units of $24.88 million, the changes in working capital of $3.02 million and the increase in bank debt of $18.08 million funded the capital program including corporate and property acquisitions and the cash distributions to the unitholders.

At September 30, 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 $84.62 million, compared to $88.51 million at the end of the 2008 second quarter, and represents slightly less than nine months of the 2008

Net Capital Expenditures
($ millions)



Net Debt Per Unit
($/unit – diluted)



year-to-date annualized funds flow. The $3.89 million quarter-over-quarter decline in the debt net of working capital resulted from strong funds flow from operating activities in the 2008 third quarter. Unutilized committed credit facilities of approximately $100 million were available at September 30, 2008.

The volatility of oil and natural gas prices, the uncertainty relating to Alberta royalties and Canadian income trust tax rules and recent global economic concerns have 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 capital.

Cash Distributions Analysis

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ millions)	**2008**	2007	**2008**	2007
Cash flows from operating activities	**33.58**	24.64	**85.29**	62.08
Net earnings	**40.05**	5.50	**40.09**	22.35
Actual cash distributions paid or payable relating to the period	**(9.87)**	(9.19)	**(29.13)**	(27.49)
Excess of cash flows from operating activities over cash distributions paid	**23.71**	15.45	**56.16**	34.59
Excess/(shortfall) of net earnings over cash distributions paid	**30.18**	(3.69)	**10.96**	(5.14)

During the first nine months of 2008, Zargon has maintained a base monthly distribution of $0.18 per trust unit. 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 and nine months ended September 30, 2008, cash flows from operating activities (after changes in non-cash working capital) of $33.58 million and $85.29 million, respectively, exceeded cash distributions of $9.87 million and $29.13 million, respectively. This was consistent with the three months and nine months ended September 30, 2007, in which cash flows from operating activities (after changes in non-cash working capital) of $24.64 million and $62.08 million, respectively, exceeded cash distributions of $9.19 million and $27.49 million, respectively.

For the three and nine months ended September 30, 2008, net earnings of $40.05 and $40.09 million, exceeded cash distributions of $9.87 million and $29.13 million, respectively. For the three months ended September 30, 2007, net earnings of $5.50 million were exceeded by cash distributions of $9.19 million. For the nine months ended September 30, 2007, net earnings of $22.35 million were exceeded by cash distributions of $27.49 million. Net earnings/losses include significant non-cash charges, which were $10.15 million for the 2008 third quarter and $47.06 million for the nine months ended September 30, 2008, that do not impact cash flow. Net earnings/losses 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/losses, a portion of the cash distribution paid to unitholders may represent an economic return of the unitholders' capital.

For the 2008 third quarter, cash distributions and net capital expenditures totalled $27.34 million ($26.20 million excluding the $1.14 million of equity issuance attributed to a property acquisition), which was $6.25 million lower than the cash flows from operating activities (after changes in non-cash working capital) of $33.58 million. For the nine months ended September 30, 2008, cash flows from operating activities (after changes in non-cash working capital) were exceeded by cash distributions and net capital expenditures (including the cash and non-cash portion of corporate acquisitions) by $47.20 million. For the three and nine months ended

September 30, 2007, cash distributions and net capital expenditures exceeded cash flows from operating activities (after changes in non-cash working capital) by $0.98 million and $13.73 million, respectively. 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.

At November 11, 2008, Zargon Energy Trust had 18.424 million trust units and 1.891 million exchangeable shares outstanding. Assuming full conversion of exchangeable shares at the effective November 11, 2008 exchange ratio of 1.40060, there would be 21.073 million trust units outstanding. Pursuant to the trust unit rights incentive plan there are currently an additional 1.687 million trust unit incentive rights issued and outstanding.

Capital Sources and Uses

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ millions)	**2008**	2007	**2008**	2007
Funds flow from operating activities	**29.75**	17.38	**86.51**	59.74
Changes in working capital and other	**6.84**	10.63	**3.02**	(0.12)
Change in bank debt	**(10.50)**	(2.64)	**18.08**	14.06
Cash distributions to unitholders	**(9.87)**	(9.19)	**(29.13)**	(27.49)
Issuance of trust units	**1.25**	0.25	**24.88**	2.13
Total capital sources	**17.47**	16.43	**103.36**	48.32

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. Zargon has enlisted an independent consulting firm to assist with the assessment and planning of this project.

