

For the first quarter of 2005, Zargon Energy Trust is pleased to report record operating results derived from continued high commodity prices and a stable production base maintained by a successful self-funded exploration and development capital program.

Highlights from the three months ended March 31, 2005 are noted below:

- Record high crude oil prices and continued strong natural gas prices combined with stable production volumes resulted in record revenues and cash flows for the Trust. Revenues for the 2005 first quarter of \$34.12 million were 23 percent above first quarter 2004 and four percent above the prior quarter, while cash flow from operations of \$17.48 million was 11 percent higher than the 2004 first quarter and 14 percent higher than the 2004 fourth quarter levels.
- First quarter 2005 production averaged 8,446 barrels of equivalent per day, an increase of seven percent from first quarter 2004 and level with the preceding quarter. Production of natural gas averaged 29.10 million cubic feet per day as completions and tie-ins from drilling programs in the Alberta Plains and the West Central Alberta core areas offset natural declines. Oil and liquids production averaged 3,596 barrels per day, bolstered by the prior year's development drilling and acquisition program in the Williston Basin core area. Production on a per million trust unit outstanding basis averaged 452 barrels of equivalent per day, which was four percent higher than the prior year's first quarter average and was essentially unchanged from the 2004 fourth quarter level.
- The Trust paid three monthly cash distributions of \$0.14 per trust unit in the 2005 first quarter for a total of \$6.60 million. These distributions were equivalent to a payout ratio of 45 percent of the Trust's record first quarter cash flow of \$0.93 per diluted trust unit, or reflecting the effect of the exchangeable shares that do not receive cash distributions, a 38 percent payout of the Trust's total cash flow. Capital expenditures included \$10.07 million for the first quarter exploration and development program of 11.7 net wells plus a modest \$0.62 million of property acquisitions. The Trust's balance sheet remains very strong with the Trust's net debt to annualized cash flow at less than 0.4 times as at March 31, 2005. During the first quarter the Trust financed 100 percent of its distribution and capital expenditure program from cash flows.

FINANCIAL & OPERATING HIGHLIGHTS

FOR THE THREE
MONTHS ENDED
MARCH 31, 2005

Three months ended March 31 (unaudited)	2005	2004	Percent Change
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FINANCIAL

Income and Investments (\$ million)

Petroleum and natural gas revenue	34.12	27.70	23
Cash flow from operations	17.48	15.73	11
Cash distributions	6.60	–	–
Net earnings	5.14	5.54	(7)
Net capital expenditures	10.69	9.77	9

Per Trust Unit, Diluted

Cash flow from operations (\$/unit)	0.93	0.84	11
Net earnings (\$/unit)	0.32	0.30	7

Cash Distributions (\$/trust unit)

	0.42	–	–
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Balance Sheet at Period End (\$ million)

Property and equipment, net	227.01	171.58	32
Bank indebtedness	18.23	3.68	395
Unitholders' equity	133.11	119.09	12

Total Units Outstanding at Period End (million)

	18.71	18.24	3
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OPERATING

Average Daily Production

Oil and liquids (bbl/d)	3,596	3,355	7
Natural gas (mmcf/d)	29.10	27.21	7
Equivalent (boe/d)	8,446	7,889	7
Equivalent per million total units (boe/d)	452	435	4

Average Selling Price (before hedges)

Oil and liquids (\$/bbl)	50.79	39.96	27
Natural gas (\$/mcf)	6.75	6.26	8

Wells Drilled, Net

	11.7	9.9	18
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Undeveloped Land at Period End (thousand net acres)

	374	405	(8)
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Notes: The calculation of barrels of equivalent is based on the conversion ratio that six thousand cubic feet of natural gas is equivalent to one barrel of oil (boe).

Average daily production per million total 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 exchange ratio at the end of the period.

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.

PRODUCTION

Natural gas production volumes averaged 29.10 million cubic feet per day in first quarter 2005, a gain of seven percent from the corresponding period of 2004 and one percent from the preceding quarter. Production gains came from exploration and development programs at Zargon's principal gas property located at Jarrow in the Alberta Plains and from West Central Alberta exploration initiatives at Highvale, Pembina and selected properties in the Peace River Arch.

Oil and liquids production of 3,596 barrels per day in the 2005 first quarter showed a seven percent increase over the 2004 first quarter and a one percent decline from the preceding quarter. The year-over-year gains came from 2004 Williston Basin acquisition and exploitation initiatives. Despite a very limited first quarter 2005 oil drilling program, the Williston Basin's low decline waterflood projects and production additions from the fourth quarter 2004 drilling program maintained essentially stable production volumes in the 2005 first quarter.

CAPITAL EXPENDITURES*

During the first quarter of 2005, Zargon drilled 13 gross wells (11.7 net) that delivered 8.7 net natural gas wells, 2.0 net oil wells and 1.0 net dry hole for a 91 percent success ratio. Natural gas wells drilled in the first quarter include 6.3 net wells at Jarrow in the Alberta Plains plus 2.4 net wells at Pembina in West Central Alberta. The first quarter's 2.0 net oil wells at Pinto and Weyburn were both development wells in the Williston Basin.

A full roster of 24 wells is scheduled for the 2005 spring–summer field program with 12 wells planned in the Alberta Plains and six West Central Alberta locations in Pembina, Highvale and the Peace River Arch. Two of the Alberta Plains locations are Taber oil targets while the balance of the Alberta locations are targeting natural gas. Six wells are scheduled for Williston Basin oil targets including five horizontals at Steelman, Pinto, Ralph and Elswick in Southeast Saskatchewan and at Haas, North Dakota.

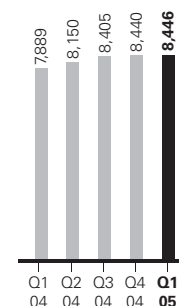
Crown land sale prices have continued to escalate in the current environment of high industry activity and Zargon has continued to post land and bid at Crown sales, but on a selected basis. Land expiries in the first quarter 2005 of approximately 13 thousand net acres were almost wholly offset by land purchases. Zargon's undeveloped land inventory at March 31, 2005 totalled 374 thousand net acres.

