

Progress Energy Trust 2007 Quarterly Report to Unitholders – For the three and six months ended June 30, 2007

## Progress Energy's Growing Per Unit Production

*Per unit production up 3 percent*

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
<b>FINANCIAL HIGHLIGHTS</b>				
<b>Income Statement</b> (\$ thousands, except per unit amounts)				
Petroleum and natural gas revenue	108,503	71,439	193,980	163,007
Cash flow <sup>1</sup>	58,398	45,871	111,478	93,508
Per unit – diluted <sup>2</sup>	0.53	0.52	1.12	1.07
Cash distributions declared	29,092	31,412	53,923	62,248
Per unit	0.30	0.42	0.60	0.84
<b>Payout Ratio</b>				
Excluding exchangeable shares	50%	68%	48%	67%
Including exchangeable shares	56%	80%	53%	78%
<b>Balance Sheet</b> (\$ thousands)				
Working capital deficiency	28,655	25,625	28,655	25,625
Bank debt	261,159	102,355	261,159	102,355
Convertible debentures	120,882	54,893	120,882	54,893
Total debt	410,696	182,873	410,696	182,873
Capital expenditures <sup>3</sup>	55,834	32,489	99,435	68,473
Corporate acquisition	523,763	-	523,763	-
<b>OPERATIONAL HIGHLIGHTS</b>				
<b>Average Daily Production</b>				
Natural gas ( <i>mcf/d</i> )	127,255	82,271	110,894	84,341
Crude oil ( <i>bbls/d</i> )	2,134	2,099	2,126	2,351
Natural gas liquids ( <i>bbls/d</i> )	1,485	1,478	1,432	1,434
Total daily production ( <i>boe/d</i> )	24,828	17,288	22,040	17,842
<b>Average Realized Prices</b>				
Natural gas ( <i>\$/mcf</i> )	7.52	6.55	7.66	7.70
Crude oil ( <i>\$/bbl</i> )	68.37	72.79	65.29	68.19
Natural gas liquids ( <i>\$/bbl</i> )	60.51	63.34	57.91	63.11
<b>Wells Drilled, Net</b>	4.8	11.4	17.8	32.5

(1) Cash flow is a non-GAAP term, refer to Management's Discussion and Analysis attached.

(2) 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.

(3) Includes the acquisition of certain petroleum and natural gas assets in the Wapiti area on May 31, 2007 for \$40.9 million.

Progress Energy Trust (“Progress” or “Trust”) reported record quarterly production averaging 24,828 barrels of oil equivalent (“boe”) per day, an increase of 44 percent compared to 17,288 boe per day in the second quarter of 2006 and an increase of 29 percent compared to 19,233 boe per day in the first quarter of 2007. Production per unit increased 3 percent on a debt-adjusted basis in the second quarter of 2007 compared to the second quarter of 2006. Second quarter production included 127 million cubic feet (“mmcf”) per day of natural gas and 3,619 barrels per day of light and medium oil and natural gas liquids.

“Our second quarter drilling program included six wells as wet field conditions delayed the start of our summer program,” said Michael Culbert, President and CEO of Progress. “It did, however, provide us the opportunity to focus on integrating the Foothills and Deep Basin assets that we acquired in the quarter. We have been actively licensing drilling locations, reprocessing and integrating the new seismic with our existing seismic data, and aggressively de-bottlenecking facilities to bring-on behind pipe gas volumes.”

Progress generated strong financial results with cash flow of \$58.4 million or \$0.53 per unit, diluted, for the second quarter of 2007, a two percent increase compared to the second quarter of 2006. Cash distributions declared totaled \$29 million resulting in a payout ratio of 50 percent excluding exchangeable shares which do not receive cash distributions, or 56 percent including exchangeable shares.

### **Progress integrates acquired assets**

In the second quarter, Progress participated in 6 gross wells (4.8 net) with three gross wells (2.4 net) drilled in the Deep Basin and three gross wells (2.4 net) drilled at Gilby in south central Alberta. The Deep Basin wells were drilled with a 100 percent success rate and two of the three Gilby wells are commercial gas wells that will be tied in during the third quarter.

Drilling activities in the Deep Basin of northwest Alberta and the northeast British Columbia Foothills will ramp-up through the summer. Progress currently has four rigs operating and will spud its first well at the newly acquired Bubbles field in the Foothills before the end of July. Completion and facilities activities were impacted by the prolonged wet spring and early summer but as of the second week in the third quarter, conditions had improved sufficiently to permit tie-in activities on the balance of the wells from the winter program.

With the closing of Progress’ two acquisitions, a large part of the focus during the second quarter was on implementing near to medium term opportunities within the acquired assets. The process is ongoing but has advanced to the point where drilling locations, re-completion candidates and de-bottlenecking opportunities for the balance of 2007 have been identified.

Progress’ geophysical efforts were concentrated on the Julienne West 120 square kilometer 3-D seismic program which has now been evaluated and has expanded the drilling inventory. Much of the 800 square kilometer 3-D seismic from its corporate acquisition has been reprocessed and integrated into its pre-existing 1200 square kilometer database for further evaluation. Progress’ drill location inventory at present stands at over 250 locations which represents approximately three to four years of drilling inventory at the current pace. The inventory is expected to grow over the next several quarters as more time is invested in the newly acquired assets and new Crown land acquisitions.

### **Acquisitions successfully closed**

In the second quarter, Progress successfully closed its two previously announced acquisitions. The acquisition of shares of a private company with assets in northeast British Columbia and northwest Alberta closed on April 2, 2007 with an effective date of April 1, 2007. The acquisition price was \$389.4 million after closing adjustments and costs and included production of approximately 6,400 boe per day weighted 95 percent to natural gas. The acquisition included 250,000 net undeveloped acres in large contiguous land blocks with high-working interests, over 1,700 square kilometers of 3-D seismic coverage and more than 4,200 kilometers of 2-D data, all of which will assist Progress in building its ongoing drilling inventory.

The acquisition of the Wapiti area assets in the Deep Basin closed on May 31, 2007. The acquisition amounted to \$40.9 million, net of final closing adjustments. The acquisition added approximately 800 boe per day of production, 1.54 million boe of proved plus probable reserves and 31,000 net undeveloped acres of land with varying working interests which will create further opportunities to consolidate working interests within the region. Progress believes there is substantial upside opportunities on the acquired lands which are contiguous with the Trust's Gold Creek property. The acquisition also adds ownership in infrastructure which is strategic to Progress' area expansion plans.

#### **Natural gas prices and low cost structure generate strong cash flows**

Progress' average gas price in the quarter was \$7.52 per thousand cubic feet ("mcf") including gains on its commodity risk management positions. Progress' natural gas production achieves a premium price to the prices quoted at AECO because of its high heat content nature.

"Natural gas prices have followed their historic pattern and weakened through the shoulder season due to low weather-related demand and rapidly growing inventories," said Mr. Culbert. "Our cost structure and focus on our balance sheet strength position us to not only weather the cyclical nature of the natural gas business but also to benefit during weaker periods as we demonstrated with the two acquisitions during the quarter."

Operating expenses averaged \$6.57 per boe in the second quarter of 2007 compared to \$6.15 per boe in the second quarter of 2006. The increase reflects the impact of spring maintenance and the acquisitions in the second quarter which are expected to trend down as the Trust optimizes the assets.

#### **Maintaining financial strength**

Capital investment in the second quarter was \$55.8 million including \$40.9 million associated with the acquisition of the Wapiti assets in the Deep Basin of northwest Alberta. At the end of the second quarter, bank debt outstanding was \$261.2 million on total credit facilities of \$375 million. Total bank debt, plus working capital deficiency, to annualized second quarter cash flow was 1.8 times.

Progress maintains a consistent price risk management program to mitigate price risk volatility and provide greater certainty of its revenue stream. For the period from April 1, 2007 to October 31, 2007, the Trust has hedges on 40,000 gigajoule ("GJ") per day at a net floor price of \$7.04 per GJ.

Progress is well positioned for the implementation of the Canadian government's Tax Fairness Plan beginning in 2011. In aggregate, after giving effect of the corporate acquisition, Progress has substantial tax pools of approximately \$1 billion.