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 third 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, would 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 31 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.
- Using the December 31, 2007 proved and probable reserve estimates prepared by Zargon's independent engineering firm of McDaniel & Associates Consultants Ltd., Zargon has calculated the anticipated future Alberta Crown royalties based on both the prior and proposed NRF royalty rates. Assuming the McDaniel December 31, 2007 price forecast, the impact of the proposed change in royalty rates (present value before tax at 10 percent), was less than one percent of Zargon's net asset value. However, the analysis indicates that the impact of the NRF would be significantly higher if higher commodity prices were assumed.
- The NRF will also 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, 464 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 and beyond. Consistent with its history, Zargon will adhere to a focused strategy of exploiting, developing and exploring 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

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

(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.

2007	Q1	Q2	Q3	Q4
Petroleum and natural gas revenue ($ millions)	38.53	39.21	36.64	41.13
Net earnings ($ millions)	5.22	11.63	5.50	2.20
Net earnings per diluted unit ($)	0.31	0.68	0.32	0.13
Funds flow from operating activities ($ millions) (1)	21.80	20.56	17.38	20.10
Funds flow from operating activities per diluted unit ($) (1)	1.12	1.05	0.88	1.02
Cash flows from operating activities ($ millions)	18.35	19.09	24.64	14.23
Cash flows from operating activities per diluted unit ($)	0.94	0.97	1.25	0.72
Cash distributions ($ millions)	9.12	9.17	9.19	9.21
Cash distributions declared per trust unit ($)	0.54	0.54	0.54	0.54
Net capital expenditures ($ millions)	20.93	10.97	16.43	18.35
Total assets ($ millions)	324.31	324.96	327.54	340.19
Bank debt ($ millions)	37.68	46.74	44.10	56.87
Average daily production (boe)	8,483	8,465	8,501	8,790
Average realized commodity field price before the impact of financial risk management contracts ($/boe)	50.47	50.91	46.84	50.86
Funds flow netback ($/boe) (1)	28.55	26.69	22.22	24.86

(1) Throughout this report, funds flow from operating activities, funds flow from operating activities 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.

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 ($)	0.72	0.79	0.73	0.43
Funds flow from operating activities ($ millions) (1)	22.12	22.06	19.87	18.84
Funds flow from operating activities per diluted unit ($) (1)	1.15	1.14	1.02	0.97
Cash flows from operating activities ($ millions)	17.45	23.34	24.67	18.28
Cash flows from operating activities per diluted unit ($)	0.91	1.21	1.27	0.94
Cash distributions ($ 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) (1)	27.89	29.13	26.36	24.47

(1) Throughout this report, funds flow from operating activities, funds flow from operating activities 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
November 11, 2008

CONSOLIDATED BALANCE SHEETS

(unaudited)

($ thousands)	**September 30, 2008**	December 31, 2007
ASSETS [note 7]		
Current		
Accounts receivable [note 14]	**27,268**	21,668
Prepaid expenses and deposits	**1,210**	1,690
Unrealized risk management asset [note 14]	**4,980**	1,432
	33,458	24,790
Long term deposit	**1,612**	1,455
Unrealized risk management asset [note 14]	**3,221**	-
Goodwill [notes 4 and 5]	**2,969**	-
Property and equipment, net [notes 4 and 6]	**385,373**	313,949
	426,633	340,194
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**34,836**	27,172
Cash distributions payable [note 15]	**3,314**	3,074
Unrealized risk management liability [note 14]	**8,231**	11,127
	46,381	41,373
Long term debt [note 7]	**74,950**	56,868
Unrealized risk management liability [note 14]	**876**	1,303
Asset retirement obligations [note 8]	**27,892**	21,184
Future income taxes	**49,330**	37,258
	199,429	157,986
NON-CONTROLLING INTEREST		
Exchangeable shares [note 3]	**24,205**	20,730
UNITHOLDERS' EQUITY		
Unitholders' capital [note 9]	**119,589**	89,688
Contributed surplus [note 9]	**4,366**	3,714
Accumulated earnings	**228,913**	188,819
Accumulated cash distributions	**(149,869)**	(120,743)
	202,999	161,478
	426,633	340,194

See accompanying notes.