Because of the property market's current high valuation levels, Zargon's acquisitions in the first quarter of 2005 were limited to five small transactions in the Williston Basin with an aggregate cost of \$0.62 million. The interests acquired were at the Ralph and Elswick properties in Southeast Saskatchewan and at the Truro property in North Dakota.

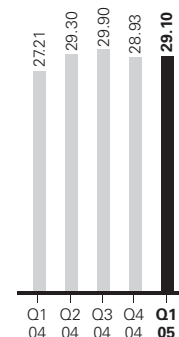
GUIDANCE*

In the March 15, 2005 press release announcing the 2004 annual results, first half 2005 production guidance for the Trust was set at 8,500 barrels of equivalent per day based on estimates of 29.25 million cubic feet per day of natural gas and 3,625 barrels per day of oil and liquids. The first quarter results of 8,446 barrels of equivalent per day (29.10 million cubic feet per day of natural gas and 3,596 barrels per day of oil and liquids) were within one percent of these guidance levels.

PRODUCTION
(boe/d)



NATURAL GAS PRODUCTION
(mmcf/d)



OIL AND LIQUID PRODUCTION
(bbl/d)



Due to the combined effects of an early spring and the high levels of competition for field services, Zargon deferred some first quarter exploration and development capital programs into the second and third quarters of this year. Based on the impact of these capital program delays combined with the seasonal spring production curtailments due to road bans and facility turnarounds, the Trust now anticipates that the production for the 2005 second quarter will average 8,250 barrels of equivalent per day comprised of 28.50 million cubic feet per day of natural gas and 3,500 barrels per day of oil and liquids. With the mid-May commencement of our expanded spring and summer drilling programs, the Trust is forecasting that second half 2005 production volumes will exceed 8,500 barrels of equivalent per day (29.25 million cubic feet per day of natural gas and 3,625 barrels per day of oil and liquids). These forecasts are premised on the Trust's internally funded \$40 million 2005 exploration and development capital program, which will emphasize Williston Basin oil exploitation and Alberta Plains natural gas exploration and development.

The aforementioned production guidance volumes do not include an allowance for 2005 property or corporate acquisition programs that would be funded on an opportunistic basis by bank debt or possibly equity issues. Zargon's acquisition initiatives will continue to be focused on acquiring underdeveloped oil properties (particularly in the Williston Basin) or undeveloped natural gas prospective lands that provide Zargon exploration and development opportunities to sustain production and reserves on a per unit basis, while distributing 50 percent of the Trust's cash flows attributed to the outstanding unitholders.

* Please see comments on "Forward-Looking Statements" on the last page of this report.

management's discussion and analysis

Management's discussion and analysis (MD&A) should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2005 and the audited consolidated financial statements and MD&A for the year ended December 31, 2004. All amounts are in Canadian dollars unless otherwise noted. All references to "Zargon" or the "Trust" refer to Zargon Energy Trust and all references to the "Company" refer to Zargon Oil & Gas Ltd.

In the MD&A, reserves and production are commonly stated in barrels of equivalent (boe) on the basis that six thousand cubic feet of natural gas is equivalent to one barrel of oil (boe). 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.

Non-GAAP Measurements: The MD&A contains the term "cash flow from operations" ("cash flow") which should not be considered an alternative to, or more meaningful than, "cash flow 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 cash flow from operations may not be comparable to that reported by other trusts. The reconciliation between net earnings and cash flow from operations can be found in the consolidated statements of cash flows in the consolidated financial statements. The Trust evaluates its performance based on net earnings and cash flow from operations. The Trust considers cash flow from operations to be a key measure as it demonstrates the Trust's ability to generate the cash necessary to pay distributions, repay debt and to fund future capital investment. It is also used by research analysts to value and compare oil and gas trusts, and it is frequently included in published research when providing investment recommendations. Cash flow from operations per unit is calculated using the diluted weighted average number of units for the period.

This MD&A has been prepared as of May 11, 2005.

Plan of Arrangement

On July 15, 2004, approval was given by the shareholders to a resolution in favour of a Plan of Arrangement (the "Arrangement") reorganizing Zargon Oil & Gas Ltd. (the "Company") into Zargon Energy Trust (the "Trust" or "Zargon"). The Arrangement received court approval and also became effective on July 15, 2004. The Arrangement resulted in shareholders of the Company receiving either one trust unit or one exchangeable share for each common share held. The unitholders of the Trust are entitled to receive cash distributions paid by the Trust. Holders of exchangeable shares are not eligible to receive distributions but rather on each payment of a distribution, the number of trust units into which each exchangeable share is exchangeable is increased on a cumulative basis in respect of the distribution. The exchangeable shares are traded on the Toronto Stock Exchange and can be converted, at the option of the holder, into trust units at any time. On July 15, 2014, all the remaining outstanding exchangeable shares will be redeemed into trust units unless the Board of Directors of the Company elect to extend the redemption period. In certain circumstances, the Company has the right to require redemption of the exchangeable shares prior to July 15, 2014. Upon completion of the Arrangement, 14.87 million trust units and 3.66 million exchangeable shares were issued. The Trust is an unincorporated open-end investment trust governed by the laws of the Province of Alberta. It is the intent of the Trust to distribute approximately 50 percent of the cash flow from operations attributable to outstanding unitholders.

The reorganization of the Company into a Trust has been accounted for using the continuity of interest method. Accordingly, the consolidated financial statements for the three months ended March 31, 2005 reflect the financial position, results of operations and cash flows as if the Trust had always carried on the business of the Company. The comparative figures referred to in the consolidated financial statements and this MD&A include the previous consolidated results of the Company.

Summary Of Significant Events In The First Quarter

- During the first quarter of 2005, the Trust realized record cash flow of \$17.48 million and declared monthly distributions of \$0.14 per trust unit with a total of \$6.60 million (\$0.42 per trust unit) paid or declared distributable to unitholders, resulting in a payout ratio of 38 percent of cash flow or 45 percent on a per diluted trust unit basis. For Canadian income tax purposes, the distributions are currently estimated to be 100 percent taxable income to unitholders.
- Average field prices received (before risk management losses) for oil and liquids rose to \$50.79 per barrel and natural gas rose to \$6.75 per thousand cubic feet, an eight percent and four percent increase, respectively from the fourth quarter of 2004. Production of 8,446 barrels of oil equivalent was relatively unchanged from the fourth quarter of 2004.
- During the first quarter of 2005, the Trust drilled 13 gross wells (11.7 net) with a 91 percent success rate. Total capital expenditures were \$10.69 million for the quarter.
- The Trust continues to maintain a strong balance sheet with a combined debt and working capital deficiency of \$22.44 million (excluding unrealized risk management liability), which represents just under four months of the first quarter 2005 annualized cash flow.