#### **Outlook**

We remain firmly focused on our goal of maintaining or modestly growing reserves and production on a per unit basis. Our sustainability strategy has been achieved entirely through the drill bit at industry leading efficiencies while maintaining our financial strength. We have often stated that we have investment choices and therefore, could remain patient for the right opportunity as it related to acquisitions. Our second quarter acquisitions have further strengthened our sustainability strategy by expanding our development inventory while providing an appropriate exposure to exploration upside within our existing core regions. In the second half of 2007, we are targeting average production to be in the range of 24,000 to 26,000 boe per day.

On the commodity front, natural gas prices have weakened in the near term as a result of ample natural gas storage while liquefied natural gas imports to the United States have continued to grow in the absence of demand in Europe. We believe that the outlook for natural gas prices remains positive over the medium to longer term.

Our opportunity inventory is more visible than at any point in our history and we are in the enviable position of having many investment choices. Our tax pool coverage is expected to provide further sheltering beyond the 2011 time when the taxation of income trusts is anticipated to occur. We remain aligned with our unitholders through an approximate 11 percent ownership of the units and exchangeable shares of Progress by employees, management and directors.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis ("MD&A") of financial results is dated July 25, 2007 and is to be read in conjunction with the accompanying unaudited consolidated interim financial statements and related notes for the period ended June 30, 2007 and the audited consolidated financial statements and related notes and MD&A of Progress Energy Trust ("Progress" or the "Trust") for the year ended December 31, 2006. The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar.

**Non-GAAP Measurements** Management uses cash flow from operations (before changes in non-cash working capital) ("cash flow") to analyze operating performance and leverage. Cash flow as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore it may not be comparable with the calculation of similar measures for other entities. Cash flow as presented is not intended to represent operating profit for the period nor should it be viewed as an alternative to operating profit, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. The reconciliation between cash flow, as defined above, and cash flow from operations after changes in working capital for the three and six months ended June 30, 2007 and 2006 is as follows:

(\$ thousands)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
Cash flow (as defined above)	58,398	45,871	111,478	93,508
Changes in non-cash working capital	16,714	1,112	12,374	3,810
Cash flow from operations after changes in working capital	75,112	46,983	123,852	97,318

Management considers cash flow 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 investments. Cash flow is used by research analysts to value and compare oil and gas trusts and is frequently included in published research when providing investment recommendations. Cash flow per unit is calculated using the diluted weighted average number of units for the period. All references to cash flow throughout the MD&A are based on cash flow before changes in non-cash working capital.

Management uses certain industry benchmarks such as operating netback and payout ratio to analyze financial and operating performance. These benchmarks as presented do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities. Operating netback and payout ratio are used by research analysts to compare operating performance and a trust's ability to maintain current distributions. Operating netback is the net result of the Trust's revenue net of realized gains and losses on financial instruments, and royalty, operating and transportation expenses as found in the accompanying interim financial statements. The payout ratio, excluding exchangeable shares, is calculated as distributions for the period divided by the cash flow for the period as defined above. The payout ratio, including exchangeable shares, is calculated by adding the distributions that would have been paid on the weighted average trust units represented by the exchangeable shares to actual distributions paid divided by the cash flow as defined above.

**Forward-Looking Statements** Certain information regarding Progress set forth in this document, including Management's assessment of the Trust's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Trust's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and

external sources. Progress' actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Trust will derive there from.

### Description of Business

Progress is an open-ended, unincorporated investment trust governed by the laws of the province of Alberta. The principal undertaking of the Trust is to indirectly explore for, develop and hold interests in petroleum and natural gas properties. Progress Energy Ltd., a wholly owned subsidiary of Progress, carries on the business of the Trust and directly owns the petroleum and natural gas properties and assets related thereto. The Trust's unitholders and exchangeable shareholders are the sole beneficiaries of the Trust. Under the Trust Indenture, the Trust may declare payable to unitholders all or any part of the income of the Trust which is primarily comprised of interest earned on debt notes issued to Progress Energy Ltd., as well as, amounts attributed to a net profits interest agreement entered into with Progress Energy Ltd. The aggregate amounts received by the Trust each period are based on the consolidated cash flow each period, as adjusted on a discretionary basis, for cash withheld to fund capital expenditures.

Progress is a Calgary based, natural gas focused, trust targeting sustainable production and reserves per trust unit through utilization of its technical capability and capital investment efficiencies. Primary operating regions include the Deep Basin of northwest Alberta and the northeast British Columbia Foothills and Fort St. John Plains regions. Trust units of Progress trade on the Toronto Stock Exchange ("TSX") under the symbol PGX.UN. Exchangeable shares and the 6.75 percent and 6.25 percent convertible unsecured subordinated debentures (the "Debentures") of Progress trade on the TSX under the symbols PGE, PGX.DB and PGX.DB.A, respectively.

### Relationship with ProEx Energy Ltd.

The Trust provides personnel and certain administrative and technical services to ProEx Energy Ltd. ("ProEx") in connection with the management, development, exploitation and operation of the assets of ProEx and the marketing of its production. The Trust provides these services in accordance with the technical services agreement ("Technical Services Agreement") entered into with ProEx as described below. ProEx has participated in a new long term incentive plan by granting ProEx common shares to employees of Progress. To facilitate this plan, subsequent to the Quarter, Progress purchased 173,789 ProEx common shares and has been reimbursed by ProEx for the cost incurred. The ProEx common shares will be held until the vesting date of May 3, 2009. Any forfeited shares will revert back to ProEx.

The Trust and ProEx have joint interest in certain properties and undeveloped land in the northeast British Columbia Foothills and Fort St. John Plains regions. These joint interest properties are governed by standard industry agreements and in addition the Trust has entered into a protocol arrangement ("Protocol Arrangement") with ProEx that specifies how each company will manage the joint lands in specifically identified areas of interest. To ensure good governance practices, both the Trust and ProEx have each created independent committees of their Board of Directors to monitor compliance with the Technical Services Agreement and the Protocol Arrangement.

**Technical Services Agreement** The Technical Services Agreement has no set termination date and will continue until terminated by either party with one year prior written notice to the other party or some other date as mutually agreed. The Trust provides services including management, development, exploitation, operations, administrative, and marketing, as well as, information technology systems to ProEx on an expense reimbursement basis, based on ProEx's monthly capital activity and production levels relative to the combined capital activity and production levels of both the Trust and ProEx.

**Protocol Arrangement** The Protocol Arrangement identifies methods and processes to be followed on both existing and new lands, joint facilities, marketing, seismic and surface rights. The Protocol Arrangement also outlines the practices to be followed in the event either party enters into areas outside of the identified areas of interest.

On April 2, 2007, Progress acquired all of the issued and outstanding shares of a private company for \$523.8 million, net of certain assets retained by the vendor. In conjunction with the acquisition, on April 2, 2007, Progress disposed of certain assets of the private company to ProEx for \$134.4 million. When considering the bid process for the acquisition, each of Progress and ProEx identified assets that they were interested in acquiring and values that they were willing to pay to acquire such assets. Each of Progress and ProEx determined that a single bid was more likely to be successful than two partial bids. Therefore, Progress made a single bid. The purchase price was based on amounts that each of Progress and ProEx were willing to pay for the assets that they had selected to acquire. The resale of assets between Progress and ProEx is based on these allocations.

## CORPORATE ACQUISITION

On April 2, 2007, Progress acquired all of the issued and outstanding shares of a private company for \$523.8 million, net of certain assets retained by the vendor (“Corporate Acquisition”). In conjunction with the Corporate Acquisition, on April 2, 2007, Progress disposed of certain assets of the private company to ProEx for \$134.4 million. The resulting net cash consideration of \$389.4 million was financed by the issuance of 21.0 million trust units at a price of \$12.00 per trust unit for proceeds of \$252.0 million (\$238.7 million net of issue costs) and through increased bank debt. Included in the Corporate Acquisition was approximately \$719.0 million of tax pools which are available to Progress to shelter future taxable income resulting in the recognition of a \$136.5 million future income tax asset. After giving effect of the acquisition, Progress’ estimated tax pool balances as at June 30, 2007 is approximately \$1.0 billion.