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME AND ACCUMULATED EARNINGS

(unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
($ thousands, except per unit amounts)	**2008**	2007	**2008**	2007
REVENUE				
Petroleum and natural gas revenue	**66,352**	36,637	**188,247**	114,382
Unrealized risk management gain/(loss) [note 14]	**46,584**	(2,358)	**10,092**	(6,978)
Realized risk management gain/(loss) [note 14]	**(8,021)**	1,105	**(19,835)**	4,551
Royalties	**(13,459)**	(7,630)	**(38,210)**	(24,490)
	91,456	27,754	**140,294**	87,465
EXPENSES				
Production	**10,398**	8,561	**28,992**	24,122
General and administrative	**2,627**	2,117	**7,469**	5,583
Unit-based compensation [note 9]	**320**	416	**837**	1,142
Interest and financing charges	**1,253**	848	**3,942**	2,147
Unrealized foreign exchange gain	**(31)**	(115)	**(42)**	(693)
Accretion of asset retirement obligations [note 8]	**558**	330	**1,607**	982
Depletion and depreciation	**15,297**	12,184	**44,212**	35,489
	30,422	24,341	**87,017**	68,772
EARNINGS BEFORE INCOME TAXES	**61,034**	3,413	**53,277**	18,693
INCOME TAXES				
Current	**695**	828	**2,646**	2,006
Future (recovery)	**14,267**	(3,770)	**4,510**	(9,124)
	14,962	(2,942)	**7,156**	(7,118)
EARNINGS FOR THE PERIOD BEFORE NON-CONTROLLING INTEREST	**46,072**	6,355	**46,121**	25,811
Non-controlling interest – exchangeable shares [note 3]	**(6,022)**	(859)	**(6,027)**	(3,460)
NET EARNINGS AND COMPREHENSIVE INCOME FOR THE PERIOD	**40,050**	5,496	**40,094**	22,351
ACCUMULATED EARNINGS, BEGINNING OF PERIOD	**188,863**	181,122	**188,819**	164,267
ACCUMULATED EARNINGS, END OF PERIOD	**228,913**	186,618	**228,913**	186,618
NET EARNINGS PER UNIT [note 11]				
Basic	**2.20**	0.32	**2.24**	1.32
Diluted	**2.20**	0.32	**2.24**	1.32

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
($ thousands)	**2008**	2007	**2008**	2007
OPERATING ACTIVITIES				
Net earnings for the period	**40,050**	5,496	**40,094**	22,351
Add (deduct) non-cash items:				
Non-controlling interest – exchangeable shares	**6,022**	859	**6,027**	3,460
Unrealized risk management (gain)/loss	**(46,584)**	2,358	**(10,092)**	6,978
Depletion and depreciation	**15,297**	12,184	**44,212**	35,489
Accretion of asset retirement obligations	**558**	330	**1,607**	982
Unit-based compensation	**320**	416	**837**	1,142
Unrealized foreign exchange gain	**(31)**	(115)	**(42)**	(693)
Future income taxes (recovery)	**14,267**	(3,770)	**4,510**	(9,124)
Asset retirement expenditures [note 8]	**(154)**	(379)	**(643)**	(848)
	29,745	17,379	**86,510**	59,737
Changes in non-cash operating working capital	**3,832**	7,256	**(1,221)**	2,340
	33,577	24,635	**85,289**	62,077
FINANCING ACTIVITIES				
Advances (repayment) of bank debt	**(10,498)**	(2,642)	**1,168**	14,060
Cash distributions to unitholders [note 15]	**(9,868)**	(9,192)	**(29,126)**	(27,486)
Exercise of unit rights	**97**	251	**974**	2,127
Changes in non-cash financing working capital	**48**	6	**240**	45
	(20,221)	(11,577)	**(26,744)**	(11,254)
INVESTING ACTIVITIES				
Additions to property and equipment	**(16,313)**	(16,429)	**(42,523)**	(48,319)
Proceeds on disposal of property and equipment	**-**	-	**170**	-
Corporate acquisitions (cash portion) [note 4]	**-**	-	**(16,835)**	-
Long term deposit	**-**	-	**(157)**	-
Changes in non-cash investing working capital	**2,957**	3,371	**800**	(2,504)
	(13,356)	(13,058)	**(58,545)**	(50,823)
NET CHANGE IN CASH DURING THE PERIOD AND CASH, END OF PERIOD	**-**	-	**-**	-

See accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 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 recorded goodwill for the first time in 2008. 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 nine months ended September 30, 2008, a total of 170.15 thousand exchangeable shares were converted into 234.81 thousand trust units based on the exchange ratio at the time of conversion. At September 30, 2008, the exchange ratio was 1.38753 trust units per exchangeable share.