Financial Analysis

In the first quarter of 2005, Zargon reported record levels of petroleum and natural gas revenue and cash flow from operations. First quarter 2005 revenue of \$34.12 million was four percent above \$32.90 million in fourth quarter 2004 and 23 percent above \$27.70 million in first quarter 2004. During the first quarter 2005, commodity prices continued their strength and accounted for the majority of the year-over-year quarterly revenue difference. Cash flow from operations in first quarter 2005 of \$17.48 million was 14 percent above the preceding quarter and 11 percent above first quarter 2004. Net earnings for first quarter 2005 of \$5.14 million were four percent below the preceding quarter and seven percent below the prior year first quarter.

Natural gas production increased by one percent in first quarter 2005 to 29.10 million cubic feet per day from 28.93 million cubic feet per day in fourth quarter 2004 and was seven percent above the 2004 first quarter. As part of Zargon's sustainability strategy, the natural gas drilling program continues to offset natural gas declines. Oil and liquids production during the first quarter of 2005 was 3,596 barrels per day which is slightly below the 2004 fourth quarter amount of 3,618 barrels per day and seven percent above the first quarter of 2004. The year-over-year increase in oil and liquids production is primarily due to the July 2004 acquisition of Southeast Saskatchewan properties in the Williston Basin core area. On a barrel of oil equivalent basis, Zargon produced 8,446 barrels of equivalent per day, which is relatively unchanged from the 8,440 barrels of equivalent per day in the fourth quarter of 2004 and a seven percent increase when compared to the first quarter of 2004.

Zargon's commodity price risk management policy uses forward sales, options, puts and costless collars for, on average, 20 to 35 percent of working interest production in order to partially offset the effects of large price fluctuations. Because our risk management strategy is protective in nature and is designed to guard the Trust against extreme effects on cash flow from sudden falls in prices and revenues, upward price trends tend to produce overall losses. Risk management contracts in place as at December 31, 2004 were designated as hedges for accounting purposes and the Trust continues to monitor these contracts in determining the continuation of hedge effectiveness. For these contracts, realized gains and losses are recorded in the statement of earnings as the contracts settle and no unrealized gain or loss is recognized. For risk management contracts entered into after December 31, 2004, the Trust does consider these contracts to be effective on an economic basis but has decided not to designate these contracts as hedges for accounting purposes and accordingly, for outstanding contracts not designated as hedges as at March 31, 2005, an unrealized gain or loss is recorded based on the fair value (mark-to-market) of the

contracts at that time. Thus, the 2005 first quarter's high oil and natural gas prices brought about a realized risk management loss of \$0.79 million that compares to a \$1.56 million realized loss in fourth quarter 2004 and a \$0.27 million realized loss in first quarter 2004. The unrealized risk management loss for the first quarter of 2005 was \$2.26 million. Zargon's commodity risk management positions are fully described in note 9 to the unaudited consolidated interim financial statements.

Royalties, inclusive of Alberta Royalty Tax Credit and Saskatchewan Resource Surcharge, were \$8.04 million for the first quarter of 2005, an increase of two percent from the preceding quarter and an increase of 36 percent from \$5.92 million in the first quarter of 2004. The variations generally track changes in production, prices and volumes. As a percentage of gross revenue, royalty rates ranged from 21.4 percent in first quarter 2004 to 23.8 percent in fourth quarter 2004 and 23.5 percent in the first quarter of 2005. The higher royalty rates in the fourth quarter of 2004 and the first quarter of 2005 compared to the first quarter of 2004 are a result of adjustments related to prior periods and Zargon expects that its royalty rate will approximate 23 percent in 2005 based on current prices and production rates.

On a unit of production basis, production costs of \$7.74 per barrel of equivalent in the first quarter of 2005 compare with \$8.09 in the preceding quarter and \$6.43 in the first quarter of 2004. The containment of this trend to increased per unit operating costs will be a key ongoing initiative for Zargon during this current period of increasing industry-wide cost pressures.

OPERATING NETBACKS

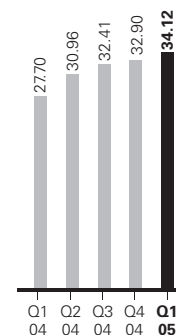
Three months ended March 31	2005		2004	
	Oil and Liquids (\$/bbl)	Natural Gas (\$/mcf)	Oil and Liquids (\$/bbl)	Natural Gas (\$/mcf)
Production revenue	50.79	6.75	39.96	6.26
Realized risk management loss	(2.83)	0.05	(1.93)	0.13
Royalties	(11.67)	(1.63)	(8.30)	(1.37)
Production costs	(10.34)	(0.97)	(9.29)	(0.72)
Operating netbacks	25.95	4.20	20.44	4.30

Net of recoveries, general and administrative expenses were \$1.72 per barrel of equivalent in first quarter 2005 compared to \$1.71 in the preceding quarter and \$1.34 in first quarter 2004. Increased salaries and addition of staff, increased regulatory reporting costs and fees as well as costs related to operating in a trust format have caused the upward cost pressures on general and administrative expense on a per unit of production basis.

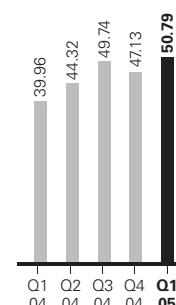
Expensing of unit-based compensation in the first quarter of 2005 was \$0.33 million, a 54 percent decrease from the previous quarter. The unit-based compensation expense arising from unit rights granted upon and subsequent to, the July 15, 2004 Plan of Arrangement were originally calculated using the intrinsic value method. In response to an emphasis by securities regulators that fair value methodologies be used, new measurement techniques have recently been developed utilizing the Black-Scholes option-pricing model for such unit rights grants. Zargon has assessed the impact on 2004 unit-based compensation expense, and there is no significant impact. Prior to the effective date of the Arrangement, expensing of stock-based compensation benefits in the consolidated statement of earnings was calculated using the Black-Scholes option-pricing model.