The Corporate Acquisition included approximately 6,400 boe per day of production, 95 percent natural gas and approximately 240,000 net acres of undeveloped land.

## OPERATING SUMMARY

In accordance with Canadian industry practice, production volumes, reserve volumes and revenues are reported on a Trust interest basis (working interest plus royalty interest), before deduction of Crown and other royalties, unless otherwise indicated. The Trust’s results of operations are dependent on production volumes of natural gas, crude oil and natural gas liquids and the prices received for this production. Prices for these commodities have shown significant volatility during recent years and are determined by supply and demand factors, including weather, general economic conditions and changes in the Canadian/United States (“U.S.”) currency exchange rate.

In this MD&A, production and reserves information may be presented on a “barrel of oil equivalent” or “boe” basis with six thousand cubic feet (“mcf”) of natural gas being equivalent to one barrel (“bbl”) of crude oil or natural gas liquids. Boe’s may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

### Production

	Three Months Ended June 30		Six Months Ended June 30		Change
	2007	2006	2007	2006	
<b>Average Daily Production</b>					
Natural gas ( <i>mcf/d</i> )	127,255	82,271	110,894	84,341	31%
Crude oil ( <i>bbls/d</i> )	2,134	2,099	2,126	2,351	(10)%
Natural gas liquids ( <i>bbls/d</i> )	1,485	1,478	1,432	1,434	-%
Total daily production ( <i>boe/d</i> )	24,828	17,288	22,040	17,842	24%
Natural gas as a % of total production	85%	79%	84%	79%	

For the three months ended June 30, 2007 (the “Quarter”), Progress’ production averaged 24,828 boe per day consisting of 127,255 mcf per day of natural gas, 2,134 bbls per day of crude oil and 1,485 bbls per day of natural gas liquids. Production during the Quarter was 44 percent higher than the same period in 2006 of 17,288 boe per day due to the Corporate Acquisition and successful drilling results. The Trust’s production portfolio for the Quarter was weighted 85 percent to natural gas, nine percent to crude oil and six percent to natural gas liquids.

Natural gas production increased 55 percent to 127,255 mcf per day for the Quarter compared to 82,271 mcf per day for the same period in 2006 due to the Corporate Acquisition, as well as successful drilling in the fourth quarter of 2006 and first quarter of 2007 in the northeast British Columbia Foothills, the Deep Basin of northwest Alberta and the Central Alberta regions. Crude oil and natural gas liquids production for the Quarter of 3,619 bbls per day was consistent with the same period in 2006 of 3,577 bbls per day.

Year-to-date 2007 production was 22,040 boe per day consisting of 110,894 mcf per day of natural gas, 2,126 bbls per day of crude oil and 1,432 bbls per day of natural gas liquids. This production was 24 percent higher than the same period in 2006 of 17,842 boe per day due to the Corporate Acquisition, as well as successful drilling results. The Trust’s production portfolio for the six months ended June 30, 2007 was weighted 84 percent to natural gas, 10 percent to crude oil and six percent to natural gas liquids.

Management anticipates production to average between 24,000 to 26,000 boe per day for the remainder of 2007.

#### Production by Region

	Three Months Ended June 30		Six Months Ended June 30		Change
	2007	2006	2007	2006	
<b>Average Daily Production (boe/d)</b>					
Foothills	6,538	3,602	5,350	3,657	46%
Fort St. John Plains	2,027	2,094	1,983	2,164	(8)%
Deep Basin – Ojay	1,026	-	516	-	
Milo	324	439	344	430	(20)%
<b>Total British Columbia</b>	<b>9,915</b>	<b>6,135</b>	<b>8,193</b>	<b>6,251</b>	<b>31%</b>
Deep Basin	12,154	8,156	11,002	8,593	28%
Central Alberta	1,873	1,865	1,933	1,785	8%
Other	643	787	671	850	(21)%
<b>Total Alberta</b>	<b>14,670</b>	<b>10,808</b>	<b>13,606</b>	<b>11,228</b>	<b>21%</b>
Saskatchewan	243	345	241	363	(34)%
<b>Total daily production</b>	<b>24,828</b>	<b>17,288</b>	<b>22,040</b>	<b>17,842</b>	<b>24%</b>

#### Pricing

##### Natural Gas Markets

Progress realized natural gas price for the Quarter was \$7.52 per mcf (2006 - \$6.55 per mcf) compared to the AECO daily index average of \$6.63 per gigajoule (“gj”) (2006 - \$5.69 per gj). The higher realization reflects the higher heat content of Progress’ natural gas stream.

For the six months ended June 30, 2007 Progress’ realized natural gas price was \$7.66 per mcf (2006 - \$7.70 per mcf), compared to the AECO daily index average of \$6.83 per gj (2006 - \$6.41 per gj).

The North American natural gas picture is decidedly mixed in the near term with ample natural gas in storage while liquefied natural gas (“LNG”) imports to the U.S. have continued to grow in the absence of demand in Europe. Expected record storage levels for the beginning of the heating season in November have resulted in the current low natural gas price environment.

The evidence of reduced Canadian natural gas drilling activity is showing up in the form of weaker field receipts. The western Canada natural gas rig count has averaged 207 rigs operating, year-to-date, down approximately 46 percent year-over-year. Declining western Canadian gas production and growing oil sands demand are expected to result in sharply lower exports to the U.S.

In the United States, natural gas drilling activity levels remain elevated with the gas directed rig count near 1,500. LNG imports into the U.S. have averaged 2.2 billion cubic feet (“bcf”) per day year-to-date to the end of April, which is nearly double the 1.2 bcf per day imported in 2006. Higher LNG imports to the U.S. act as a counterbalance to reduced natural gas supply flowing from Canada.

Weather will remain a key component of the natural gas demand picture in North America. Demand for natural gas is largely driven by natural gas consumed to generate electricity for air conditioning load in the summer and for residential and commercial heating in the winter. We believe that the outlook for natural gas prices remains positive over the medium to longer term.

#### Oil Markets

Progress’ realized prices for its liquids streams for the Quarter were \$68.37 per bbl (2006 - \$72.79 per bbl) for crude oil and \$60.51 per bbl (2006 - \$63.34 per bbl) for natural gas liquids. For the six months ended June 30, 2007 Progress realized \$65.29 per bbl (2006 - \$68.19 per bbl) for crude oil and \$57.91 per bbl (2006 - \$63.11 per bbl) for natural gas liquids.

Crude oil prices continued to strengthen throughout the Quarter. While upstream oil market conditions have eased from the standpoint of increased OPEC-10 spare capacity, otherwise tight downstream conditions are likely to support an upward bias in light sweet crude streams like West Texas and Brent.

Global oil demand growth is anticipated to be in the range of 1.4 million bbls per day in 2007, driven by the Middle East (310,000 bbls per day), China (390,000 bbls per day) and the United States (370,000 bbls per day). This would compare with the International Energy Agency’s 2007 oil demand outlook of 1.7 million bbls per day and reflects a more conservative outlook in terms of Asian growth outside of China. U.S. motor gasoline consumption has grown by 1.5 percent year-to-date (versus 0.4% in 2006) in the face of average retail gasoline prices which have risen steadily throughout the year to US\$3.00 per gallon.

On the supply side, non-OPEC supply growth was anticipated to grow by approximately 1.3 million bbls per day in 2007, but this has not materialized as a result of timing and various other delays. Saudi Arabia's leadership within OPEC in terms of cutting its crude oil production levels by approximately 950,000 bbls per day, year-over-year, in the first-quarter has also contributed to global inventory containment. Persistent crude oil supply outages in Nigeria have compounded oil market tightness with over 800,000 bbls per day of shut-in production during the month of May.

