ZAPATA
Energy Corporation

Q1

First Quarter Report FOR THE PERIOD ENDED MARCH 31, 2010 TSX-V: ZCO

Zapata Energy Corporation reports its operating and financial results for the first quarter of 2010 below. Subsequent to the first quarter, Zapata announced completion of a $17 million private placement and the appointment of a new management team and board of directors, followed by completion of a $50 million equity issue. Zapata will seek approval of its shareholders for a name change to “Surge Energy Inc.” at a meeting of shareholders planned for June 25, 2010.

FINANCIAL AND OPERATING SUMMARY

	3 Months Ended March 31,		
	2010	2009	% Change
Financials ($000s except per share amounts)			
Oil and NGL sales	**11,112**	5,663	96
Natural gas sales	**2,750**	3,515	(22)
Other revenue	**116**	(3)	nm
Total oil, natural gas and NGL revenue	**13,978**	9,175	52
Cash flow from operations	**5,403**	4,370	24
Funds from operations[1]	**6,039**	3,519	72
Per share basic ($)	**0.33**	0.21	57
Per share diluted ($)	**0.32**	0.21	52
Net earnings (loss)	**2,168**	(1,641)	nm
Per share basic ($)	**0.12**	(0.10)	nm
Per share diluted ($)	**0.11**	(0.10)	nm
Capital expenditures[2]	**6,354**	6,961	(9)
Net debt (end of period)	**43,516**	52,456	(17)
Operating Highlights			
Production:			
Oil & NGL (bbls per day)	**1,707**	1,492	14
Natural gas (mcf per day)	**5,874**	7,223	(19)
Total (boe per day) (6:1)	**2,686**	2,695	–
Average realized price:			
Oil & NGL ($ per bbl)	**72.35**	42.18	72
Natural gas ($ per mcf)	**5.20**	5.41	(4)
Realized gain / (loss) on commodity contracts ($ per boe)	**0.96**	4.73	(80)
Combined average (incl. processing revenue) ($ per boe)	**57.83**	37.82	53
Netback ($ per boe)			
Oil, natural gas and NGL sales	**57.83**	37.82	53
Royalties	**(7.80)**	(5.07)	54
Operating expenses	**(16.11)**	(15.63)	3
Transportation expenses	**(3.21)**	(2.34)	37
Operating netback	**30.71**	14.78	108
G&A expenses	**(4.55)**	(3.38)	35
Interest expense	**(1.74)**	(1.45)	20
Corporate netback	**24.42**	9.95	145
Common Shares (000s)			
Common shares outstanding, end of period	**18,842**	16,689	13
Weighted average basic shares outstanding	**18,576**	16,695	11
Stock option dilution (treasury method)	**457**	–	nm
Weighted average diluted shares outstanding	**19,034**	16,695	14

1 Management uses funds from operations (before changes in non-cash working capital) to analyze operating performance and leverage. Funds from operations as presented does not have any standardized meaning prescribed by Canadian GAAP and, therefore, may not be comparable with the calculation of similar measures for other entities.

2 Capital expenditures includes cash additions for the period including acquisition additions net of dispositions.

OVERVIEW AND HIGHLIGHTS

Zapata participated in the drilling of one gross (0.5 net), acquired 23,565 hectares of land and shot a seismic program in the Silver area for a capital investment of $6.4 million during the first quarter.

Zapata averaged 2,686 boe per day in the first quarter of 2010, a small decrease as compared to the first quarter of 2009 production rate of 2,695 boe per day. Zapata realized a 64 percent production weighting to oil and natural gas liquids in the quarter.

Zapata achieved funds from operations per basic share of $0.33 in the first quarter of 2010, a 57 percent increase from $0.21 in the same period of 2009. Funds from operations were $6.0 million in the first quarter of 2010 as compared to $3.5 million in the first quarter of 2009.

The Corporation recorded net earnings of $0.12 per basic share for the first quarter of 2010 as compared to a net loss of $0.10 per basic share in the same period of 2009. The increase in oil and gas prices in the first quarter of 2010 relative to the same period of 2009 was a large contributor to the $2.2 million net earnings for the first quarter of 2010.

A 53 percent increase in revenue per boe contributed to the 108 percent increase in Zapata's operating netback (defined as revenue excluding realized and unrealized gain/(losses) on commodity contracts per boe less royalties, operating and transportation expenses on a per boe basis) which averaged $30.71 per boe in the first quarter of 2010. The Corporation's corporate netback (defined as operating netback per boe less G&A and interest expense per boe) was $24.42 per boe for the first quarter of 2010.

At the end of the first quarter of 2010, Zapata had $43.5 million of net debt, leaving $6.5 million available on its $50 million credit facility.

On March 25, 2010, the Corporation entered into a Reorganization and Investment Agreement with an investor group led by former Breaker Energy Ltd. members Dan O'Neil, Max Lof, Dan Brown and Paul Colborne. The Agreement provided for a recapitalization of the Corporation through a $17.0 million non-brokered private placement, the appointment of a new management team, key employees and board of directors.

On April 13, 2010 the Corporation completed the $17.0 million non-brokered private placement, issuing a total of 3,863,636 common and flow through shares at $4.40 per common share, 2,076,136 performance warrants exercisable at $5.17 per warrant and appointed the new management team, key employees and board of directors.

On May 5, 2010 the Corporation completed an equity financing for total gross proceeds of $50 million, issuing 6,945,000 common shares at $7.20 per common share.

As of May 28, 2010, the Corporation has a strong balance sheet with an estimated $16 million of cash and a bank line of $50 million.

Please see the subsequent event section of this MD&A for more detailed information on the Reorganization and Investment Agreement, $17.0 million non-brokered private placement and the $50 million equity financing.

Zapata is pleased to announce that its Annual General Meeting will be held at 10:00 am on Friday, June 25, 2010 at the Calgary Petroleum Club, Viking Room, 319 5th Avenue SW, in Calgary, Alberta T2P-0L5. Shareholders are encouraged to attend and participate in the business of the meeting.

CORPORATE STRATEGY AND NEW BUSINESS PLAN

The new management team has a proven track record of aggressively and efficiently growing oil and gas companies while achieving strong per share reserves, production and cash flow growth. The team plans to build an oil and liquids-rich gas company that acquires, exploits and explores for production and reserves in Western Canada. A high priority is being placed on positioning the Corporation in significant oil resource plays to provide a definable, high rate of return drilling inventory, where it can utilize its proven experience with enhanced oil recovery and drilling horizontal multi-frac wells.

The Zapata assets form a cornerstone for the new management team to execute on the go forward business plan. The attributes of Zapata's assets include:

SOLID ASSET BASE

- Low production decline rates
- Oil weighted medium gravity production, with greater than 90% operated
- Numerous exploitation and development opportunities

LARGE UNDEVELOPED LAND BASE

- More than 300,000 net undeveloped acres
- Greater than 20 net sections of land in the Cardium/Viking oil horizontal multi-frac fairways
- New potential oil resource opportunities have been identified
- Top decile, high rate of return assets with historically low Finding & Development costs

The medium gravity oil weighted Zapata assets center on a large production and land base in central Alberta. These assets provide extensive exposure to water flood expansion, infill development and pool extension opportunities. Several new large 3D seismic surveys have been conducted to evaluate additional drilling opportunities on trend. Vertical development of these pools provides top decile rates of return in the Western Canadian Sedimentary Basin. The new management team is focusing on accelerating the development and exploitation of the significant upside potential in this area.

Additionally, the Zapata land base provides for an initial position in several emerging crude oil resource plays, including a combined land position of greater than 20 net sections of prospective land in the Cardium and Viking light oil resource plays. The new management team expects the recapitalized corporate structure to better allow for the exploitation of the strong oil weighted asset base and the expansion of the opportunity inventory through both internally generated prospects and strategic oil acquisitions.