Non-Controlling Interest – Exchangeable Shares

	Nine Months Ended September 30, 2008	
(thousands, except exchange ratio)	Number of Shares	Amount ($)
Balance, beginning of period	2,071	20,730
Earnings attributable to non-controlling interest	-	6,027
Exchanged for trust units at book value and including earnings attributed during the period	(170)	(2,552)
Balance, end of period	1,901	24,205
Exchange ratio, end of period	1.38753	
Trust units issuable upon conversion of exchangeable shares, end of period	2,637	

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/losses must be reduced by the amount of net earnings/losses 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/losses attributable to the exchangeable shareholders, less exchangeable shares (and related cumulative earnings/losses) redeemed. The net earnings/losses attributable to the non-controlling interest on the consolidated statements of earnings/losses represents the cumulative share of net earnings/losses 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, 2008	89,688	20,730	110,418
Issued on redemption of exchangeable shares at book value	414	(414)	-
Effect of EIC-151	4,418	3,889	8,307
Unit-based compensation recognized on exercise of unit rights	185	-	185
Issued on corporate and property acquisitions	23,910	-	23,910
Unit rights exercised for cash	974	-	974
Balance at September 30, 2008	119,589	24,205	143,794

4. ACQUISITIONS

Rival Energy Ltd.

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 and the preliminary purchase price allocation is as follows:

Net Assets Acquired

($ thousands)	
Property and equipment	**54,065**
Goodwill	**2,969**
Working capital deficiency	**(854)**
Long term debt	**(16,914)**
Future income tax liability	**(5,443)**
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**

Newpact Energy Corp.

On May 16, 2008, a subsidiary of the Trust acquired all of the outstanding shares of Newpact Energy Corp. ("Newpact"), a private oil and gas company, for consideration of $9.54 million. Consideration consisted of the issuance of 425,940 Zargon trust units valued at $22.04 per unit and acquisition costs of $0.15 million.

The results of operations for Newpact have been included in the consolidated financial statements since May 16, 2008.

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	**13,925**
Working capital deficiency	**(2,491)**
Future income tax liability	**(922)**
Asset retirement obligations	**(976)**
Total net assets acquired	**9,536**

Consideration

($ thousands)	
Trust units issued	**9,388**
Acquisition costs	**148**
Total purchase price	**9,536**

5. GOODWILL

The goodwill is entirely due to the timing differences created between the tax basis of the assets acquired on corporate acquisitions compared to the fair value of these assets acquired. To assess impairment of goodwill, the fair value of the reporting entity ("consolidated Trust") is determined and compared to the book value of the consolidated Trust. If the fair value of the consolidated Trust is less than the book value, then a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the consolidated Trust's assets and liabilities from the fair value of the consolidated Trust to determine the implied fair value of goodwill and comparing that amount to the book value of the consolidated Trust's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impairment amount. The goodwill balance is assessed for impairment annually at year end or as events occur that could result in an impairment.

6. PROPERTY AND EQUIPMENT

	September 30, 2008		
($ thousands)	**Cost**	**Accumulated Depletion and Depreciation**	**Net Book Value**
Petroleum, natural gas properties and other equipment (1)	**654,592**	**269,219**	**385,373**

	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 $54.96 million, $3.20 million relating to the first nine 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 $20.93 million, $4.21 million relating to the first nine 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 was an increase in the available facilities and borrowing base to $150 million. These facilities consisted of a $130 million tranche available to the Canadian borrower and a US $18 million tranche available to the US borrower.