## Commodity Prices

	Three Months Ended June 30		Six Months Ended June 30		Change
	2007	2006	2007	2006	
<b>Average Benchmark Prices</b>					
Natural gas – AECO (daily) (\$/gj)	6.63	5.69	6.83	6.41	4%
Natural gas – AECO (monthly) (\$/gj)	6.99	5.95	7.03	7.37	(7)%
Crude oil – WTI (US\$/bbl)	65.04	70.70	61.44	67.09	(8)%
Crude oil – Edmonton par price (Cdn\$/bbl)	71.90	78.60	69.52	73.80	(6)%
Exchange rate (US\$/Cdn\$)	1.0981	1.1224	1.1349	1.1385	-%
<b>Average Realized Prices</b>					
Natural gas (\$/mcf) <sup>1</sup>	7.52	6.55	7.66	7.70	(1)%
Crude oil (\$/bbl)	68.37	72.79	65.29	68.19	(4)%
Natural gas liquids (\$/bbl)	60.51	63.34	57.91	63.11	(8)%

(1) Includes \$0.01 per mcf for the amortization of the physical natural gas sales contract acquired in conjunction with the acquisition of Champion Resources Ltd. on June 3, 2002. Contract expires in 2008.

## Risk Management – Financial Instruments

The Trust has entered into several natural gas financial contracts for the purpose of protecting its cash flow from the volatility of natural gas prices. For the Quarter, the Trust's natural gas price risk management program had a net realized gain of \$0.2 million (2006 - \$9.6 million net gain). For the six months ended June 30, 2007, the Trust's natural gas price risk management program had a realized net gain of \$7.2 million (2006 - \$9.0 million net gain).

On January 1, 2007 the Trust adopted the new accounting standards regarding the accounting for financial instruments. In addition to the adoption of the new standards, Management has elected not to use hedge accounting and therefore, records the fair value of its natural gas financial contracts at each reporting period with the change in the fair value being classified as unrealized gains or losses on the statement of earnings. The accounting for hedging relationships for prior fiscal periods are not retroactively changed, therefore, there was no restatement of the financial position or results of operation as at and for the three and six months ended June 30, 2006.

On adoption, the Trust recognized a current asset of \$15.6 million for the fair value of its natural gas derivative contracts with a corresponding increase to the future income tax liability and accumulated other comprehensive income of \$5.1 million and \$10.5 million, respectively. The \$10.5 million in accumulated other comprehensive income will be amortized through other comprehensive income and unrealized gain or loss on the statement of earnings over the term of the contracts. For the Quarter, \$1.8 million, net of tax, was amortized through other comprehensive income with a corresponding pre-tax unrealized gain of \$2.7 million and a charge to future income tax expense of \$0.9 million. For the six months ended June 30, 2007 \$8.1 million, net of tax, was amortized through other comprehensive income with a corresponding pre-tax unrealized gain of \$12.0 million and a charge to future income tax expense of \$3.9 million

At June 30, 2007 the fair value of the natural gas financial contracts was an asset of \$5.8 million. The increase in value for the Quarter of \$7.8 million was due to the decrease in forward natural gas prices. The decrease in value of \$9.7 million for the six months ended June 30, 2007 was primarily due to the expiration of six months of its current financial contracts. As a result, for the Quarter, the Trust had a net unrealized gain on the change in fair value of its natural gas derivative contracts of \$7.8 million, as well as a \$2.7 million amortized gain from the adoption of the standards on January 1, 2007, for a total net unrealized gain of \$10.5 million. For the six months ended June 30, 2007, the Trust had a net unrealized loss of \$9.7 million on the change in fair value of its natural gas derivative contracts, offset by the \$12.0 million amortized gain from the adoption of the standards on January 1, 2007, for a total net unrealized gain of \$2.3 million.

The Trust's risk management activities are conducted pursuant to the Trust's Risk Management Policy approved by the Board of Directors. Progress uses financial derivative instruments designed to establish a minimum floor price while retaining exposure to upside price movements. The Risk Management Policy has the following objectives:

- To reduce risk exposure to budgeted annual cash flow projections resulting from uncertainty or changes in commodity prices, interest rates or foreign exchange.
- To provide greater certainty and stability to monthly distributions.
- To limit the permissible structures to ensure hedging effectiveness.
- To limit hedging up to a maximum of 50 percent of budgeted production before royalties.
- To limit hedging activity to counter-parties that provide sufficient collateral in support of payment or have investment grade credit ratings.

Progress' commodity risk management positions are described in Note 12 in the unaudited interim consolidated financial statements.

### Revenue

For the Quarter, petroleum and natural gas revenue increased 52 percent to \$108.5 million from \$71.4 million for the same period in 2006 due to higher natural gas production as a result of the Corporate Acquisition, as well as higher natural gas prices. Production revenue for the Quarter consisted of \$86.9 million from natural gas sales, \$13.3 million from crude oil sales and \$8.2 million from the sale of natural gas liquids.

For the six months ended June 30, 2007, revenues increased 19 percent to \$194.0 million from \$163.0 million for the same period in 2006 due to higher natural gas production.

(\$ thousands)	Three Months Ended June 30		Six Months Ended June 30		Change
	2007	2006	2007	2006	
Natural gas sales	86,922	48,874	153,585	117,319	31%
Crude oil sales	13,278	13,904	25,125	29,016	(13)%
Natural gas liquids sales	8,176	8,517	15,012	16,381	(8)%
Amortization of commodity sales contract <sup>1</sup>	127	144	258	291	(11)%
<b>Petroleum and natural gas revenue</b>	<b>108,503</b>	<b>71,439</b>	<b>193,980</b>	<b>163,007</b>	<b>19%</b>

(1) Amortization of physical natural gas sales contract acquired in conjunction with the acquisition of Campion Resources Ltd. on June 3, 2002. Contract expires in 2008.

(\$ thousands)	Natural Gas	Crude Oil & NGLs	Total
Three months ended June 30, 2006 petroleum and natural gas revenue	49,018	22,421	71,439
Price variance	11,229	(1,230)	9,999
Production variance	26,802	263	27,065
<b>Three months ended June 30, 2007 petroleum and natural gas revenue</b>	<b>87,049</b>	<b>21,454</b>	<b>108,503</b>

(\$ thousands)	Natural Gas	Crude Oil & NGLs	Total
Six months ended June 30, 2006 petroleum and natural gas revenue	117,610	45,397	163,007
Price variance	(794)	(2,537)	(3,331)
Production variance	37,027	(2,723)	34,304
<b>Six months ended June 30, 2007 petroleum and natural gas revenue</b>	<b>153,843</b>	<b>40,137</b>	<b>193,980</b>

## Royalties

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. Effective for 2007, the Alberta government eliminated the Alberta royalty tax credit program. The impact to Progress was an increase to royalty expense for the three and six months ended June 30, 2007 of approximately \$0.1 million and \$0.3 million, respectively.

For the Quarter, royalties increased 26 percent to \$23.7 million from \$18.8 million for the same period in 2006 due to higher revenues, as a result of higher production and natural gas prices. The Trust's average royalty rate for the Quarter was 21.9 percent compared to 26.3 percent in 2006. The decrease in the royalty rate is due to lower royalty rates on the properties acquired in the Corporate Acquisition, as well as, the acquired properties included wells in which Progress paid gross overriding royalties.

For the six months ended June 30, 2007 royalties of \$43.9 million were consistent with the same period in 2006 of \$43.4 million. The Trust's average royalty rate was 22.7 percent compared to 26.7 percent in 2006.

Management anticipates, based on current commodity prices, the average royalty rate for the remainder of 2007 will be approximately 23.0 percent of petroleum and natural gas revenue.

## Operating Expenses

Operating expenses during the Quarter increased 53 percent to \$14.8 million from \$9.7 million for the same period in 2006 and for the six months ended June 30, 2007 increased 34 percent to \$25.9 million compared to \$19.3 million for the same period in 2006. The increase is the result of higher production in 2007 compared to the same periods in 2006, reflecting the impact of the Corporate Acquisition and successful drilling. On a boe basis, operating expenses for the Quarter increased seven percent to \$6.57 from \$6.15 in the same period in 2006, while year-to-date operating expenses increased nine percent to \$6.49 from \$5.98 in the same period in 2006. The operating expense per boe is expected to trend downwards for the remainder of 2007 as the Trust optimizes the acquired assets. Progress has experienced increased costs for well servicing, insurance, workovers and well maintenance. Through increased operating efficiencies, relationships with suppliers and the addition of low operating cost per boe production, the Trust has been able to offset a large portion of these increases and keep operating costs per boe low.