During the growth of Breaker, the new management team was successful at exploiting crude oil resource assets at Irricana, East Prairie, Provost and Millard Lake, and liquids rich natural gas assets at Fireweed. The new management team is focused on oil resource opportunities, and plans to grow through a targeted acquisition strategy coupled with development and exploitation drilling.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) of the consolidated financial position and results of operations of Zapata Energy Corporation ("Zapata" or the "Corporation"), which includes its subsidiaries and partnership arrangements, is for the three month periods ending March 31, 2010 and 2009. For a full understanding of the financial position and results of operations of the Corporation, the MD&A should be read in conjunction with the documents filed on SEDAR, including historical financial statements, press releases and the Annual Information Form (AIF). These documents are available at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. More particularly, this MD&A contains statements concerning anticipated: (i) production weighting for 2010, (ii) exploration and development activities, (iii) changes to the Alberta royalty regime regulations in force, (iv) effect on Zapata of anticipated changes to the Alberta royalty regime, (v) capital expenditures for 2010, (vi) sources of funding for future capital requirements, (vii) outcome and effect on Zapata of outstanding legal proceedings and claims, (viii) amounts received or paid to settle financial instruments currently entered into upon maturity, and (ix) changes to accounting policies. The forward-looking statements are based on certain key expectations and assumptions made by Zapata, including expectations and assumptions concerning the performance of existing wells and success obtained in drilling new wells, anticipated expenses, cash flow and capital expenditures and the application of regulatory and royalty regimes.

Although Zapata believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Zapata can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Certain of these risks are set out in more detail in this MD&A and in Zapata's AIF which has been filed on SEDAR and can be accessed at www.sedar.com.

The forward-looking statements contained in this MD&A are made as of the date hereof and Zapata undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

All amounts are expressed in Canadian dollars unless otherwise noted. Oil, natural gas and natural gas liquids reserves and volumes are converted to a common unit of measure, referred to as a barrel of oil equivalent (boe), on the basis of 6,000 cubic feet of natural gas being equal to one barrel of oil. This conversion ratio is based on an energy equivalency conversion method, primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead. It should be noted that the use of boe might be misleading, particularly if used in isolation.

The terms "funds from operations", "funds from operations per share", and "netback" used in this discussion are not recognized measures under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net earnings, funds from operations and netback are useful supplemental measures as they provide an indication of the results generated by the Corporation's principal business activities before the consideration of how those activities are financed or how the results are taxed. Investors are cautioned, however, that these measures should not be construed as alternatives to net earnings determined in accordance with GAAP, as an indication of Zapata's performance.

Zapata's method of calculating funds from operations may differ from that of other companies, and, accordingly, may not be comparable to measures used by other companies. Zapata determines funds from operations as cash flow from operating activities before changes in non-cash working capital as follows:

	3 Months Ended March 31,	
(000s)	**2010**	**2009**
Cash flow from operating activities (per GAAP)	$ **5,403**	$ 4,370
Change in non-cash working capital	$ **636**	$ (851)
Funds from operations	$ **6,039**	$ 3,519

Funds from operations per share is calculated using the weighted average basic and diluted shares used in calculating earnings per share. Operating and corporate netbacks are also presented. Operating netbacks represent Zapata's revenue, excluding realized and unrealized gain or losses on commodity contracts, less royalties and operating expenses. Corporate netbacks represent Zapata's operating netback, less general and administrative and interest expenses, in order to determine the amount of funds generated by production. Operating and corporate netbacks have been presented on a per barrels of oil equivalent **("boe")** basis.

Zapata's management is responsible for the integrity of the information contained in this report and for the consistency between the MD&A and financial statements. In the preparation of these statements, estimates are necessary to make a determination of future values for certain assets and liabilities. Management believes these estimates have been based on careful judgments and have been properly presented. The financial statements have been prepared using policies and procedures established by management and fairly reflect Zapata's financial position, results of operations and funds from operations.

Zapata's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated May 28, 2010.

OPERATIONS

Drilling

	Drilling		Success rate (%) gross	Working interest (%)
	Gross	Net		
Q1/2010	1	0.5	100	50

Zapata participated in the drilling of one gross (0.5 net) well in the Kaybob area, acquired 23,565 hectares of land and shot a seismic program in the Silver area for a capital investment of $6.4 million during the first quarter.

Production

	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Oil & NGL (bbls per day)	**1,707**	1,614	1,428	1,374	1,492	1,461	1,396	1,320
Natural gas (mcf per day)	**5,874**	6,887	6,295	7,586	7,223	9,079	9,932	8,624
Total (boe per day)	**2,686**	2,762	2,478	2,638	2,695	2,974	3,052	2,757
% Oil and NGL	**64**	58	58	52	55	49	46	48

Zapata achieved production of 2,686 boe per day, a three percent decrease over the fourth quarter of 2009 production rate of 2,762 boe per day and a slight decrease in production over the first quarter 2009 average of 2,695 boe per day. The decrease in the current quarter compared to the fourth quarter of 2009 and the first quarter of 2009 was primarily due to production declines, along with limited new capital investment in drilling.

Zapata realized a 64 percent oil and natural gas liquids production weighting in the first quarter of 2010. The Corporation realized average oil and natural gas liquids production of 1,707 bbls per day for the first quarter of 2010. The increase in the Corporation's oil production is due to an oil focused drilling program over the last half of 2009.

OIL, NATURAL GAS AND NGL, COMMODITY CONTRACTS AND OTHER REVENUES

A 53 percent increase in average revenue per boe resulted in revenues of $14.0 million in the first quarter of 2010, up from $9.2 million in the first quarter of 2009.

Zapata had certain oil and gas commodity contracts in place as of March 31, 2010. The Corporation recognized an unrealized gain of $1.4 million and a realized gain of $0.2 million on its commodity contracts in the first quarter of 2010. This compares to an unrealized loss of $1.1 million and a realized gain of $1.1 million on its commodity contracts in the first quarter of 2009. Please refer to the "Financial Instruments" section of this MD&A for further details on these oil and natural gas commodity contracts and interest rate swaps.

PRICES

In the first quarter of 2010 Zapata realized average revenue of $57.83 per boe, before realized commodity contract gains, an increase of 53 percent from the $37.82 per boe recorded in the first quarter of 2009.

Zapata realized an average of $72.35 per bbl of oil and natural gas liquids in the first quarter of 2010, a increase of 72 percent from the $42.18 per bbl realized in the first quarter of 2009. This compares to an average Edmonton Light Sweet price of $80.07 per bbl in the first quarter of 2010, which increased 60 percent from the $50.09 per bbl in the first quarter of 2009. The increase in oil and natural gas liquids prices is primarily the result of a combination of the increase in benchmark prices and the reduction of the differential between light and medium oil prices.

The Corporation realized an average natural gas price of $5.20 per mcf in the first quarter of 2010, a four percent decrease from the $5.41 per mcf averaged in the first quarter of 2009.

For the first quarter of 2010, realized commodity contract gains resulted in an increase of $0.96 per boe to the average revenue per boe for the quarter. For the same period last year, realized commodity contract gains resulted in an increase of $4.73 per boe to average revenue per boe for the quarter.

Revenue and Realized Prices

	3 Months Ended March 31, 2010	2009	% Change
Oil and NGL (000s)	**$ 11,112**	$ 5,663	96
Natural gas (000s)	**$ 2,750**	$ 3,515	(22)
Processing and other (000s)	**$ 116**	$ (3)	nm
Total oil, natural gas and NGL revenue ($000s)	**$ 13,978**	$ 9,175	52
Oil & NGL ($ per bbl)	**$ 72.35**	$ 42.18	72
Natural gas ($ per mcf)	**$ 5.20**	$ 5.41	(4)
Total oil, natural gas and NGL revenue ($ per boe)	**$ 57.83**	$ 37.82	53
Unrealized gain (loss) on commodity contracts ($ per boe)	**$ 5.74**	$ (4.58)	nm
Realized gain on commodity contracts ($ per boe)	**$ 0.96**	$ 4.73	(80)
Total oil, natural gas and NGL revenue after commodity contracts (per boe)	**$ 64.53**	$ 37.97	70

ROYALTIES

Zapata realized royalty expense of $1.9 million or 13 percent of revenue in the first quarter of 2010, compared to $1.2 million or 13 percent of revenue in the first quarter of 2009.