Interest expense in the first quarter was \$0.18 million, \$0.03 million lower than the previous quarter amount of \$0.21 million and an increase of \$0.10 million from \$0.08 million in the first quarter of 2004. The primary reason for the increase on a year-over-year basis is the increase in average bank indebtedness.

PETROLEUM AND NATURAL GAS REVENUE (\$ million)



OIL AND LIQUID PRICES (\$/bbl)



NATURAL GAS PRICES (\$/mcf)



Capital and current income taxes increased \$0.13 million to \$0.44 million from the fourth quarter of 2004 and \$0.32 million when compared to the first quarter of 2004. The primary reason for this increase is due to current income taxes being incurred related to the Trust's United States operations as a result of the increasing profitability of those operations due to high commodity prices.

TRUST NETBACKS

Three months ended March 31 (\$/boe)	2005	2004
Petroleum and natural gas revenue	44.90	38.59
Realized risk management loss	(1.04)	(0.38)
Royalties	(10.57)	(8.25)
Production costs	(7.74)	(6.43)
Operating netbacks	25.55	23.53
General and administrative	(1.72)	(1.34)
Interest	(0.24)	(0.12)
Capital and current income taxes	(0.58)	(0.16)
Cash flow netbacks	23.01	21.91
Depletion and depreciation	(11.53)	(8.66)
Unrealized risk management loss	(2.97)	–
Accretion of asset retirement obligations	(0.39)	(0.36)
Unit/stock-based compensation	(0.43)	(0.13)
Unrealized foreign exchange	(0.07)	0.06
Future income taxes	0.42	(5.11)
Earnings before non-controlling interest	8.04	7.71

Depletion and depreciation expense for the first quarter of 2005 increased 13 percent to \$8.76 million, compared to \$7.77 million in the prior quarter, and 41 percent when compared to the first quarter of 2004. On a per barrel of equivalent basis, the depletion and depreciation rates were \$11.53, \$10.00 and \$8.66 for the first quarter of 2005 and the fourth and first quarters of 2004, respectively. In the first quarter 2005 approximately \$1.10 million (\$1.45 on a per barrel of equivalent basis) of depletion and depreciation expense is attributable to the increase in the property and equipment balance from the conversion of exchangeable shares due to the application of EIC-151 and the remainder is due to the increase in asset retirement obligations and finding, development and acquisition costs for new reserves.

The provision for accretion of asset retirement obligations for the first quarter 2005 was \$0.29 million, relatively unchanged from \$0.28 million in the fourth quarter 2004 and 14 percent higher than the first quarter 2004. The year-over-year change is due to changes in the estimated future liability for asset retirement obligations as a result of wells added through the drilling program and the 2004 acquisition of Southeast Saskatchewan properties in the Williston Basin core area.

Cash flow from operations in first quarter 2005 of \$17.48 million was \$2.12 million, or 14 percent higher than the preceding quarter and \$1.75 million, or 11 percent higher than the prior year first quarter. The gain in cash flow over the preceding quarter was primarily due to increased commodity pricing and the resulting increased revenue. With the prior year quarterly comparison, commodity prices received on a barrel of equivalent basis were 16 percent higher and production volumes were seven percent higher. Cash flow on a per diluted unit basis was \$0.93 for the first quarter of 2005, a 13 percent increase from the prior quarter and an 11 percent increase from the first quarter of 2004 which tracks the changes in cash flow for the respective periods.

The provision for recovery of future taxes was \$0.32 million for the first quarter of 2005 compared to a provision for future taxes of \$0.57 million in the prior quarter and \$3.67 million in the first quarter of 2004. Effectively, Zargon's future tax obligations are reduced as distributions are made from the Trust. Also impacting the first quarter of 2005 was the future tax impact of unrealized risk management losses of \$0.88 million. Excluding the future tax impact of unrealized risk management losses, for the 2005 first quarter, future taxes were six percent of before tax earnings, which compares respectively with the 2004 fourth quarter and 2004 first quarter rates of eight percent and 39 percent.

On January 19, 2005 the CICA issued EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts" that states that exchangeable securities issued by a subsidiary of an Income Trust should be reflected as either a non-controlling interest or debt on the consolidated balance sheet unless they meet certain criteria. The exchangeable shares issued by Zargon Oil & Gas Ltd., a corporate subsidiary of the Trust, are publicly traded and have an expiry term, which could be extended at the option of the Board of Directors. Therefore, these securities are considered, by EIC-151, to be transferable to third parties and to have an indefinite life. EIC-151 states that if these criteria are met, the exchangeable shares should be reflected as a non-controlling interest. Previously, the exchangeable shares were reflected as a component of unitholders' equity. In accordance with the transitional provisions of EIC-151, the Trust adopted this standard as at December 31, 2004 and has retroactively restated prior periods dating back to the Plan of Arrangement dated July 15, 2004. As a result of this change in accounting policy, the Trust has reflected a non-controlling interest of \$8.90 million on the Trust's consolidated balance sheet as at March 31, 2005. Consolidated net earnings have been reduced for net income attributable to the non-controlling interest of \$0.97 million in 2005. In accordance with EIC-151 and given the circumstances in Zargon's case, each redemption is accounted for as a step-purchase, which for 2005 resulted in an increase in property and equipment of \$15.15 million, an increase in unitholders' equity by \$12.81 million, and an increase in future income tax liability of \$3.94 million. Cash flow was not impacted by this change. The cumulative impact to date of the application of EIC-151 has been to increase property and equipment by \$26.43 million, accumulated depletion and depreciation by \$1.10 million, unitholders' equity and non-controlling interest by \$22.33 million, future income tax liability by \$6.94 million and an allocation of net earnings to exchangeable shareholders' of \$2.84 million.

Net earnings of \$5.14 million for the first quarter of 2005 were four percent below \$5.33 million in the preceding quarter and seven percent below \$5.54 million in first quarter 2004. The net earnings reflect the same trends as the cash flow from operations for the respective periods modified by the previously discussed impacts of the additional charges for depletion and depreciation, unrealized risk management losses, unit-based compensation and non-controlling interest booked in the last half of 2004 and the 2005 first quarter.