Management anticipates operating expense for the remainder of 2007 will be consistent with the Quarter and average between \$6.00 to \$6.50 per boe.

## Transportation Expenses

Transportation expenses for the Quarter increased 58 percent to \$4.2 million compared to \$2.6 million for the same period in 2006. For the six months ended June 30, 2007 transportation expenses increased 20 percent to \$6.9 million compared to \$5.8 million for the same period in 2006. The increase is due to higher production in 2007 compared to 2006. On a boe basis, transportation expenses during the Quarter increased 10 percent to \$1.85 compared to \$1.68 for the same period in 2006, while year-to-date transportation expenses decreased three percent to \$1.74 compared to \$1.80 for the same period in 2006. The increase for the Quarter is due to higher transportation and treatment tolls associated with the Corporate Acquisition completed in the Quarter including higher treatment tolls associated with the Slave Point production at the Bubbles property. Management has renegotiated the transportation agreements on the Corporate Acquisition assets under the same terms as its existing production, the savings on which will be reflected in the third quarter. In British Columbia, there is an infrastructure owned by Spectra Energy that enables gas producers to avoid facility construction in exchange for regulated gathering, processing and transmission fees. This all-in charge is included in transportation expenses.

## Operating Netbacks

Although many wells produce both crude oil and natural gas, a well is categorized as a natural gas well or an oil well based upon the higher proportion of natural gas or crude oil production. The following table summarizes the operating netbacks for natural gas and oil properties for the three and six months ended June 30, 2007 compared to the same periods in 2006:

	Three Months Ended		Six Months Ended	
	2007	2006	2007	2006
<b>Natural Gas Properties (\$/mcf)</b>				
Sales price	7.64	7.03	7.84	8.01
Amortization of commodity sales contract	0.01	0.02	0.01	0.02
Realized gain/(loss) on financial instruments	0.01	1.18	0.34	0.55
Royalties	(1.70)	(1.64)	(1.80)	(2.11)
Operating expenses	(1.01)	(0.88)	(0.99)	(0.91)
Transportation expenses	(0.30)	(0.27)	(0.29)	(0.30)
<b>Operating netback – natural gas properties</b>	<b>4.65</b>	<b>5.44</b>	<b>5.11</b>	<b>5.26</b>
<b>Oil Properties (\$/bbl)</b>				
Sales Price	63.60	64.15	61.47	62.79
Royalties	(12.58)	(24.43)	(12.83)	(17.64)
Operating expenses	(10.99)	(11.38)	(10.83)	(8.69)
Transportation expenses	(1.97)	(1.87)	(1.98)	(1.84)
<b>Operating netback – oil properties</b>	<b>38.06</b>	<b>26.47</b>	<b>35.83</b>	<b>34.62</b>
<b>All Properties (\$/boe)</b>				
Sales Price	47.97	45.32	48.56	50.39
Amortization of commodity sales contract	0.06	0.09	0.06	0.09
Realized gain/(loss) on financial instruments	0.08	6.08	1.80	2.77
Royalties	(10.51)	(11.94)	(11.01)	(13.44)
Operating expenses	(6.57)	(6.15)	(6.49)	(5.98)
Transportation expenses	(1.85)	(1.68)	(1.74)	(1.80)
<b>Operating netback – all properties</b>	<b>29.18</b>	<b>31.72</b>	<b>31.18</b>	<b>32.03</b>

## General and Administrative Expenses

For the Quarter, general and administrative expenses net of overhead recoveries, (“G&A”) increased 36 percent to \$2.3 million (\$1.02 per boe) compared to \$1.7 million (\$1.08 per boe) for the same period in 2006. For the six months ended June 30, 2007, G&A expenses increased 23 percent to \$4.3 million (\$1.07 per boe) compared to \$3.5 million (\$1.08 per boe) for the same period in 2006. The increase in G&A for the Quarter and year-to-date is due to the increased size of the Trust, as well as higher costs incurred to retain employees.

In accordance with the Technical Services Agreement with ProEx, the Trust provides personnel and certain administrative and technical services in connection with the management, development, exploitation and operation of the assets of ProEx and the marketing of its production. The Trust provides these services to ProEx on an expense reimbursement basis, based on ProEx’s monthly capital activity and production levels relative to the combined capital activity and production levels of both the Trust and ProEx. Total expenses reimbursed by

ProEx for the Quarter were \$1.3 million (2006 - \$0.9 million) and for the six months ended June 30, 2007 were \$2.8 million (2006 - \$2.0 million).

The Trust capitalized approximately \$0.4 million of G&A during the Quarter (2006 - \$0.2 million) and \$0.8 million for the six months ended June 30, 2007 (2006 - \$0.5 million). The majority of these costs represent geological and geophysical salaries.

Management anticipates G&A for the remainder of 2007 will be consistent with the Quarter at \$1.00 to \$1.10 per boe.

## Unit Based Compensation Expenses

### *Performance Units*

The Progress performance unit plan provides for employees and directors to be granted performance units which vest at the end of a three year performance period at which time they will be converted to trust units, or the cash equivalent, and include the accumulated distributions over the three year period. The actual number of trust units paid is dependent upon a performance factor that is determined based on the Trust's performance relative to its peers and ranges from 0.5 to 1.5 times the initial grant. Payment may be in the form of cash or trust units, at the Trust's option. Management anticipates, at the end of the performance period, accumulated distributions will be paid in cash and trust units will be paid from treasury.

### *Long Term Incentive Component*

During the Quarter, the performance unit incentive plan (the "Plan") was modified to include a new long term incentive component ("LTI component") for non-executive employees. Awards granted under the LTI component of the Plan will vest over three years with 40% vesting on the second anniversary of the date of grant and 60% vesting on the third anniversary of the date of grant. An additional 15% grant will be paid if the holder holds the units they receive on the second anniversary date for one additional year. On May 3, 2007, the Trust granted 182,542 units to its employees at a value of \$14.49 per unit, resulting in a total compensation cost of \$2.6 million to be recognized through unit based compensation expense over the vesting period.

For the Quarter, unit based compensation expenses relating to the performance unit incentive plan, which includes the performance units and units issued under the LTI component, increased 154 percent to \$2.6 million (\$1.13 per boe) compared to \$1.0 million (\$0.64 per boe) for the same period in 2006. For the six months ended June 30, 2007 unit based compensation expenses increased 101 percent to \$4.0 million (\$1.01 per boe) compared to \$2.0 million (\$0.62 per boe) for the same period in 2006. The increase is due to the performance units granted effective July 2, 2006, the units granted May 3, 2007 under the LTI component, as well as an increase in the performance factor from 1.0 to 1.5 on the performance units vesting in 2008 and 2009 due to the Trust's strong operating performance relative to its peers. Actual performance factors will not be determined until the end of the three year performance periods.

On June 28, 2007 381,367 units were issued to settle the performance units vesting on July 2, 2007. As at June 30, 2007 the total outstanding performance units and units under the LTI component amounted to one percent of the total outstanding trust units and units which may be issued on the exchange of exchangeable shares.

	Six Months Ended June 30	
	2007	2006
<b>Performance Units</b>		
Balance, beginning of period	1,300,717	899,567
Granted	12,950	10,800
Settled	(381,367)	-
Forfeited	(4,750)	(5,400)
Balance, end of period	927,550	904,967

<b>Vesting Date</b>		
July 2, 2007	-	383,867
July 2, 2008	510,700	521,100
July 2, 2009	416,850	-
Total	927,550	904,967

	Six Months Ended June 30	
	2007	2006
<b>Units under LTI Component</b>		
Balance, beginning of period	-	-
Granted	182,542	-
Balance, end of period	182,542	-

<b>Vesting Date</b>		
May 1, 2009	73,017	-
May 1, 2010	109,525	-
Total	182,542	-

### Interest and Financing Expenses

Interest and financing expenses during the Quarter increased 134 percent to \$5.9 million compared to \$2.5 million for the same period in 2006 while year-to-date interest and financing expenses increased 97 percent to \$9.7 million compared to \$4.9 million for the same period in 2006. The increase was due to the increase in bank debt to fund the Corporate Acquisition and capital expenditures during the Quarter.