On January 1, 2009 the Alberta government's Alberta Royalty Framework (ARF) took effect. Under the ARF, royalty rates on conventional and non-conventional oil and natural gas production in Alberta may increase to a maximum of 50 percent. The sliding scale royalty calculations are based on a broader range of commodity prices and production rates.

In response to the drop in commodity prices experienced during the second half of 2008, on November 19, 2008, the Government of Alberta announced the introduction of a five year program of transitional royalty rates with the intent of promoting new drilling. Under this new program, companies drilling new natural gas or conventional oil wells (deeper than 1,000 metres and no deeper than 3,500 metres) will be given a one-time option, on a producing zone per well basis, to adopt either the new transitional royalty rates or those outlined in the ARF. In order to qualify for this program, wells must be drilled during the period starting on November 19, 2008 and ending on December 31, 2013. Following this period all new wells drilled will automatically be subject to the ARF.

On March 3, 2009, an incentive program designed to encourage the execution of new drilling projects in Alberta was announced in response to the global economic crisis and slowdown in drilling activity throughout the province of Alberta. The incentive program provides for a drilling royalty credit for new conventional oil and natural gas wells that initiate drilling on or after April 1, 2009 and that complete drilling by March 31, 2010. The incentive program also provides a reduced royalty rate on new wells for the first year of production or up to an established total production volume of 50,000 boe (boe cap is calculated at 10:1).

On June 25, 2009, the Government of Alberta announced that this program will be extended by one year to March 31, 2011. The incentive program is expected to positively impact the Corporation.

During the first quarter of 2010, Zapata recorded $0.1 million of drilling royalty credits as a reduction to capital costs.

As royalties under the ARF are sensitive to both commodity prices and production levels, the estimated ARF and corporate royalty rates will fluctuate with commodity prices, well production rates, production decline of existing wells, and performance and location of new wells drilled.

Royalties

	3 Months Ended March 31, 2010	2009	% Change
Total (000s)	**$ 1,884**	$ 1,230	53
% of Revenue	**13**	13	–
Per boe	**$ 7.80**	$ 5.07	54

OPERATING EXPENSE

Total operating expenses in the first quarter of 2010 were $3.9 million, up three percent from $3.8 million in the first quarter of 2009. Operating expense per boe increased three percent in the first quarter of 2010 to $16.11 per boe as compared to $15.63 per boe in the same period of 2009. The increase was primarily the result of increased workover and maintenance activity coupled with slightly lower production levels.

Operating Expenses

	3 Months Ended March 31,		
	2010	**2009**	**% Change**
Total (000s)	**$ 3,895**	$ 3,791	3
Per boe	**$ 16.11**	$ 15.63	3

TRANSPORTATION EXPENSES

Transportation expenses in the first quarter of 2010 were $0.8 million or $3.21 per boe, this was a 37% increase over the $0.6 million and $2.34 per boe recorded in the same period of 2009. This increase was due to tariffs related to a three year transportation agreement, with the entire $0.2 million payment recorded in the first quarter of 2010.

Transportation Expenses

	3 Months Ended March 31,		
	2010	**2009**	**% Change**
Total (000s)	**$ 777**	$ 567	37
% of revenue	**6**	6	–
Per boe	**$ 3.21**	$ 2.34	37

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

G&A expenses for the first quarter of 2010 increased 35 percent to $4.55 per boe as compared to $3.38 per boe in the first quarter of 2009. Total G&A expense for the first quarter of 2010 net of recoveries and capitalized amounts of $0.5 million was $1.1 million, compared to $0.8 million in the first quarter of 2009 after recoveries and capitalized amounts of $0.1 million. The increase in recoveries was a result of the new management group capitalizing more administrative costs directly attributable to exploration activities.

G&A Expenses

	3 Months Ended March 31,		
	2010	**2009**	**% Change**
Total (000s)	**$ 1,552**	$ 921	68
Recoveries and capitalized amounts	**$ (451)**	$ (101)	347
Net G&A	**$ 1,101**	$ 820	34
Net G&A expense per boe	**$ 4.55**	$ 3.38	35

INTEREST EXPENSE

Zapata realized interest expense of $0.4 million or $1.74 per boe in the first quarter of 2010 as compared to $0.4 million or $1.45 per boe in the first quarter of 2009.

Interest Expense

	3 Months Ended March 31,		
	2010	**2009**	**% Change**
Interest expense (000s)	**$ 420**	$ 351	20
Per boe	**$ 1.74**	$ 1.45	20
Average debt	**$ 41,275**	$ 40,700	1

NETBACKS

Zapata's operating netback per boe (defined as revenue excluding realized and unrealized gain or losses on commodity contracts per boe less royalties, operating and transportation expenses on a per boe basis) was $30.71 in the first quarter of 2010, a 108 percent increase from $14.78 recorded in the first quarter of 2009. The increase in operating netback was largely due to a 53 percent increase in revenue per boe, partially offset by a 54 percent increase in royalty expenses per boe, a 37 percent increase in transportation expenses per boe and a three percent increase in operating costs per boe in the first quarter of 2010, as compared to the same period of 2009.

Zapata's corporate netback, defined as operating netback per boe less G&A and interest expense per boe, was $24.42 in the first quarter of 2010, a 145 percent increase as compared to $9.95 in the first quarter of 2009.

Corporate Average Netback

	3 Months Ended March 31,		
($ per boe, except production)	**2010**	**2009**	**% Change**
Average production (boe per day)	**2,686**	2,695	–
Revenue	**$ 57.83**	$ 37.82	53
Royalties	**(7.80)**	(5.07)	54
Operating costs	**(16.11)**	(15.63)	3
Transportation costs	**(3.21)**	(2.34)	37
Operating netback	**$ 30.71**	$ 14.78	108
Interest expense	**(1.74)**	(1.45)	20
G&A expense	**(4.55)**	(3.38)	35
Corporate netback	**$ 24.42**	$ 9.95	145

FUNDS FROM OPERATIONS AND CASH FLOW FROM OPERATIONS

For the first quarter of 2010 funds from operations increased by 72 percent to $6.0 million compared to $3.5 million in the first quarter of 2009. On a per share basis funds, from operations increased by 57 percent to $0.33 per basic share in the first quarter 2010 from $0.21 per basic share in the same period of 2009. Funds from operations increased by 72 percent on a per boe basis to $24.98 in the first quarter of 2010 from $14.51 in the first quarter of 2009.

Cash flow from operations differs from funds from operations due to the inclusion of changes in non-cash working capital. Cash flow from operations for the first quarter of 2010 was $5.4 million as compared to $4.4 million in the first quarter of 2009. Included in cash flow from operations is a decrease in non-cash working capital of $0.5 million for the first quarter of 2010 and an increase of $0.9 million for the same period of 2009.

Funds from Operations

	3 Months Ended March 31,		
	2010	**2009**	**% Change**
Total (000s)	**$ 6,039**	$ 3,519	72
Per share – basic	**$ 0.33**	$ 0.21	57
Per share – diluted	**$ 0.32**	$ 0.21	52
Per boe	**$ 24.98**	$ 14.51	72
Cash flow from operations	**$ 5,403**	$ 4,370	24

STOCK-BASED COMPENSATION

Zapata recorded stock-based compensation expense of $0.1 million in the first quarter of 2010 compared to $0.1 million for the same period of 2009, calculated using the Black-Scholes option-pricing model. During the first quarter ended March 31, 2010 78,335 options were exercised at a weighted average exercise price of $2.43 per option and 20,000 options were forfeited at a weighted average price of $7.10 per option.