On July 28, 2008, Zargon amended and renewed its syndicated committed credit facilities, the result of which is an increase in the available facilities and borrowing base to $180 million from the previous amount of $150 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 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 28, 2009. 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. In the normal course of operations Zargon enters into various letters of credit. At September 30, 2008, the approximate value of outstanding letters of credit totalled $4.06 million.

Additionally, with the acquisition of Newpact, Zargon assumed a $4.20 million revolving demand credit facility with a Canadian chartered bank. Borrowings under this facility bear interest at the bank's prime lending rate plus 0.5 percent per annum. Security is provided by a general security agreement, a general assignment of book debts and a floating charge demand debenture in the amount of $5 million covering the oil and gas properties of Newpact. The facility will revolve until December 31, 2008, at which time the bank may either convert it to a term facility or extend the revolving facility for up to an additional 364 days. At September 30, 2008, Zargon had not drawn on this facility.

8. ASSET RETIREMENT OBLIGATIONS

The following table reconciles Zargon's asset retirement obligations:

	Nine Months Ended September 30,	
($ thousands)	**2008**	2007
Balance, beginning of period	**21,184**	17,307
Net liabilities incurred/acquired	**5,684**	751
Liabilities settled	**(643)**	(848)
Accretion expense	**1,607**	982
Foreign exchange	**60**	(138)
Balance, end of period	**27,892**	18,054

9. UNITHOLDERS' EQUITY

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

Trust Units

	Nine Months Ended September 30, 2008	
(thousands)	**Number of Units**	**Amount ($)**
Balance, beginning of period	**17,076**	**89,688**
Unit rights exercised for cash	**54**	**974**
Unit-based compensation recognized on exercise of unit rights	**-**	**185**
Issued on corporate and property acquisitions	**1,045**	**23,910**
Issued on conversion of exchangeable shares	**235**	**4,832**
Balance, end of period	**18,410**	**119,589**

The proforma total units outstanding at September 30, 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 21.047 million units.

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

Contributed Surplus

($ thousands)	Nine Months Ended September 30, 2008
Balance, beginning of period	**3,714**
Unit-based compensation expense	**837**
Unit-based compensation recognized on exercise of unit rights	**(185)**
Balance, end of period	**4,366**

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 the nine months ended September 30, 2008, include a volatility factor of expected market price of 26.6 percent, a risk-free interest rate of 3.2 percent, a dividend yield of 9.4 percent and an expected life of the unit rights of four years. The weighted average assumptions made for unit rights granted for the three months ended September 30, 2008, include a volatility factor of expected market price of 26.9 percent, a risk-free interest rate of 3.3 percent, a dividend yield of 10.0 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 and nine months ended September 30, 2008, of $0.32 million (2007 - $0.42 million) and $0.84 million (2007 - $1.14 million), respectively.

Compensation expense associated with rights granted under the Plan is recognized in earnings/losses 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:

	Nine Months Ended September 30, 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	**420**	**23.14**
Unit rights exercised	**(54)**	**17.95**
Unit rights cancelled	**(124)**	**27.74**
Outstanding at end of period	**1,730**	**25.71/23.88**
Unit rights exercisable at period end	**900**	**26.43/23.63**

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. Funds flow from operating activities represents 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)	**September 30, 2008**	December 31, 2007
Net debt	**84,622**	63,756
Annualized funds flow from operating activities	**115,347**	79,838
Net debt to funds flow from operating activities ratio	**0.7**	0.8

Zargon’s net debt to funds flow from operating activities ratio was 0.7, slightly below the 0.8 at December 31, 2007, primarily due to the strong funds flow from operating activities being offset by cash consideration and net debt assumed related to the acquisitions of Rival and Newpact.