<i>(\$ thousands)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Interest on bank debt	3,126	1,238	4,186	2,160
Interest on Debentures	2,122	1,023	4,212	2,213
Amortization of Debenture issue costs	279	125	558	263
Accretion on debt portion of Debentures <sup>1</sup>	362	134	719	279
Total interest and financing expense	5,889	2,520	9,675	4,915

(1) Under Canadian GAAP, the fair value of the conversion feature of the Debentures is classified as equity and the remainder is classified as debt. Over the term of the Debentures, the debt portion will accrete up to the principal balance at maturity with the charge going to interest and financing expenses.

## Depletion, Depreciation and Accretion

For the Quarter, depletion and depreciation of property, plant and equipment and the accretion of the asset retirement obligations (“DD&A”) increased 68 percent to \$38.3 million compared to \$22.8 million for the same period in 2006. For the six months ended June 30, 2007 DD&A increased 38 percent to \$64.1 million compared to \$46.4 million for the same period in 2006. The increase was due to the Corporate Acquisition. On a boe basis, DD&A for the Quarter was \$16.94 compared to \$14.49 for the same period in 2006 and for the six months ended June 30, 2007 was \$16.06 compared to \$14.38 for the same period in 2006.

## Taxes

On June 12, 2007 the federal government’s bill regarding the taxation of distributions from trust’s beginning January 1, 2011 passed the third reading making it substantively enacted in accordance with Canadian GAAP. As a result, for the Quarter, a recovery of \$6.6 million was recognized in the future income tax provision on the recognition of a \$6.6 million future income tax asset in the Trust. Previously, the future income tax liability on the consolidated balance sheet represented only the future income tax liability of the Trust’s subsidiary.

As part of the government’s bill, a growth limit was established for existing trusts by limiting new equity issues to 40 percent of that trust’s October 31, 2006 market capitalization (“benchmark”) for 2007, and an additional 20 percent of the benchmark for each of 2008, 2009 and 2010. For Progress, the growth limits are \$476.8 million for 2007 (less \$252.0 million as a result of the equity offering in regards to the Corporate Acquisition) and \$238.4 million for each of 2008, 2009 and 2010 with any unused amount rolling forward to the next year.

The provision for future income taxes for the Quarter was a recovery of \$8.6 million compared to a recovery of \$11.0 million in same period in 2006. For the six months ended June 30, 2007 the provision for future income taxes was a recovery of \$10.5 million compared to a recovery of \$11.9 million for the same period in 2006. The recovery in the Quarter is due to the recognition of the future income tax asset of the Trust and a reduction in future federal income tax rates from the government’s 2007 budget. The substantial recovery in 2006 is due to a reduction in future federal and provincial income tax rates enacted in the period.

As a result of the Corporate Acquisition, Progress recognized a \$136.5 million future income tax asset for the difference between the \$719.0 million in tax pools acquired over the value assigned to the assets. Progress’ estimated tax pool balances as at June 30, 2007 is approximately \$1.0 billion after giving effect of the acquisition.

## Non-Controlling Interest - Exchangeable Shares

The exchangeable shares of the Trust's subsidiary trade on the TSX, thereby allowing holders of the exchangeable shares to dispose of them without having to exchange them for trust units and consequently, they must be classified as non-controlling interest outside of unitholders' equity. The net earnings attributable to the exchangeable shares is charged to the consolidated statement of earnings as non-controlling interest expense with a corresponding increase to non-controlling interest on the consolidated balance sheet.

	Six Months Ended June 30			
	2007		2006	
<i>(\$ thousands, except unit amounts)</i>	Number	Amount	Number	Amount
<b>Exchangeable Shares</b>				
Balance, beginning of period	9,642,540	122,592	11,388,751	127,205
Exchanged for trust units	(316,466)	(4,049)	(1,480,512)	(16,906)
Non-controlling interest expense		6,982		8,609
Balance, end of period	9,326,074	125,525	9,908,239	118,908

The charge to net earnings of \$7.0 million for 2007 and \$8.6 million for 2006 represents the net earnings attributable to the exchangeable shares over the period.

## Net Earnings, Comprehensive Income and Cash Flow

Net earnings for the Quarter increased 12 percent to \$31.9 million compared to \$28.4 million for the same period in 2006. The increase is due to the Corporate Acquisition and the recognition of a future income tax asset for the Trust (refer to "Taxes" above). Basic and diluted net earnings for the Quarter were \$0.33 per unit compared to \$0.38 per unit basic and diluted for the same period in 2006.

Net earnings for the six months ended June 30, 2007 of \$48.4 million was consistent with the same period in 2006 of \$49.8 million. Increased revenues as a result of the Corporate Acquisition, were offset by higher depletion in 2007, as well as a lower future income tax recovery compared to the same period in 2006. Basic and diluted net earnings for the six months ended June 30, 2007 were \$0.56 per unit and \$0.55 per unit, respectively, compared to \$0.68 per unit basic and \$0.67 per unit diluted for the same period in 2006.

Other comprehensive income for the three and six months ended June 30, 2007 included a charge of \$1.8 million and \$8.1 million, respectively (2006 – nil) relating to the amortization of the amount recognized in accumulated other comprehensive income on January 1, 2007 for the fair value of financial instruments on adoption of the new accounting standards for financial instruments (refer to Risk Management above). This resulted in total comprehensive income for the three and six months ended June 30, 2007 of \$30.1 million and \$40.2 million, respectively (2006 - \$28.4 million and \$49.8 million, respectively).

Cash flow for the Quarter increased 27 percent to \$58.4 million compared to the same period in 2006 of \$45.9 million. For the six months ended June 30, 2007 cash flow increased 19 percent to \$111.5 million compared to the same period in 2006 of \$93.5 million. The increase was due to higher revenues as a result of the Corporate Acquisition. Diluted cash flow for the Quarter was \$0.53 per unit compared to \$0.52 per unit during the same period in 2006. Diluted cash flow for the six months ended June 30, 2007 was \$1.12 per unit compared to \$1.07 per unit during the same period in 2006.

## Quarterly Financial Summary <sup>1,2</sup>

	Three Months Ended							
	June 30 2007	Mar 31 2007	Dec 31 2006	Sept 30 2006	June 30 2006	Mar 31 2006	Dec 31 2005	Sept 30 2005
<i>(\$ thousands, except per unit amounts)</i>								
Petroleum and natural gas revenue	108,503	85,477	75,182	72,328	71,439	91,568	120,628	95,163
Cash flow	58,398	53,080	49,603	47,218	45,871	47,637	65,785	53,215
Per unit diluted	0.53	0.60	0.56	0.54	0.52	0.55	0.77	0.63
Net earnings	31,947	16,425	21,538	20,252	28,425	21,383	29,398	25,159
Per unit basic	0.33	0.22	0.29	0.27	0.38	0.29	0.41	0.36
Per unit diluted	0.33	0.22	0.28	0.27	0.38	0.29	0.40	0.36

- (1) Certain amounts above have been adjusted to conform to the presentation adopted in 2007 as a result of the adoption of the new accounting standards for financial instruments.
- (2) Petroleum and natural gas revenue and cash flow increased in the fourth quarter of 2005 due to higher commodity prices. Petroleum and natural gas revenue and cash flow for the first, second and third quarters of 2006 decreased as a result of lower natural gas prices. Petroleum and natural gas revenue and cash flow for the fourth quarter of 2006 and the first quarter of 2007 increased slightly due to strengthening natural gas prices. Net earnings for the first quarter of 2007 decreased due to an \$8.2 million unrealized loss on financial instruments as a result of adopting the new accounting standards for financial instruments and electing not to use hedge accounting. Petroleum and natural gas revenue and cash flow increased in the second quarter of 2007 due the Corporate Acquisition during the Quarter.