Stock-Based Compensation Expense

	3 Months Ended March 31,		
	2010	**2009**	**% Change**
Stock-based compensation expense (000s)	**$ 76**	$ 57	33
Per boe	**$ 0.31**	$ 0.23	35

DEPLETION, DEPRECIATION AND ACCRETION (DD&A)

Depletion and depreciation are calculated based upon capital expenditures, production rates and reserves. Zapata uses the asset retirement obligation method to record the present value of estimated clean-up and restoration costs for all of its facilities, including well sites and pipelines. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Excluded from the Corporation's depletion and depreciation calculation are costs associated with salvage values, unproven properties and seismic of $21.5 million. Future development costs for proved reserves of $16.8 million have been included in the depletion calculation.

Zapata recorded $4.6 million or $19.09 per boe in DD&A expense in the first quarter of 2010, a four percent decrease as compared to $19.82 per boe in DD&A expense in the first quarter of 2009. This DD&A calculation is based on production volumes of 241,740 boe for the quarter. This decrease in the DD&A rate per boe is primarily due to increased reserves in the last half of 2009 that were also used in the first quarter of 2010 reserves, as compared to the reserves in the first quarter of 2009. This increase is due to a successful second half of 2009 drilling program.

Depletion, Depreciation and Accretion (DD&A) Expense

	3 Months Ended March 31,		
	2010	**2009**	**% Change**
DD&A (000s)	**$ 4,612**	$ 4,806	(4)
Per boe	**$ 19.09**	$ 19.82	(4)

INCOME AND OTHER TAXES

Zapata recognized a combined future tax liability of approximately $18.8 million as at March 31, 2010, an increase of $1.2 million from the year-end 2009 future tax liability of $17.6 million. The future tax liability increased by $0.7 million related to the $2.6 million of flow-through shares issued in 2009 and renounced in 2010. The future tax liability also increased by the future tax expense of $0.5 million for the first three months of 2010. As at March 31, 2010, the Corporation has incurred $1.2 million towards the 2009 flow-through share obligation and has satisfied the terms of this flow-through share offering.

The provision for income taxes differs from the amount obtained by applying the combined federal and provincial income tax rate for 2010, which was 28 percent and is calculated on earnings before income taxes. The difference is mainly due to future tax rate differences.

Tax Expenses (Reduction)

	3 Months Ended March 31,	
	2010	**2009**
Total (000s)	**$ 548**	$ (769)
Per boe	**$ 2.27**	$ (3.17)

NET INCOME (LOSS)

The Corporation recorded net earnings for the three months ended March 31, 2010 of $2.2 million or $0.12 per basic share, an increase from the $1.6 million of net losses recorded in the first three months of 2009. The increase in revenue offset by the increases in general and administrative and operating expenses, largely contributed to this increase in net earnings.

Net Income (Loss)

	3 Months Ended March 31, 2010	3 Months Ended March 31, 2009
Total (000s)	**$ 2,168**	$ (1,641)
Per share – basic	**$ 0.12**	$ (0.10)
Per share – diluted	**$ 0.11**	$ (0.10)
Per boe	**$ 8.97**	$ (6.76)

CAPITAL EXPENDITURES

Capital expenditures for the first quarter of 2010 were $6.4 million, a nine percent decrease from the $7.0 million spent in the first quarter of 2009. Zapata invested $2.7 million to drill one gross (0.5 net) wells, $2.7 million on land acquisitions and seismic, $0.6 million on facilities and equipment and $0.4 million on other capital items.

Capital Expenditure Summary

(000s)	Q1 2010	Q1 2009
Land and seismic	**$ 2,701**	**$** 325
Drilling and intangibles	**$ 2,680**	**$** 5,505
Facilities and equipment	**$ 584**	**$** 1,115
Other	**$ 389**	**$** 16
Total capital	**6,354**	6,961

QUARTERLY AND ANNUAL FINANCIAL INFORMATION

	Q1 2010	Year Ended Dec 31 2009	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Year Ended Dec 31 2008	Q4 2008	Q3 2008	Q2 2008
Oil, NGL & natural gas sales ($000s)	**13,978**	43,720	13,070	10,751	9,576	10,323	69,400	14,199	21,282	18,926
Unrealized gain (loss) on financial derivatives ($000s)	**1,386**	(1,222)	(1,116)	1,026	(22)	(1,110)	1,852	221	4,764	(2,569)
Provision for bad debt ($000s)	**115**	840	–	–	840	–	3,053	1,053	1,333	667
Net earnings (loss) ($000s)	**2,168**	(2,112)	(21)	844	(1,294)	(1,641)	7,698	(483)	5,649	1,447
Net earnings (loss) per share ($)										
Basic	**0.12**	(0.13)	–	0.05	(0.08)	(0.10)	0.45	(0.02)	0.33	0.08
Diluted	**0.11**	(0.13)	–	0.05	(0.08)	(0.10)	0.45	(0.02)	0.33	0.08
Average Daily Sales										
Natural gas (mcf/d)	**5,874**	6,995	6,887	6,295	7,586	7,223	9,056	9,079	9,932	8,624
Oil (bbls/d)	**1,707**	1,349	1,504	1,315	1,238	1,339	1,164	1,303	1,099	1,108
Barrels of oil equivalent (boe/d)	**2,686**	2,643	2,762	2,478	2,638	2,695	2,875	2,974	3,052	2,757
Average Sales Price										
Natural gas ($/mcf)	**5.20**	4.85	4.63	4.13	3.59	5.41	8.38	7.91	7.79	9.75
Oil & NGL ($/bbl)	**72.35**	58.84	69.52	65.17	58.48	42.18	82.77	55.47	103.12	94.99
Barrels of oil equivalent ($/boe)	**57.83**	45.32	51.44	47.17	39.88	37.82	65.96	51.89	75.81	75.43

SHARE CAPITAL AND OPTION ACTIVITY

Share Capital	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Weighted common shares	**18,576,487**	16,699,721	16,666,811	16,668,503	16,695,117	16,791,271	17,049,299	17,124,795
Stock option dilution (treasury method)[1]	**457,033**	0	69,353	0	0	25,146	201,320	164,978
Weighted average diluted shares outstanding[1]	**19,033,520**	16,699,721	16,736,164	16,668,503	16,695,117	16,816,417	17,250,619	17,289,773

1 In computing the net loss per diluted share, nil shares were added to the weighted average number of shares outstanding because they were anti-dilutive.

On January 19, 2010, the Corporation issued 848,600 units at a price of $3.00 per unit, with each unit consisting of one common share and one-half of a common share purchase warrant (with each whole warrant exercisable into one common share at a price of $4.00 per share until December 23, 2010), for total gross proceeds of $2,545,800.

On January 29, 2010, the Corporation issued 78,333 units at a price of $3.00 per unit, with each unit consisting of one common share and one-half of a common share purchase warrant (with each whole warrant exercisable into one common share at a price of $4.00 per share until December 23, 2010), for total gross proceeds of $235,000.

At March 31, 2010 Zapata had 18,841,545 common shares and 1,759,667 options outstanding. During the first quarter ended March 31, 2010 78,335 options were exercised at a weighted average exercise price of $2.43 per option and 20,000 options were forfeited at a weighted average price of $7.10 per option. On May 28, 2010 Zapata had 30,877,680 common shares, 588,699 warrants, 2,076,136 performance warrants and 1,794,666 options outstanding.

LIQUIDITY AND CAPITAL RESOURCES

On March 31, 2010, Zapata had drawn $40.9 million on its bank line and had a working capital deficit (including bank debt) of $43.5 million. Zapata's net debt to trailing four quarter funds from operations ratio was 2.17 times.