CAPITAL EXPENDITURES

Three months ended March 31 (\$ million)	2005	2004
Undeveloped land	0.86	1.08
Geological and geophysical (seismic)	0.83	1.42
Drilling and completion of wells	6.27	5.06
Well equipment and facilities	2.11	1.78
Exploration and development	10.07	9.34
Property acquisitions	0.62	0.43
Total capital expenditures	10.69	9.77

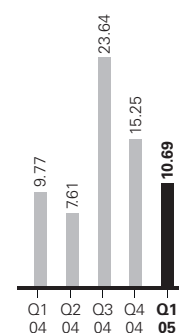
CASH FLOW FROM OPERATIONS (\$ million)



NET EARNINGS (\$ million)



NET CAPITAL EXPENDITURES (\$ million)



Liquidity and Capital Resources

Capital expenditures of \$10.69 million were 30 percent lower than \$15.25 million expended in the prior year fourth quarter which tends to be a very active quarter due to the fall drilling program. Field related drilling, completion and facility expenses of \$8.38 million were 23 percent higher than the prior year's first quarter field related capital program. During the first quarter of 2005, 11.7 net wells were drilled compared to 16.1 net wells in the fourth quarter of 2004 and 9.9 net wells in the first quarter of 2004. Undeveloped land purchases decreased 20 percent when compared to the first quarter of 2004 as Crown land sales continued to be at high price levels that Zargon does not find commensurate with the risks involved. Cash flow from operations in the current quarter of \$17.48 million, proceeds from the exercise of trust unit rights of \$0.81 million and the increase in bank indebtedness of \$4.00 million covered the capital program and the cash distributions to the unitholders. At March 31, 2005, the Trust maintained its strong balance sheet with bank indebtedness of \$18.23 million and a total working capital deficit (excluding unrealized risk management losses) of \$22.44 million, which represents slightly less than four months of the first quarter 2005 annualized cash flow.

As at May 11, 2005, Zargon had 15.951 million trust units and 2.643 million exchangeable shares outstanding. Assuming full conversion of exchangeable shares at the effective exchange ratio of 1.04883, there would be 18.723 million total trust units outstanding at this date. Pursuant to the trust unit rights incentive plan, there are currently an additional 0.533 million trust unit rights issued and outstanding.

CAPITAL SOURCES

Three months ended March 31 (\$ million)	2005	2004
Cash flow from operations	17.48	15.73
Changes in working capital and other	(5.00)	(3.65)
Change in bank indebtedness	4.00	(3.30)
Cash distributions	(6.60)	–
Issuance of trust units/shares related to exercise of trust unit rights/stock options	0.81	0.99
Total capital sources	10.69	9.77

Outlook

Zargon continues to be well positioned to meet its objectives as a sustainable trust. It continues to have a very strong balance sheet, 374 thousand net acres of undeveloped land and a promising project inventory. Zargon and the industry continue to enjoy a period of high commodity prices but along with this pricing environment, upward cost pressures are present in all sectors of our business and property acquisitions are at very high price levels. Zargon intends to continue with the disciplined approach that has served us well to date. We will adhere to a focused strategy of exploring and exploiting our existing asset base while executing value-added property acquisitions if and when they become available.

Summary Of Quarterly Results

	2004				2005
	Q1	Q2	Q3	Q4	Q1
Petroleum and natural gas revenue (\$ million)	27.70	30.96	32.41	32.90	34.12
Net earnings (\$ million) <i>(note 1)</i>	5.54	5.54	4.22	5.33	5.14
Net earnings per diluted unit (\$) <i>(note 1)</i>	0.30	0.29	0.28	0.34	0.32
Cash flow (\$ million)	15.73	16.53	16.13	15.36	17.48
Cash flow per diluted unit (\$)	0.84	0.88	0.87	0.82	0.93
Cash distributions (\$ million)	–	–	4.27	6.43	6.60
Cash distributions paid or declared per unit (\$)	–	–	0.28	0.42	0.42
Total assets (\$ million) <i>(note 1)</i>	186.18	189.80	215.23	226.96	245.20
Bank debt (\$ million)	3.67	–	9.77	14.23	18.23
Daily production (boe)	7,889	8,150	8,405	8,440	8,446
Average realized commodity price before risk management losses (\$/boe)	38.59	41.75	41.91	42.36	44.90
Cash flow netback (\$/boe)	21.91	22.28	20.86	19.78	23.01

	2003			
	Q1	Q2	Q3	Q4
Petroleum and natural gas revenue (\$ million)	29.19	24.20	23.76	24.51
Net earnings (\$ million) <i>(note 1)</i>	6.65	9.17	4.44	4.10
Net earnings per diluted unit (\$) <i>(note 1)</i>	0.36	0.50	0.24	0.22
Cash flow (\$ million)	15.23	13.53	12.34	13.24
Cash flow per diluted unit (\$)	0.84	0.74	0.67	0.72
Total assets (\$ million) <i>(note 1)</i>	165.12	165.98	172.81	181.05
Bank debt (\$ million)	20.78	11.47	8.92	6.98
Daily production (boe)	7,060	7,222	7,470	8,020
Average realized commodity price before risk management losses (\$/boe)	45.94	36.82	34.57	33.22
Cash flow netback (\$/boe)	23.96	20.58	17.96	17.95

Note 1: Certain comparative period numbers reflect retroactive restatements due to changes in accounting policies.

Additional Information

Additional information regarding the Trust and its business operations, including the Trust's Renewal Annual Information Form for December 31, 2004, is available on the Trust's SEDAR profile at www.sedar.com.