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 September 30,		Nine Months Ended September 30,	
(thousand units)	**2008**	2007	**2008**	2007
Basic	**18,219**	17,014	**17,884**	16,952
Diluted	**20,980**	19,731	**20,568**	19,545

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 September 30,		Nine Months Ended September 30,	
($ thousands)	**2008**	2007	**2008**	2007
Petroleum and Natural Gas Revenue				
Canada	**58,290**	31,015	**164,980**	98,202
United States	**8,062**	5,622	**23,267**	16,180
Total	**66,352**	36,637	**188,247**	114,382
Net Capital Expenditures (1)				
Canada	**17,225**	16,326	**102,610**	48,082
United States	**240**	103	**747**	237
Total	**17,465**	16,429	**103,357**	48,319

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

($ thousands)	**September 30, 2008**	December 31, 2007
Property and Equipment, net		
Canada	**351,317**	278,444
United States	**34,056**	35,505
Total	**385,373**	313,949
Goodwill		
Canada	**2,969**	-
United States	**-**	-
Total	**2,969**	-

13. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ thousands)	**2008**	2007	**2008**	2007
Cash interest paid	**1,266**	730	**3,042**	2,134
Cash taxes paid	**1,841**	684	**3,646**	2,146

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 September 30, 2008:

	Rate	Weighted Average Price	Range of Terms	Fair Market Value Gain/(Loss) ($ thousands)
Oil swaps	1,200 bbl/d	$70.24 US/bbl	Oct. 1/08-Dec. 31/08	(3,539)
	500 bbl/d	$87.58 US/bbl	Oct. 1/08-Jun. 30/09	(1,978)
	500 bbl/d	$72.74 US/bbl	Jan. 1/09-Mar. 31/09	(1,357)
	300 bbl/d	$107.40 US/bbl	Jan. 1/09-Sep. 30/09	464
	500 bbl/d	$114.97 US/bbl	Apr. 1/09-Dec. 31/09	1,764
	500 bbl/d	$85.30 US/bbl	Jul. 1/09-Dec. 31/09	(1,751)
	300 bbl/d	$132.98 US/bbl	Oct. 1/09-Jun. 30/10	2,483
Natural gas swaps	8,000 gj/d	$7.31/gj	Oct. 1/08-Oct. 31/08	347
	4,000 gj/d	$9.71/gj	Nov. 1/08-Mar. 31/09	1,643
	2,000 gj/d	$9.60/gj	Apr. 1/09-Oct. 31/09	1,018
Total Fair Market Value, Financial Contracts				**(906)**

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 gain for the first nine months of 2008 was $10.09 million and the unrealized loss for the first nine months of 2007 was $6.98 million. The realized loss for the first nine months of 2008 was $19.84 million and the realized gain for the first nine months of 2007 was $4.55 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 September 30, 2008:

	Rate	Weighted Average Price	Range of Terms	Fair Market Value Gain ($ thousands)
Natural gas fixed price	2,000 gj/d	$7.88/gj	Oct. 1/08-Oct. 31/08	122
	5,000 gj/d	$8.99/gj	Nov. 1/08-Mar. 31/09	1,511
	3,000 gj/d	$8.47/gj	Apr. 1/09-Oct. 31/09	800
Total Fair Market Value, Physical Contracts				**2,433**

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

	Three and Nine Months Ended September 30, 2008	
($ thousands)	10% Increase	10% Decrease
Natural gas price	**(878)**	**878**
Crude oil price	**(7,421)**	**7,421**

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, 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 September 30, 2008, and at existing debt pricing levels, the increase or decrease in net earnings for each one percent change in interest rates amounts to $0.64 million for the nine months ended September 30, 2008.

- 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 $0.87 million increase or decrease in net earnings/losses for the nine months ended September 30, 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 September 30, 2008, approximately 36 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 September 30, 2008, Zargon had available unused committed bank credit facilities of approximately $100 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	**34,836**	**-**	**34,836**
Cash distributions payable	**3,314**	**-**	**3,314**
Risk management liabilities (1)	**8,231**	**876**	**9,107**
Long term debt (2)	**-**	**74,950**	**74,950**

(1) See the section titled “Commodity Price Sensitivities” in this note for a better understanding of the volatility around these amounts.
(2) See note 7 for the details on the fully revolving credit facilities.

15. CASH DISTRIBUTIONS

During the nine month period, the Trust declared cash distributions to the unitholders in the aggregate amount of $29.13 million (2007 – $27.49 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
April	April 30, 2008	May 15, 2008	$0.18
May	May 31, 2008	June 16, 2008	$0.18
June	June 30, 2008	July 15, 2008	$0.18
July	July 31, 2008	August 15, 2008	$0.18
August	August 31, 2008	September 15, 2008	$0.18
September	September 30, 2008	October 15, 2008	$0.18

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

16. 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

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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