The Corporation has a revolving operating demand loan to a maximum of $50,000,000 (2009 – $53,000,000) of which $40,900,000 (2008 – $41,650,000) was drawn at March 31, 2010. Required repayments are interest only and interest rates are determined quarterly and are based on a grid system which ranges from prime plus 0.25% to prime plus 2.5% depending on a net debt to cash flow ratio of less than 1:1 to greater than or equal to 3:1. As at March 31, 2010, the interest rate on the facility was at prime plus 1.25 % or 3.5% (2009 – prime plus 1.25% or 3.5%) per annum. The facility was last reviewed on January 26, 2010 and the next interim review is due on or before June 1, 2010.

The facilities are secured by a general assignment of book debts, debentures of $75,000,000 (2009 – $75,000,000) with a floating charge over all assets of the Corporation with a negative pledge and undertaking to provide fixed charges on the major producing petroleum and natural gas properties at the request of the bank. Under the terms of the agreement, the Corporation is required to meet certain financial and engineering reporting requirements.

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Certain officers and directors of the Corporation purchased 20,000 units for total gross proceeds of $60,000 as part of the January 19, 2010 equity offering.

Zapata was not involved in any off-balance-sheet transactions during the quarter ended March 31, 2010.

At March 31, 2010 and December 31, 2009 two share purchase loans aggregating $360,000 were due from two officers of the Corporation and had been deducted from share capital. The loans bore interest at a rate of 4.75% and were due on June 30, 2010. Subsequent to March 31, 2010, the entire amount of the principal and interest outstanding has been repaid and the related common shares totaling 160,000 have been issued.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The Corporation has entered into farm-in agreements in the normal course of its business.

Zapata has future minimum lease payments relating to its operating leases totalling $1.3 million, as summarized below:

Future Minimum Lease Payments

	(000s)
2010	$ 249
2011	315
2012	335
2013	336
2014	108
Total	$ 1,343

In 2009, the Corporation issued a total of 757,000 flow-through common shares at $3.40 per share for gross proceeds of $2.6 million. As at March 31, 2010, the Corporation had incurred $1.2 million towards this flow-through share obligation and has remaining eligible exploration expenditures of $1.4 million to be spent before December 31, 2010 to satisfy the terms of this flow-through share offering.

On April 13, 2010 the Corporation issued a total of 681,819 flow-through units at a price of $4.40 per unit for gross proceeds of $3.0 million. The Corporation intends to renounce the tax benefit to subscribers effective December 31, 2010. The Corporation is committed to expanding the entire gross proceeds on qualified exploration activities before December 31, 2011.

The Corporation has entered into a take or pay commitment under a natural gas transportation arrangement. The total commitment is estimated at $66,000 in 2010, $49,000 in 2011 and $39,000 in 2012.

At March 31, 2010, the Corporation has a revolving operating demand loan to a maximum of $50,000,000 of which $40,900,000 (December 31, 2009 – $41,650,000) was drawn at March 31, 2010. Required repayments are interest only and interest rates are determined quarterly and are based on a grid system which ranges from prime plus 0.25% to prime plus 2.5% depending on a net debt to cash flow ratio of less than 1:1 to greater than or equal to 3:1. As at March 31, 2010, the interest rate on the facility was at prime plus 1.25 % or 3.5% (2009 – prime plus 1.25% or 3.5%) per annum. The facility was last reviewed on January 26, 2010 and the next interim review is due on or before June 1, 2010. As the available lending limits of the facility are based upon the bank's interpretation of the Corporation's reserves and future commodity prices, there can be no assurance as to the amount of the facility that will be determined at the next scheduled review.

The facility is secured by a general assignment of book debts, debentures of $75,000,000 (Dec 31, 2009 – $75,000,000) with a floating charge over all assets of the Corporation with a negative pledge and undertaking to provide fixed charges on the major producing petroleum and natural gas properties at the request of the bank. Under the terms of the agreement, the Corporation is required to meet certain financial and engineering reporting requirements.

FINANCIAL INSTRUMENTS

Derivative contracts are recorded at fair value based on an estimate of the amounts that would have been received or paid to settle these instruments prior to maturity given future market prices and other relevant factors. The actual amounts received or paid to settle these instruments at maturity could differ significantly from those estimated.

The following table outlines the realized and unrealized gains (losses) on oil and gas commodity contracts for the three months ended March 31, 2010:

Term	Type (floating to fixed)	Volume	Swap Price (Zapata receives) (C$)	Index (Zapata pays)	Unrealized gains (losses) for the three months ended March 31, 2010 (000s)	Realized gains (losses) for the three months ended March 31, 2010 (000s)
Jan 1 – Dec 31, 2010	Swap	2,000 GJs/d	$ 5.80	AECO Monthly Avg	$ 799	$ 131
Apr 1 – Oct 31, 2010	Swap	1,000 GJs/d	$ 5.32	AECO Monthly Avg	$ 359	–
Nov 1, 2009 – Mar 31, 2010	Swap	500 GJs/d	$ 6.00	AECO Monthly Avg	$ (35)	$ 55
Jan 1 – Dec 31, 2010	Swap	100 bbls/d	$ 86.00	C$WTI-NYMEX	$ 18	$ 28
Jan 1 – Dec 31, 2010	Swap	100 bbls/d	$ 84.00	C$WTI-NYMEX	$ 30	$ 16
Jan 1 – Dec 31, 2010	Swap	100 bbls/d	$ 86.00	C$WTI-NYMEX	$ 18	$ 28
Jan 1 – Dec 31, 2010	Swap	200 bbls/d	$ 81.00	C$WTI-NYMEX	$ 95	$ (4)
Feb 1 – Dec 31, 2010	Swap	100 bbls/d	$ 87.75	C$WTI-NYMEX	$ 55	$ 19
Feb 1 – Dec 31, 2010	Swap	100 bbls/d	$ 87.90	C$WTI-NYMEX	$ 50	$ 19
					1,389	**292**

The following table outlines the realized and unrealized losses on interest rate swap contracts for the three ended March 31, 2010:

Term	Type (floating to fixed)	Amount (C$)[1]	Corporation fixed interest rate (%)	Counterparty floating rate index	Unrealized (losses) for the three months ended March 31, 2010 (000s)	Realized (losses) for the three months ended March 31, 2010 (000s)
Feb 24 – April 15, 2010	Swap	35,000,000	4.42 to 4.44	CAD-BA-CDOR	$ (3)	$ (60)

1 Notional debt amount.

SUBSEQUENT EVENTS

a) On April 13, 2010, the Corporation completed its previously announced $17.0 million non-brokered private placement and has appointed a new management team, key employees and board of directors.

Pursuant to the private placement, the new management group, together with certain additional subscribers identified by the new management group, subscribed for 1,394,317 common units of the Corporation at a price of $4.40 per common unit, 1,787,500 common shares of the Corporation at a price of $4.40 per common share and 681,819 flow-through units at a price of $4.40 per flow-through Unit, for total proceeds to Zapata of approximately $17.0 million. Each common unit is comprised of one common share and one common share purchase warrant, entitling the holder to purchase one common share at a price of $5.17 for a period of five years. Each flow-through unit is comprised of one common share issued on a flow-through basis pursuant to the Income Tax Act of Canada and one performance warrant. The performance warrants will vest and become exercisable as to one-third upon the 20 day weighted average trading price of the common shares equaling or exceeding $5.69, an additional one-third upon the trading price equaling or exceeding $6.20 and a final one-third upon the trading price equaling or exceeding $6.72. The performance warrants are released from escrow one third on each of the six, twelve and eighteen month anniversaries from the date of grant.

Under the terms of the April 13, 2010 flow-through share agreement, the Corporation will be required to renounce $3.0 million of qualifying petroleum and natural gas expenditures on December 31, 2010 and has until December 31, 2011 to incur them. In conjunction with the new management team assuming responsibility for the ongoing operations of the continuing entity, certain costs of approximately $6.5 million were incurred for former management and employees and all stock options immediately vested. The financial impact of this will be recognized in the second quarter of 2010.

b) On May 5, 2010, the Corporation issued 6,945,000 common shares at a price of $7.20 per share for gross proceeds of $50,004,000, pursuant to a short form prospectus

c) On May 7, 2010, the Corporation entered into an office lease agreement for 26,704 square feet of office space. The new lease commitment is for 2 years and 6 months and includes basic rent, operating costs and property taxes, with an expected annual total expense of $513,000.

d) On May 10, 2010, the Corporation issued 1,214,000 stock options at an exercise price of $6.40 per option to the new management group and certain other employees.