### Distributions

Management monitors the Trust's distribution payout policy with respect to forecasted net cash flow, debt levels and capital expenditures. Starting in January 2007, the Trust reduced its monthly distributions from \$0.14 per trust unit to \$0.10 per trust unit due to a reduction in forecasted 2007 cash flow as a result of the then current weakness in natural gas prices. The distribution reduction reinforces Progress' commitment to sustainability. Progress defines sustainability as maintaining production and reserves per trust unit over an extended period of time. Progress' sustainability objective is to annually retain sufficient cash flow to replace reserves produced. As a result, \$29.1 million was distributed in the Quarter compared to \$31.4 million for the same period in 2006. For the six months ended June 30, 2007 \$53.9 million was distributed compared to \$62.2 million for the same period in 2006. The Trust distributed 50 percent of its cash flow to unitholders for the Quarter (56 percent including exchangeable shares) compared to 68 percent (80 percent including exchangeable shares) for the same period in 2006. For the six months ended June 30, 2007 the Trust distributed 48 percent of its cash flow (53 percent including exchangeable shares) compared to 67 percent (78 percent including exchangeable shares) for the same period in 2006. Exchangeable shares are convertible into trust units of the Trust based on the exchange ratio, which is adjusted monthly to reflect that distributions are not paid on the exchangeable shares and cash flow related to the exchangeable shares is retained by the Trust for additional capital expenditures or debt repayment. The key drivers of Progress' cash flow, as is generally the case with other energy trusts, are commodity prices and production. Since the Trust's production is heavily weighted to natural gas (85 percent in the Quarter), natural gas prices have a significant effect on its cash flow and its distribution payout.

## Capital Expenditures

During the Quarter, the Trust invested \$55.8 million in capital expenditures compared to \$32.5 million in the same period in 2006. For the six months ended June 30, 2007 the Trust invested \$99.4 million in capital expenditures compared to \$68.5 million for the same period in 2006.

<i>(\$ thousands)</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
Land acquisitions and retention	1,164	2,777	4,039	5,617
Geological and geophysical	724	2,244	2,658	4,246
Drilling and completions	7,619	18,510	35,438	40,922
Equipping and facilities	5,795	8,215	16,509	16,611
Net property acquisitions (dispositions)	40,402	650	40,619	948
Corporate assets	130	93	172	129
<b>Total capital expenditures</b>	<b>55,834</b>	<b>32,489</b>	<b>99,435</b>	<b>68,473</b>

On May 31, 2007 Progress acquired certain petroleum and natural gas assets from a major producer in the Wapiti area for \$40.9 million, net of final closing adjustments. The acquisition added approximately 800 boe per day of production, 1.54 million boe of proved plus probable reserves and 31,000 net undeveloped acres of land with varying working interests which will create further opportunities to consolidate working interests within the region. Progress believes there are substantial upside opportunities on the acquired lands which are contiguous with the Trust's Gold Creek property. The acquisition also added ownership in infrastructure which is strategic to Progress' area of expansion plans.

During the Quarter, Progress drilled six gross wells (4.8 net) with a 100 percent success rate. The program yielded six natural gas wells (4.8 net), including three gross wells (2.4 net) drilled in the Deep Basin region of northwest Alberta and three gross (2.4 net) drilled Central Alberta.

Year-to-date, Progress drilled 35 gross wells (17.8 net) with a 92 percent success rate. The program yielded 31 natural gas wells (16.4 net), including 14 gross wells (10.9 net) drilled in the Deep Basin region of northwest Alberta, 14 gross (3.2 net) drilled in the northeast British Columbia Foothills region and three gross (2.4 net) drilled in Central Alberta.

The Trust's remaining 2007 capital investment program will continue to be directed to the three focus regions of the Deep Basin in northwest Alberta and the Fort St. John Plains and Foothills of northeast British Columbia.

## Liquidity and Capital Resources

<i>(\$ thousands, except per unit amounts)</i>	June 30	December 31
	2007	2006
Working capital deficiency	28,655	13,959
Bank debt	261,159	75,000
Convertible debentures	120,882	119,605
<b>Total debt</b>	<b>410,696</b>	<b>208,564</b>
Units outstanding and issuable for exchangeable shares (thousands)	110,121	88,114
Market price per unit at end of period	12.93	12.57
Market value of trust units and exchangeable shares	1,423,863	1,107,593
Cash flow (12 month trailing)	208,299	190,329
<b>Total debt to cash flow ratio</b>	<b>1.97</b>	<b>1.10</b>

At June 30, 2007 the Trust had \$261.2 million outstanding on its credit facilities, \$120.9 million for the debt portion of the 6.75 percent and 6.25 percent convertible unsecured subordinated debentures (the “Debentures”) and a working capital deficiency of \$28.7 million, totaling \$410.7 million of total debt.

At June 30, 2007 the Trust’s credit facilities consisted of a \$340 million extendible revolving term credit facility and a \$35 million working capital credit facility with a syndicate of banks. The facilities are available on a revolving basis for a period of at least 364 days until May 27, 2008, and such initial term out date may be extended for further 364 day periods at the request of the Trust, subject to approval by the banks. Following the term out date, the facilities will be available on a non-revolving basis for a one year term, at which time the facilities would be due and payable. The credit facilities are secured by a \$1 billion fixed and floating charge debenture on the assets of the Trust and by a guarantee and subordination provided by Progress in respect of the Trust’s obligations. The \$375 million borrowing base is subject to semi-annual review by the banks.

At June 30, 2007 the Trust had outstanding \$55.7 million principal amount of the 6.75 percent debentures and \$75.0 million principal amount of the 6.25 percent debentures for a combined total of \$130.7 million. Both the 6.75 percent debentures and the 6.25 percent debentures pay interest semi-annually and are convertible at the option of the holder at any time into fully paid trust units at a conversion price of \$15.00 per trust unit and \$19.50 per trust unit, respectively. The 6.75 percent debentures mature on June 30, 2010 and the 6.25 percent debentures mature on September 30, 2011 at which time they are due and payable.

The Debentures have been classified as debt net of the fair value of the conversion feature which has been classified as part of unitholders’ equity and net of issue costs. At June 30, 2007 the debt portion was \$120.9 million net of unamortized issue costs. Issue costs are amortized over the term of the Debentures and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issue costs and the interest paid are expensed with interest and financing expense on the consolidated statements of earnings.

Bank debt increased from \$75.0 million as at December 31, 2006 to \$261.2 million as at June 30, 2007 mainly due to the Corporate Acquisition and the Wapiti area asset purchase. The working capital deficiency of \$28.7 million at June 30, 2007 is higher than the December 31, 2006 deficiency of \$14.0 million due to increased accrued liabilities as a result of amounts assumed on the Corporate Acquisition.

On April 2, 2007 Progress purchased all of the issued and outstanding shares of a private company (refer to Corporate Acquisition above) and in conjunction with the purchase, sold certain assets of the private company to ProEx. The net cash consideration of \$389.4 million, was financed by the issuance of 21.0 million trust units at a price of \$12.00 per trust unit for proceeds of \$252.0 million (\$238.7 million net of issue costs) and through increased bank debt.

Outstanding as at July 24, 2007 were 97,261,649 trust units, 9,326,074 exchangeable shares and \$130.7 million of Debentures convertible into 7,561,287 trust units.

The Trust’s investing activities in the Quarter primarily consisted of the Corporate Acquisition and expenditures on its capital program. The Corporate Acquisition completed on April 2, 2007 was funded by an equity offering and bank debt. Management anticipates that the Trust will continue to have adequate liquidity to fund future working capital and forecasted capital expenditures during 2007 through a combination of cash flow and debt. Cash flow used to finance these commitments may reduce the amount of cash distributions paid to unitholders.

## DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Trust is accumulated and communicated to the Trust’s Management, as appropriate, to allow timely decisions regarding required disclosures. The Trust’s Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the interim filings that the Trust’s disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Trust. It should be noted that while the Trust’s Chief Executive Officer and Chief Financial Officer believe that the Trust’s disclosure controls and procedures provide

a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

#### **Additional Information**

Additional information regarding the Trust and its business and operations, including the annual information form (“AIF”) is available on the Trust’s company profiles at [www.sedar.com](http://www.sedar.com). Copies of the AIF can also be obtained by contacting the Trust at Progress Energy Trust 1200, 205 – 5th Avenue S.W., Calgary, Alberta, Canada T2P 2V7 or by e-mail at [ir@progressenergy.com](mailto:ir@progressenergy.com). This information is also accessible on the Trust’s web site at [www.progressenergy.com](http://www.progressenergy.com).