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

Calgary, Alberta
May 11, 2005

consolidated balance sheets

(\$ thousand)	March 31, 2005	December 31, 2004
(unaudited)		
ASSETS		
Current		
Accounts receivable	16,400	14,275
Prepaid expenses and deposits	1,789	2,953
	18,189	17,228
Property and equipment, net <i>(note 3)</i>	227,011	209,736
	245,200	226,964
LIABILITIES		
Current		
Bank indebtedness	18,225	14,230
Accounts payable and accrued liabilities	20,179	24,153
Cash distributions payable	2,224	2,210
Unrealized risk management liability <i>(note 9)</i>	2,256	–
	42,884	40,593
Asset retirement obligations <i>(note 4)</i>	14,834	14,390
Future income taxes	45,478	41,830
	103,196	96,813
NON-CONTROLLING INTEREST		
Exchangeable shares <i>(note 2)</i>	8,896	9,529
UNITHOLDERS' EQUITY		
Unitholders' capital/share capital <i>(note 5)</i>	59,661	45,755
Contributed surplus <i>(note 5)</i>	1,214	1,170
Accumulated earnings	89,539	84,399
Accumulated cash distributions <i>(note 10)</i>	(17,306)	(10,702)
	133,108	120,622
	245,200	226,964

See accompanying notes.

consolidated statements of earnings and accumulated earnings

Three months ended March 31 (unaudited)

(\$ thousand, except per unit amounts)

	2005	2004
Revenue		
Petroleum and natural gas revenue	34,124	27,704
Unrealized risk management loss <i>(note 9)</i>	(2,256)	–
Realized risk management loss <i>(note 9)</i>	(785)	(273)
Royalties (net of Alberta Royalty Tax Credit)	(8,035)	(5,923)
	23,048	21,508
Expenses		
Production	5,884	4,615
General and administrative	1,308	962
Unit/stock-based compensation <i>(note 5)</i>	326	91
Interest	184	85
Unrealized foreign exchange (gain) loss	54	(41)
Accretion of asset retirement obligations <i>(note 4)</i>	294	259
Depletion and depreciation	8,764	6,217
	16,814	12,188
Earnings before income taxes	6,234	9,320
Income taxes		
Future	(319)	3,667
Current	444	114
	125	3,781
Earnings for the period before non-controlling interest	6,109	5,539
Non-controlling interest – exchangeable shares <i>(note 2)</i>	(969)	–
Net earnings for the period	5,140	5,539
Accumulated earnings, beginning of period		
As previously reported	84,399	70,125
Retroactive application of change in accounting policy	–	(120)
As restated	84,399	70,005
Accumulated earnings, end of period	89,539	75,544
Net earnings per unit/per common share <i>(note 6)</i>		
Basic	0.33	0.31
Diluted	0.32	0.30

See accompanying notes.

consolidated statements of cash flows

Three months ended March 31 (unaudited) (\$ thousand)	2005	2004
Operating activities		
Net earnings for the period	5,140	5,539
Add (deduct) non-cash items:		
Non-controlling interest – exchangeable shares	969	–
Unrealized risk management loss <i>(note 9)</i>	2,256	–
Depletion and depreciation	8,764	6,217
Accretion of asset retirement obligations	294	259
Unit/stock-based compensation	326	91
Unrealized foreign exchange (gain) loss	54	(41)
Future income taxes	(319)	3,667
	17,484	15,732
Asset retirement expenditures	(62)	(42)
Changes in non-cash working capital	(1,556)	(312)
	15,866	15,378
Financing activities		
Advances (repayment) of bank indebtedness	3,995	(3,303)
Cash distributions to unitholders	(6,604)	–
Exercise of unit rights/stock options	813	994
Changes in non-cash working capital	77	–
	(1,719)	(2,309)
Investing activities		
Additions to property and equipment	(10,685)	(9,768)
Changes in non-cash working capital	(3,462)	(3,301)
	(14,147)	(13,069)
Change in cash, and cash end of period	–	–

See accompanying notes.

notes to consolidated financial statements

For the three months ended March 31, 2005 and 2004 (unaudited)

1. Nature Of The Organization And Basis Of Presentation

ORGANIZATION

On July 15, 2004, Zargon Oil & Gas Ltd. (the "Company") was reorganized into Zargon Energy Trust (the "Trust" or "Zargon") as part of a Plan of Arrangement (the "Arrangement"). Shareholders of the Company received one trust unit or one exchangeable share for each common share held. All outstanding common share options were settled for cash prior to the completion of the reorganization. The unitholders of the Trust are entitled to receive cash distributions paid by the Trust. Holders of exchangeable shares are not eligible to receive cash distributions paid, but rather, on each payment of a distribution, the number of trust units into which each exchangeable share is exchangeable is increased on a cumulative basis in respect of the distribution. The Trust is an unincorporated open-ended investment trust established under the laws of the Province of Alberta and was created pursuant to a trust indenture ("Trust Indenture"). Valiant Trust Company has been appointed trustee under the Trust Indenture.

The Trust's principal business activity is the exploration for and development and production of petroleum and natural gas.

BASIS OF PRESENTATION

The interim unaudited consolidated financial statements of 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, 2004. The interim unaudited consolidated financial statements 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, 2004.

While the Trust commenced operations on July 15, 2004, these unaudited interim consolidated financial statements follow the continuity of interest basis of accounting as if the Trust had always existed. This basis is intended to provide unitholders with meaningful and comparative financial information.

2. Non-Controlling Interest – Exchangeable Shares

Zargon Oil & Gas Ltd. is authorized to issue a maximum of 3.66 million exchangeable shares. The exchangeable shares are convertible into trust units at the option of the shareholder based on the exchange ratio, which is adjusted monthly to reflect the distribution paid on the trust units. Cash distributions are not paid on the exchangeable shares. During the period, a total of 482,000 exchangeable shares were converted into 500,000 trust units based on the exchange ratio at the time of conversion. At March 31, 2005, the exchange ratio was 1.04292 trust units per exchangeable share.

NON-CONTROLLING INTEREST – EXCHANGEABLE SHARES

(thousand, except exchange ratio)	March 31, 2005	
	Number of Shares	Amount (\$)
Non-controlling interest exchangeable shares issued		
Balance, beginning of year	3,186	9,529
Earnings attributable to non-controlling interest	–	969
Exchanged for trust units at book value and including earnings attributed since beginning of year	(482)	(1,602)
Balance, end of period	2,704	8,896
Exchange ratio, end of period	1.04292	
Trust units issuable upon conversion of exchangeable shares, end of period	2,820	

For the year ended December 31, 2004 the Trust retroactively applied EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts". Per EIC-151, if certain conditions are met, the exchangeable shares issued by a subsidiary must be reflected as non-controlling interest on the consolidated balance sheet and in turn, net earnings must be reduced by the amount of net earnings attributed to the non-controlling interest.