RISK FACTORS

Additional risk factors can be found under “Risk Factors” in the Corporation’s 2009 Annual Information Form and 2009 Annual Report which can be found on www.sedar.com. The risks discussed should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from forecast results.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2011, Canadian public companies are required to adopt International Financial Reporting Standards (“IFRS”). In the time leading up to the conversion date, some existing Canadian standards will change to converge with IFRS. The Corporation’s financial statements up to and including the December 31, 2010 financial statements will continue to be reported in accordance with Canadian GAAP as it exists on each reporting date. Financial statements for the quarter ended March 31, 2011, including comparative amounts, will be prepared on an IFRS basis. A transition plan is in place to convert the financial statements to IFRS. The Corporation continues to assess the effect of the transition on information systems, internal controls over financial reporting and disclosure controls and procedures. Systems and controls are being updated as IFRS accounting processes are implemented. Analysis and quantification of differences between IFRS and the Corporation’s current accounting policies is continuing. Some accounting policies may change on adoption of IFRS even though the Corporation’s current accounting policies are acceptable under IFRS. Changes in accounting policy may materially impact the financial statements. There are several significant accounting policy changes anticipated on adoption of IFRS. Changes in IFRS prior to adoption may result in other accounting policy changes which could significantly impact the financial statements. Numerous accounting policy changes will be made under IFRS, with the most significant changes expected to include accounting for petroleum and natural gas (“P&NG”), assets and equipment accounting for business combinations and accounting for future taxes.

CONSOLIDATED BALANCE SHEETS

(Unaudited)
(Stated in thousands of dollars)

	March 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Accounts receivable	**$ 6,693**	$ 4,061
Prepaid expenses and deposits	**879**	1,536
Fair value of financial contracts (note 5)	**1,165**	–
	8,737	5,597
Petroleum and natural gas properties (note 1)	**128,599**	126,763
	$137,336	$132,360
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 11,027**	$ 10,628
Fair value of financial contracts (note 5)	**–**	221
Current future income taxes	**326**	–
Bank debt (note 2)	**40,900**	41,650
	52,253	52,499
Future income taxes	**18,476**	17,636
Asset retirement obligations (note 3)	**5,389**	5,389
Shareholders' equity:		
Share capital (note 4)	**18,420**	16,209
Contributed surplus (note 4)	**3,562**	3,559
Retained earnings	**39,236**	37,068
	61,218	56,836
Commitments (note 6)		
Subsequent events (note 7)		
	$ 137,336	$132,360

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND RETAINED EARNINGS

For the Three Months Ended March 31,
(Unaudited)
(Stated in thousands of dollars, except per share amounts)

	2010	2009
REVENUES:		
Petroleum and natural gas	**$ 13,978**	$ 9,175
Royalties	**(1,884)**	(1,230)
Realized gain on financial contracts (note 5)	**232**	1,147
Unrealized gain (loss) on financial contracts (note 5)	**1,386**	(1,110)
	13,712	7,982
EXPENSES:		
Operating	**3,895**	3,791
Transportation	**777**	567
General and administrative	**1,101**	820
Stock-based compensation	**76**	57
Interest expense	**420**	351
Bad debt provision	**115**	–
Depletion, depreciation and accretion	**4,612**	4,806
	10,996	10,392
Earnings (loss) before income taxes	**2,716**	(2,410)
Future income tax (reduction)	**548**	(769)
Net earnings (loss) and comprehensive income (loss)	**2,168**	(1,641)
Retained earnings, beginning of period	**37,068**	39,219
Common shares repurchased and cancelled	**–**	(7)
Retained earnings, end of period	**$ 39,236**	$ 37,571
Earnings (loss) per share (note 4):		
Basic	**$ 0.12**	$ (0.10)
Diluted	**$ 0.11**	$ (0.10)

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31
(Unaudited)
(Stated in thousands of dollars)

	2010	2009
Cash provided by (used in):		
OPERATING:		
Net earnings (loss)	**$ 2,168**	$ (1,641)
Items not involving cash:		
Depletion, depreciation and accretion	**4,612**	4,806
Future income tax (reduction)	**548**	(769)
Bad debt provision	**115**	–
Stock-based compensation	**76**	57
Unrealized loss (gain) on financial contracts	**(1,386)**	1,110
Abandonment expenditures	**(94)**	(44)
	6,039	3,519
Change in non-cash working capital	**(636)**	851
	5,403	4,370
FINANCING:		
Bank debt	**(750)**	2,100
Issue of common shares, net of issue costs	**2,756**	–
Repurchase of common shares under normal course issuer bid	**–**	(14)
	2,006	2,086
INVESTING:		
Petroleum and natural gas properties	**(6,354)**	(6,961)
Change in non-cash working capital	**(1,055)**	505
	(7,409)	(6,456)
Change in cash	**–**	–
Cash, beginning of period	**–**	–
Cash, end of period	**$ –**	$ –
Interest Paid	**$ 420**	$ 351

Cash is defined as cash and cash equivalents.

See accompanying notes to the interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009
(Unaudited)
(Tabular amounts are stated in thousands of dollars, except share and per share data)

Zapata Energy Corporation's (the "Corporation") business consists of the exploration, development and production of oil and gas properties in western Canada.

The interim consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2009. The following disclosure is incremental to the disclosure included with the annual financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Corporation's annual report for the year ended December 31, 2009.

The consolidated financial statements include the accounts of the Corporation, its wholly-owned subsidiary and a partnership. All inter-entity transactions and balances have been eliminated. Certain comparative figures have been reclassified to conform with current period presentation.

1. PETROLEUM AND NATURAL GAS PROPERTIES:

March 31, 2010	Cost	Accumulated Depletion	Net Book Value
Petroleum and natural gas properties	**$235,709**	**$107,110**	**$128,599**

December 31, 2009	Cost	Accumulated Depletion	Net Book Value
Petroleum and natural gas properties	$229,352	$102,589	$126,763

During the three months ended March 31, 2010, the Corporation capitalized $384,000 (March 31, 2009 – $6,000) of overhead-related costs to petroleum and natural gas properties.

Costs associated with unproven properties, salvage values and seismic excluded from costs subject to depletion for the three months ended March 31, 2009 totaled $21,456,000 (March 31, 2009 – $20,187,000). Future development costs for proved reserves of $16,800,000 (March 31, 2009 – $7,800,000) have been included in the depletion calculation.

2. BANK DEBT:

At March 31, 2010, the Corporation has a revolving operating demand loan to a maximum of $50,000,000 of which $40,900,000 (December 31, 2009 – $41,650,000) was drawn at March 31, 2010. Required repayments are interest only and interest rates are determined quarterly and are based on a grid system which ranges from prime plus 0.25% to prime plus 2.5% depending on a net debt to cash flow ratio of less than 1:1 to greater than or equal to 3:1. As at March 31, 2010, the interest rate on the facility was at prime plus 1.25 % or 3.5% (2009 – prime plus 1.25% or 3.5%) per annum. The facility was last reviewed on January 26, 2010 and the next interim review is due on or before June 1, 2010. As the available lending limits of the facility are based upon the bank's interpretation of the Corporation's reserves and future commodity prices, there can be no assurance as to the amount of the facility that will be determined at the next scheduled review.

The facility is secured by a general assignment of book debts, debentures of $75,000,000 (Dec 31, 2009 – $75,000,000) with a floating charge over all assets of the Corporation with a negative pledge and undertaking to provide fixed charges on the major producing petroleum and natural gas properties at the request of the bank. Under the terms of the agreement, the Corporation is required to meet certain financial and engineering reporting requirements.

3. ASSET RETIREMENT OBLIGATIONS:

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately $38,029,000 (December 31, 2009 – $37,931,000) which will be incurred between 2011 and 2059. The majority of these costs will be incurred between 2011 and 2037. A credit-adjusted risk free rate of 8 percent (December 31, 2009 – 8 percent) was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	March 31, 2010	December 31, 2009
Balance, beginning of period	**$ 5,389**	$ 5,243
Liabilities incurred	**3**	(1)
Accretion expense	**91**	404
Abandonment expenditures	**(94)**	(257)
Balance, end of period	**$ 5,389**	$ 5,389

4. SHARE CAPITAL:

(a) Authorized:
Unlimited number of voting common shares
Unlimited number of preferred shares, issuable in series

(b) Issued and outstanding:

	Number of shares	Amount
Common shares:		
Balance, December 31, 2008	16,697,811	$ 12,641
Issued pursuant to unit offering	417,466	1,252
Issued pursuant to flow-through offering	757,000	2,574
Share issue costs	–	(315)
Tax effect of share issue costs	–	84
Shares purchased pursuant to a normal course issuer bid	(36,000)	(27)
Balance, December 31, 2009	17,836,277	$ 16,209
Issued pursuant to unit offering	926,933	2,781
Share issue costs	–	(215)
Tax effect of share issue costs	–	57
Exercise of stock options	78,335	263
Tax effect of flow-through shares issued in 2009		(675)
Balance, March 31, 2010	18,841,545	$ 18,420

On January 19, 2010, the Company issued 848,600 units at a price of $3.00 per unit, with each unit consisting of one common share and one-half of a common share purchase warrant (with each whole warrant exercisable into one common share at a price of $4.00 per share until December 23, 2010), for total gross proceeds of $2,545,800. Certain officers and directors purchased 20,000 units for total gross proceeds of $60,000.

On January 29, 2010, the Company issued 78,333 units at a price of $3.00 per unit, with each unit consisting of one common share and one-half of a common share purchase warrant (with each whole warrant exercisable into one common share at a price of $4.00 per share until December 23, 2010) per unit for total gross proceeds of $235,000.

(c) Stock Options:

Under the Corporation's stock option plan it may grant options to its employees for up to 1,884,154 common shares of the Corporation. The exercise price of each option equals the market price of the Corporation's common shares at the date of grant. Options granted have a term of five years to maturity and vest as to one-third on each of the date of grant, the first and second anniversaries from the date of grant.

	Period ended March 31, 2010 Number of options	Period ended March 31, 2010 Weighted average exercise price	Year ended December 31, 2009 Number of options	Year ended December 31, 2009 Weighted average exercise price
Stock options outstanding, beginning of period	**1,878,001**	**$ 3.74**	1,643,666	$ 3.87
Granted	**–**	**–**	345,000	3.20
Exercised	**(78,335)**	**2.43**	–	–
Forfeited	**(20,000)**	**7.10**	(110,665)	4.04
Stock options outstanding, end of period	**1,779,666**	**$ 3.76**	1,878,001	$ 3.74
Exercisable at period-end	**1,413,661**	**$ 4.01**	1,408,337	$ 4.07

(d) Contributed surplus:

	Period ended March 31, 2010	Year ended December 31, 2009
Balance, beginning of period	**$ 3,559**	$ 3,178
Stock-based compensation expense	**76**	381
Transfer on exercise of stock options	**(73)**	–
Balance, end of period	**$ 3,562**	$ 3,559

The Corporation's stock-based compensation expense for the three month period ended March 31, 2010 was $76,000 (March 31, 2009 – $57,000).

(e) Stock purchase warrants:

As part of equity financings completed in December 2009 and January 2010, the Corporation issued 672,199 warrants exercisable immediately at an exercise price of $4.00 and with an expiry date of December 23, 2010.

(f) Per share amounts:

The following table summarizes the shares used in calculating earnings (loss) per share:

	March 31, 2010	March 31, 2009
Weighted average number of shares – basic	**18,576,487**	16,695,117
Effect of dilutive stock options	**457,033**	–
Weighted average number of shares – diluted	**19,033,520**	16,695,117

(g) Share purchase loans:

At March 31, 2010 and December 31, 2009 two share purchase loans aggregating $360,000 were due from two officers of the Corporation and had been deducted from share capital. The loans bore interest at a rate of 4.75% and were due on June 30, 2010. Subsequent to March 31, 2010, the entire amount of the principal and interest outstanding has been repaid and the related common shares totaling 160,000 have been issued.

5. FINANCIAL INSTRUMENTS:

(a) Credit Risk:

Credit risk is the risk of financial loss to the Corporation if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivable from joint venture partners and petroleum and natural gas marketers. As at March 31, 2010, the Corporation's receivables consisted of $5,339,000 due from petroleum and natural gas marketers, $1,354,000 due from joint venture partners. These amounts are presented net of the allowance for doubtful accounts.

The carrying value of accounts receivable and the fair values of financial contracts represent the maximum credit exposure. The Corporation has an allowance for doubtful accounts of $4.1 million (December 31, 2009 – $4.0 million) at March 31, 2010. During the three months ended March 31, 2010, the Corporation wrote off $115,000 of bad debts (March 31, 2009 – $ nil).

As at March 31, 2010 the Corporation estimates its total accounts receivables, net of the allowance for doubtful accounts, to be aged as follows:

	Current	Past Due	Total
Accounts Receivable (000s)	$ 5,557	$ 1,136	6,693
	83%	17%	100%

(b) Liquidity risk:

Accounts payable are considered due to suppliers in one year or less while bank debt, which is subject to a renewal after a 364-day revolving period, could be potentially due within the next year if the facility is not renewed for a further 364-day period.

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's net earnings or the value of financial instruments.

Foreign currency exchange risk:

The Corporation had no forward exchange rate contracts in place as at or during the three months ended March 31, 2010 or the year ended December 31, 2009.

Commodity price risk:

The following table outlines the realized and unrealized losses on oil commodity contracts for the three months ended March 31, 2010:

Term	Type (floating to fixed)	Volume	Swap Price (Zapata receives) (C$)	Index (Zapata pays)	Unrealized gains (losses) for the three months ended March 31, 2010 (000s)	Realized gains (losses) for the three months ended March 31, 2010 (000s)
Jan 1 – Dec 31, 2010	Swap	2,000 GJs/d	$ 5.80	AECO Monthly Avg	$ 799	$ 131
Apr 1 – Oct 31, 2010	Swap	1,000 GJs/d	$ 5.32	AECO Monthly Avg	$ 359	–
Nov 1, 2009 – Mar 31, 2010	Swap	500 GJs/d	$ 6.00	AECO Monthly Avg	$ (35)	$ 55
Jan 1 – Dec 31, 2010	Swap	100 bbls/d	$ 86.00	C$WTI – NYMEX	$ 18	$ 28
Jan 1 – Dec 31, 2010	Swap	100 bbls/d	$ 84.00	C$WTI – NYMEX	$ 30	$ 16
Jan 1 – Dec 31, 2010	Swap	100 bbls/d	$ 86.00	C$WTI – NYMEX	$ 18	$ 28
Jan 1 – Dec 31, 2010	Swap	200 bbls/d	$ 81.00	C$WTI – NYMEX	$ 95	$ (4)
Feb 1 – Dec 31, 2010	Swap	100 bbls/d	$ 87.75	C$WTI – NYMEX	$ 55	$ 19
Feb 1 – Dec 31, 2010	Swap	100 bbls/d	$ 87.90	C$WTI – NYMEX	$ 50	$ 19
					$ 1,389	$ 292

The following table summarizes the sensitivity of the fair value of the Corporation's market risk management positions to fluctuations in both crude oil and natural gas prices. Both such fluctuations were evaluated independently, with all other variables held constant. In assessing the potential impact of these fluctuations, the Corporation believes that the volatilities presented below are reasonable measures. Fluctuations in crude oil and natural gas prices, which would impact the mark-to-market calculation of commodity contracts could have had the following impact on the net earnings:

	Net Earnings Impact Three Months Ended March 31, 2010	
	Price Increase	Price Decrease
Crude Oil – Change of +/- $1.00	(193,000)	193,000
Natural Gas – Change of +/- $0.50	(383,000)	383,000

Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. As at March 31, 2010, if interest rates had been 100 basis points lower with all other variables held constant, net earnings for the period then ended would have been approximately $102,000 (March 31, 2009 – $104,000) higher, respectively, due to lower interest expense. An equal and opposite impact would have occurred to net earnings had interest rates been 100 basis points higher.