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

Immediately prior to the July 15, 2004 Plan of Arrangement the Company had \$45.14 million in share capital. Upon conversion to the Trust structure these amounts were allocated \$36.22 million to trust units and \$8.92 million to exchangeable shares, based on the terms of the Arrangement.

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

(\$ thousand)	Zargon Oil & Gas Ltd. Common Shares	Zargon Energy Trust Units	Zargon Oil & Gas Ltd. Exchangeable Shares	Total
Immediately prior to July 15, 2004 Plan of Arrangement	45,136			
Plan of Arrangement July 15, 2004	(45,136)	36,219	8,917	
	-	36,219	8,917	45,136
Issued on redemption of exchangeable shares at book value	-	1,155	(1,155)	-
Effect of EIC-151	-	8,381	1,767	10,148
Balance at December 31, 2004	-	45,755	9,529	55,284
Issued on redemption of exchangeable shares at book value	-	1,174	(1,174)	-
Effect of EIC-151	-	11,637	541	12,178
Unit-based compensation recognized	-	282	-	282
Unit rights exercised for cash	-	813	-	813
Balance at March 31, 2005	-	59,661	8,896	68,557

3. Property And Equipment

(\$ thousand)	March 31, 2005		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum, natural gas properties and other equipment	307,729	106,044	201,685
Adjustment due to conversion of exchangeable shares	26,426	1,100	25,326
	334,155	107,144	227,011
	March 31, 2004		
(\$ thousand)	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum, natural gas properties and other equipment	248,774	77,198	171,576
	248,774	77,198	171,576

As a result of shareholders redeeming exchangeable shares, property and equipment increased \$15.14 million in the first three months of 2005, in addition to the \$11.28 million increase recorded in 2004. The effect of these increases has resulted in additional depletion and depreciation expense recorded in the 2005 first quarter of approximately \$1.10 million.

4. Asset Retirement Obligations

The following table reconciles Zargon's asset retirement obligation:

(\$ thousand)	March 31	
	2005	2004
Balance, beginning of year	14,390	12,194
Liabilities incurred	207	137
Liabilities settled	(62)	(42)
Accretion expense	294	259
Other	5	(79)
Balance, end of period	14,834	12,469

5. Unitholders' Equity

Pursuant to the Plan of Arrangement on July 15, 2004, 14.87 million units of the Trust and 3.66 million exchangeable shares (see note 2) of the Company were issued in exchange for all of the outstanding shares of the Company on a one-for-one basis.

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

TRUST UNITS

(thousand)	March 31, 2005	
	Number of Units	Amount (\$)
Units issued		
Balance, beginning of year	15,341	45,755
Unit rights exercised for cash	46	813
Unit-based compensation recognized	-	282
Issued on conversion of exchangeable shares	500	12,811
Balance, end of period	15,887	59,661

The proforma total units outstanding at period end, including trust units outstanding, and trust units issuable upon conversion of exchangeable shares and after giving effect to the exchange ratio at the end of the period (note 2) is 18.71 million units.

A summary of the Company's share capital account for the first three months of 2004 is as follows:

COMMON SHARES OF ZARGON OIL & GAS LTD.

(no par value) (thousand)	March 31, 2004	
	Number of Shares	Amount (\$)
Shares issued		
Balance, beginning of year	17,992	42,200
Stock options exercised for cash	246	994
Stock-based compensation recognized	-	19
Balance, end of period	18,238	43,213

CONTRIBUTED SURPLUS

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

CONTRIBUTED SURPLUS

(\$ thousand)	March 31,	
	2005	2004
Balance, beginning of year	1,170	264
Unit/stock-based compensation expense	326	91
Unit/stock-based compensation recognized on exercise of unit rights/stock options	(282)	(19)
Balance, end of period	1,214	336

COMPENSATION PLANS

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 service providers. The Trust is authorized to issue up to 1.82 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 issued and outstanding trust units of the Trust. 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 per the Arrangement. Rights granted under the plan vest over a three-year period and expire five years from the grant date. No unit rights were granted in the first three months of 2005.

The Plan allows for the exercise price of rights to be reduced in future periods by a number of factors. The unit-based compensation expense arising from unit rights granted upon and subsequent to, the July 15, 2004 Plan of Arrangement were originally calculated using the intrinsic value method. In response to an emphasis by securities regulators that fair value methodologies be used, new measurement techniques have recently been developed utilizing the Black-Scholes option-pricing model for such unit rights grants. Zargon has reassessed the previous unit-rights grants under this fair value model and there is no significant impact on 2004 unit-based compensation expense. Zargon will continue to use fair value methodologies, where possible, for future unit rights grants.

Compensation expense associated with rights granted under the Plan is recognized in earnings over the vesting period of the Plan with a corresponding increase or decrease 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:

	March 31, 2005	
	Number of Unit Rights (thousand)	Weighted Average Exercise Price (\$)
Outstanding at beginning of year	579	1779
Unit rights exercised	(46)	1770
Outstanding at end of period	533	1780
Unit rights exercisable at period end	149	1781

STOCK OPTION PLAN AND STOCK-BASED COMPENSATION

Prior to the Plan of Arrangement, the Company calculated the value of stock-based compensation for its predecessor stock-option plan using a Black-Scholes option-pricing model to estimate the fair value of stock options at the date of grant. This stock-option plan ceased to exist at the July 15, 2004 Plan of Arrangement.

A summary of the Company's predecessor stock option plan prior to the Plan of Arrangement is as follows:

	March 31, 2004	
	Number of Shares (thousand)	Weighted Average Exercise Price (\$)
Outstanding at beginning of year	1,297	7.05
Granted	430	16.00
Exercised	(246)	4.04
Cancelled	(9)	9.61
Outstanding at end of period	1,472	10.15
Options exercisable at period end	739	6.99

6. Weighted Average Number Of Total Units/Shares

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. Comparative amounts reflect the basic and diluted calculation of the common shares of Zargon Oil & Gas Ltd.