The following table outlines the unrealized loss on interest rate swap contract for the three months ended March 31, 2010:

Term	Type (floating to fixed)	Amount (C$)[1]	Company fixed interest rate (%)	Counterparty floating rate index	Unrealized (losses) for the three months ended March 31, 2010 (C$) (000s)	Realized (losses) for the three months ended March 31, 2010 (C$ (000s)
Feb 24 – April 15, 2010	Swap	35,000,000	4.42 to 4.44	CAD-BA-CDOR	$ (3)	$ (60)

1 Notional debt amount.

The Corporation has assessed the sensitivity of the fair value of the interest rate swap contracts to fluctuations in forward interest rates determining that a 100 basis point movement in the forward interest rates would not have had a significant impact on net earnings for the three months ended March 31, 2010.

(d) Capital management:

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include shareholder's equity of $61,218,000 (December 31, 2009 – $56,836,000), bank debt of $40,900,000 (December 31, 2009 – $41,650,000) and the working capital deficiency excluding bank debt of $2,616,000 (December 31, 2009 – $5,252,000). In order to maintain or adjust capital structure, the Corporation may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

The Corporation monitors its capital based on the ratio of net debt to the rolling four quarter trailing funds from operations. Net debt is defined as outstanding bank debt plus or minus working capital. Funds from operations is defined as cash flow from operating activities before changes in non-cash working capital. The Corporation's strategy is to maintain a one year forward looking forecast debt to forecast funds from operations ratio of less than two to one. This ratio may increase at certain times as a result of acquisitions or other capital spending. In order to facilitate the management of this ratio, the Corporation prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The net debt to the rolling four quarter trailing funds from operations has been calculated as follows:

	March 31, 2010	December 31, 2009
Working capital deficiency (including bank debt)	**$ 43,516**	$ 46,902
Annualized cash flow from operating activities	**17,374**	16,341
Change in non-cash operating working capital	**2,638**	1,151
Funds from operations	**$ 20,012**	$ 17,492
Ratio	**2.17 to 1**	2.68 to 1

The Corporation's ratio of net debt to funds from operations at March 31, 2010 was outside the range established when calculated based on rolling four quarter trailing funds from operations. However, the Corporation issued equity in the second quarter of 2010 for total gross proceeds of $67,000,000. These proceeds have eliminated net debt resulting in a ratio of nil.

(e) Fair value of financial instruments:

The Corporation's financial instruments as at March 31, 2010 and December 31, 2009 include accounts receivable, accounts payable and accrued liabilities, the fair value of financial contracts and bank debt. The fair value of accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity.

The fair value of financial contracts is determined by discounting the difference between the contracted price / interest rate and published forward price / interest rate curves as at the balance sheet date, using the remaining contracted notional volumes.

Bank debt bears interest as a floating market rate and accordingly the fair market value approximates the carrying value.

6. COMMITMENTS

(a) Future minimum lease payments relating to operating lease commitments are:

2010	$ 249
2011	315
2012	335
2013	336
2014	108
	$ 1,343

(b) Flow-through shares:

In 2009, the Corporation issued a total of 757,000 flow-through common shares at $3.40 per share for gross proceeds of $2.6 million. As at March 31, 2010, the Corporation had incurred $1.2 million towards this flow-through share obligation and has remaining eligible exploration expenditures of $1.4 million to be spent before December 31, 2010 to satisfy the terms of this flow-through share offering.

7. SUBSEQUENT EVENTS:

a) On April 13, 2010, the Corporation completed its previously announced $17.0 million non-brokered private placement and has appointed a new management team, key employees and board of directors.

Pursuant to the private placement, the new management group, together with certain additional subscribers identified by the new management group, subscribed for 1,394,317 common units of the Corporation at a price of $4.40 per common unit, 1,787,500 common shares of the Corporation at a price of $4.40 per common share and 681,819 flow-through units at a price of $4.40 per flow-through Unit, for total proceeds to Zapata of approximately $17.0 million. Each common unit is comprised of one common share and one common share purchase warrant, entitling the holder to purchase one common share at a price of $5.17 for a period of five years. Each flow-through unit is comprised of one common share issued on a flow-through basis pursuant to the Income Tax Act of Canada and one performance warrant. The performance warrants will vest and become exercisable as to one-third upon the 20 day weighted average trading price of the common shares equaling or exceeding $5.69, an additional one-third upon the trading price equaling or exceeding $6.20 and a final one-third upon the trading price equaling or exceeding $6.72. The performance warrants are released from escrow one third on each of the six, twelve and eighteen month anniversaries from the date of grant.

Under the terms of the April 13, 2010 flow-through share agreement, the Corporation will be required to renounce $3.0 million of qualifying petroleum and natural gas expenditures on December 31, 2010 and has until December 31, 2011 to incur them.

In conjunction with the new management team assuming responsibility for the ongoing operations of the continuing entity, certain costs totaling $6.5 million were incurred for former management and employees and all stock options immediately vested. The financial impact of this will be recognized in the second quarter of 2010.

b) On May 5, 2010, the Corporation issued 6,945,000 common shares at a price of $7.20 per share for gross proceeds of $50,004,000, pursuant to a short form prospectus.

c) On May 7, 2010, the Corporation entered into an office lease agreement for 26,704 square feet of office space. The new lease commitment is for 2 years and 6 months and includes basic rent, operating costs and property taxes, with an expected annual total expense of $513,000.

d) On May 10, 2010, the Corporation issued 1,214,000 stock options at an exercise price of $6.40 per option to the new management group and certain other employees.

DIRECTORS

Paul Colborne
Chairman of the Board
President of Star Valley Oil & Gas Ltd.

P. Dan O'Neil
President and Chief Executive Officer

Peter Bannister
President of Destiny Energy Inc.

Robert Leach
Chief Executive Officer of Custom Truck Sales Ltd.
President of International Fitness Inc.

James Pasieka
Partner at Heenan Blaikie LLP

Keith Macdonald
President of Bamako Investment Management Ltd.

HEAD OFFICE

Suite 2300, 635 – 8th Avenue SW
Calgary, Alberta T2P 3M3
Tel : (403) 261-7355
Fax : (403) 294-7877
Email: invest@zapata.ca
www.zapata.ca

STOCK EXCHANGE LISTING

TSX Venture Exchange · ZCO

MANAGEMENT

P. Dan O'Neil
President and Chief Executive Officer
Director

Max Lof
Chief Financial Officer

Dan Brown
Chief Operating Officer

Malcolm Adams
Vice President, Corporate Development

Margaret Elekes
Vice President, Land

Kevin Angus
Vice President, Exploration

LEGAL COUNSEL

Heenan Blaikie LLP · Calgary, Alberta

BANKERS

National Bank of Canada · Calgary, Alberta

TRANSFER AGENT

Olympia Trust Company · Calgary, Alberta

AUDITORS

KPMG LLP
Chartered Accountants · Calgary, Alberta

INDEPENDENT ENGINEERS

Sproule Associates Limited · Calgary, Alberta

ZAPATA
Energy Corporation

2010 FIRST QUARTER REPORT

Suite 2300, 635 – 8th Avenue SW
Calgary, Alberta T2P 3M3
Tel : (403) 261-7355
Fax : (403) 294-7877
www.zapata.ca