(thousand)	Three Months Ended March 31,	
	2005	2004
	(units)	(shares)
Basic	15,578	18,140
Diluted	18,808	18,725

7. 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.

(\$ thousand)	Three Months Ended March 31,	
	2005	2004
Petroleum and Natural Gas		
Canada	29,457	24,369
United States	4,667	3,335
Total	34,124	27,704
Net Capital Expenditures		
Canada	10,643	9,458
United States	42	310
Total	10,685	9,768
Total Assets		
Canada	216,688	162,475
United States	28,512	23,704
Total	245,200	186,179

8. Supplemental Cash Flow Information

(\$ thousand)	Three Months Ended	
	March 31,	
	2005	2004
Cash interest paid	218	74
Cash taxes paid	444	139

9. Financial Instruments

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 contracts at March 31, 2005 as follows:

	Volume	Rate	Price	Range of Terms
Financial Contracts Designated as Hedges				
Oil swaps	110,000 bbl	400 bbl/d	\$44.05 US/bbl	Apr. 1/05–Dec. 31/05
Oil collars	27,300 bbl	300 bbl/d	\$43.50 Cdn/bbl Put \$54.50 Cdn/bbl Call	Apr. 1/05–Jun. 30/05
	55,000 bbl	200 bbl/d	\$37.00 US/bbl Put \$44.40 US/bbl Call	Apr. 1/05–Dec. 31/05
	36,200 bbl	200 bbl/d	\$36.00 US/bbl Put \$48.40 US/bbl Call	Jan. 1/06–Jun. 30/06
Natural gas swaps	856,000 gj	4,000 gj/d	\$6.49/gj	Apr. 1/05–Oct. 31/05
Natural gas collars	428,000 gj	2,000 gj/d	\$6.00/gj Put \$8.01/gj Call	Apr. 1/05–Oct. 31/05
	453,000 gj	3,000 gj/d	\$5.90/gj Put \$10.00/gj Call	Nov. 1/05–Mar. 31/06
Natural gas put	428,000 gj	2,000 gj/d	\$5.10/gj	Apr. 1/05–Oct. 31/05
Financial Contracts Not Designated as Hedges				
Oil swaps	55,200 bbl	300 bbl/d	\$45.70 US/bbl	Jul. 1/05–Dec. 31/05
	36,200 bbl	200 bbl/d	\$48.50 US/bbl	Jan. 1/06–Jun. 30/06
	36,800 bbl	200 bbl/d	\$51.12 US/bbl	Jul. 1/06–Dec. 31/06
Oil collars	36,200 bbl	200 bbl/d	\$40.00 US/bbl Put \$49.05 US/bbl Call	Jan. 1/06–Jun. 30/06
Natural gas swaps	428,000 gj	2,000 gj/d	\$6.52/gj	Apr. 1/05–Oct. 31/05
Natural gas collars	302,000 gj	2,000 gj/d	\$6.50/gj Put \$8.80/gj Call	Nov. 1/05–Mar. 31/06
	302,000 gj	2,000 gj/d	\$7.00/gj Put \$9.35/gj Call	Nov. 1/05–Mar. 31/06
Physical Contracts				
Natural gas swaps	214,000 gj	1,000 gj/d	\$6.71/gj	Apr. 1/06–Oct. 31/06
Natural gas put	428,000 gj	2,000 gj/d	\$6.05/gj	Apr. 1/05–Oct. 31/05

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

Risk management contracts in place as at December 31, 2004 were designated as hedges for accounting purposes and the Trust continues to monitor these contracts in determining the continuation of hedge effectiveness. For these contracts, realized gains and losses are recorded in the statement of earnings as the contracts settle and no unrealized gain or loss is recognized. The realized losses for the first quarter of 2005 were \$0.79 million (2004 - \$0.27 million). At March 31, 2005 an additional \$4.47 million would have been required to settle the above designated hedge contracts. 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.

For risk management contracts entered into after December 31, 2004, the Trust does consider these contracts to be effective on an economic basis but has decided not to designate these contracts as hedges for accounting purposes and accordingly, for outstanding contracts not designated as hedges, an unrealized gain or loss is recorded based on the fair value (mark-to-market) of the contracts at that time. The unrealized losses for the first quarter of 2005 were \$2.26 million (2004 – nil). These instruments have been recorded as a liability in the interim consolidated balance sheet.

10. Accumulated Cash Distributions

During the three month period, the Trust paid or declared distributions to the unitholders in the aggregate amount of \$6.60 million in accordance with the following schedule:

Month	Record Date	Distribution Date	Per Trust Unit
January 2005	January 31, 2005	February 15, 2005	\$0.14
February 2005	February 28, 2005	March 15, 2005	\$0.14
March 2005	March 31, 2005	April 15, 2005	\$0.14

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

corporate information

BOARD OF DIRECTORS

Craig H. Hansen
Calgary, Alberta

K. James Harrison
Oakville, Ontario

H. Earl Joudrie
Toronto, Ontario

Kyle D. Kitagawa
Calgary, Alberta

John O. McCutcheon
Vancouver, British Columbia

Jim Peplinski
Calgary, Alberta

J. Graham Weir
Calgary, Alberta

William J. Whelan
Calgary, Alberta

Grant A. Zawalsky
Calgary, Alberta

OFFICERS

John O. McCutcheon
Chairman

Craig H. Hansen
*President and
Chief Executive Officer*

Brent C. Heagy
*Vice President, Finance and
Chief Financial Officer*

Mark I. Lake
Vice President, Exploration

Daniel A. Roulston
Executive Vice President, Operations

Sheila A. Wares
Vice President, Accounting

Kenneth W. Young
Vice President, Land

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbols:
ZAR.UN – trust units
ZOG.B – exchangeable shares

TRANSFER AGENT

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Forward-Looking Statements – This document contains statements that are forward-looking, such as those relating to results of operations and financial condition, capital spending, financing sources, commodity prices, costs of production and the magnitude of oil and natural gas reserves. By their nature, forward-looking statements are subject to numerous risks and uncertainties that could significantly affect anticipated results in the future and, accordingly actual results may differ materially from those predicted. The forward-looking statements contained in this quarterly report are as of May 11, 2005 and are subject to change after this date. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Zargon disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.