## OUTLOOK

We remain firmly focused on our goal of maintaining or modestly growing reserves and production on a per unit basis. Our sustainability strategy has been achieved entirely through the drill bit at industry leading efficiencies while maintaining our financial strength. We have often stated that we have investment choices and therefore, could remain patient for the right opportunity as it related to acquisitions. Our second quarter acquisitions have further strengthened our sustainability strategy by expanding our development inventory while providing an appropriate exposure to exploration upside within our existing core regions. In the second half of 2007, we are targeting average production to be in the range of 24,000 to 26,000 boe per day.

On the commodity front, natural gas prices have weakened in the near term as a result of ample natural gas storage while liquefied natural gas imports to the United States have continued to grow in the absence of demand in Europe. We believe that the outlook for natural gas prices remains positive over the medium to longer term.

Our opportunity inventory is more visible than at any point in our history and we are in the enviable position of having many investment choices. Our tax pool coverage is expected to provide further sheltering beyond the 2011 time when the taxation of income trusts is anticipated to occur. We remain aligned with our unitholders through an approximate 11 percent ownership of the units and exchangeable shares of Progress by employees, management and directors.

On behalf of the Board of Directors,

(Signed) "Michael R. Culbert"

Michael R. Culbert  
President & CEO  
July 25, 2007

# PROGRESS ENERGY TRUST

## CONSOLIDATED BALANCE SHEETS

<i>(\$ thousands)</i>	June 30 2007	December 31 2006
	<i>(Unaudited)</i>	
<b>ASSETS</b>		
Current		
Cash and short-term investments	-	8,265
Accounts receivable	34,218	35,555
Prepaid expenses and deposits	9,482	7,798
Fair value of financial instruments <i>(Notes 2 and 12)</i>	5,828	-
	49,528	51,618
Property, plant and equipment <i>(Note 4)</i>	1,050,578	744,431
Future income taxes <i>(Notes 3 and 10)</i>	30,986	-
Goodwill	414,655	414,655
	1,545,747	1,210,704
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	57,406	49,820
Cash distributions payable	9,726	10,564
Current income taxes payable	5,223	5,193
	72,355	65,577
Bank debt <i>(Note 5)</i>	261,159	75,000
Convertible debentures <i>(Note 6)</i>	120,882	119,605
Commodity sales contract <i>(Note 12)</i>	618	876
Asset retirement obligations <i>(Note 7)</i>	31,602	24,148
Future income taxes <i>(Notes 3 and 10)</i>	-	114,367
	486,616	399,573
<b>NON-CONTROLLING INTEREST</b>		
Exchangeable shares <i>(Note 8)</i>	125,525	122,592
<b>UNITHOLDERS' EQUITY</b>		
Unitholders' capital <i>(Note 9)</i>	988,611	739,998
Convertible debentures <i>(Note 6)</i>	7,702	7,702
Contributed surplus <i>(Note 9)</i>	8,810	9,210
Accumulated other comprehensive income <i>(Notes 2 and 9)</i>	2,405	-
Deficit	(73,922)	(68,371)
	933,606	688,539
	1,545,747	1,210,704

*See accompanying notes to the consolidated financial statements*

**PROGRESS ENERGY TRUST**  
**CONSOLIDATED STATEMENTS OF EARNINGS, COMPREHENSIVE INCOME AND DEFICIT**  
*(Unaudited)*

	Three Months Ended June 30		Six Months Ended June 30	
<i>(\$ thousands, except per unit amounts)</i>	2007	2006	2007	2006
<b>REVENUE</b>				
Petroleum and natural gas	108,503	71,439	193,980	163,007
Royalties	(23,736)	(18,786)	(43,925)	(43,405)
	84,767	52,653	150,055	119,602
Realized gain on financial instruments <i>(Notes 2 and 12)</i>	185	9,570	7,180	8,961
Unrealized gain on financial instruments <i>(Notes 2 and 12)</i>	10,498	-	2,266	-
Other income	197	-	197	-
	95,647	62,223	159,698	128,563
<b>EXPENSES</b>				
Operating	14,841	9,671	25,882	19,299
Transportation	4,177	2,639	6,947	5,800
General and administrative	2,313	1,702	4,280	3,491
Unit based compensation	2,563	1,008	4,049	2,015
Interest and financing	5,889	2,520	9,675	4,915
Depletion, depreciation and accretion	38,263	22,803	64,056	46,446
	68,046	40,343	114,889	81,966
Earnings before taxes and non-controlling interest	27,601	21,880	44,809	46,597
<b>TAXES</b>				
Capital taxes	34	(249)	79	90
Future income taxes	(8,621)	(10,984)	(10,624)	(11,910)
	(8,587)	(11,233)	(10,545)	(11,820)
Net earnings before non-controlling interest	36,188	33,113	55,354	58,417
Non-controlling interest – exchangeable shares <i>(Note 8)</i>	(4,241)	(4,688)	(6,982)	(8,609)
<b>NET EARNINGS</b>	31,947	28,425	48,372	49,808
<b>OTHER COMPREHENSIVE INCOME</b>				
Amortization of fair value of financial instruments <i>(Notes 2 and 9)</i>	(1,804)	-	(8,138)	-
<b>COMPREHENSIVE INCOME</b>	30,143	28,425	40,234	49,808
Deficit, beginning of period	(76,777)	(43,859)	(68,371)	(34,406)
Distributions	(29,092)	(31,412)	(53,923)	(62,248)
Deficit, end of period	(73,922)	(46,846)	(73,922)	(46,846)
<b>NET EARNINGS PER UNIT <i>(Note 9)</i></b>				
Basic	\$0.33	\$0.38	\$0.56	\$0.68
Diluted	\$0.33	\$0.38	\$0.55	\$0.67

*See accompanying notes to the consolidated financial statements*

**PROGRESS ENERGY TRUST**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Unaudited)*

	Three Months Ended June 30		Six Months Ended June 30	
<i>(\$ thousands)</i>	2007	2006	2007	2006
<b>OPERATING ACTIVITIES</b>				
Net earnings	31,947	28,425	48,372	49,808
Unrealized gain on financial instruments <i>(Notes 2 and 12)</i>	(10,498)	-	(2,266)	-
Depletion, depreciation and accretion	38,263	22,803	64,056	46,446
Non-controlling interest – exchangeable shares <i>(Note 8)</i>	4,241	4,688	6,982	8,609
Convertible debentures accretion <i>(Note 6)</i>	362	134	719	279
Amortization of convertible debenture issue costs <i>(Note 6)</i>	279	125	558	263
Amortization of commodity sales contract	(127)	(144)	(258)	(291)
Unit based compensation expense <i>(Note 9)</i>	2,563	1,008	4,049	2,015
Asset retirement expenditures <i>(Note 7)</i>	(11)	(184)	(110)	(1,711)
Future income taxes <i>(Note 10)</i>	(8,621)	(10,984)	(10,624)	(11,910)
	58,398	45,871	111,478	93,508
Changes in non-cash working capital <i>(Note 11)</i>	16,714	1,112	12,374	3,810
	75,112	46,983	123,852	97,318
<b>FINANCING ACTIVITIES</b>				
Increase in bank debt	142,438	7,355	177,036	31,029
Issue of units <i>(Notes 3 and 9)</i>	252,000	-	252,000	-
Cash distributions	(29,046)	(31,330)	(54,761)	(61,744)
Unit issue costs <i>(Notes 3 and 9)</i>	(13,304)	-	(13,304)	-
Changes in non-cash working capital <i>(Note 11)</i>	(850)	-	-	-
	351,238	(23,975)	360,971	(30,715)
<b>INVESTING ACTIVITIES</b>				
Deferred acquisition <i>(Note 3)</i>	27,448	-	-	-
Corporate Acquisition <i>(Note 3)</i>	(523,763)	-	(523,763)	-
Disposition <i>(Note 3)</i>	134,400	-	134,400	-
Capital expenditures	(55,834)	(32,489)	(99,435)	(68,473)
Changes in non-cash working capital <i>(Note 11)</i>	(8,601)	5,927	(4,290)	1,870
	(426,350)	(26,562)	(493,088)	(66,603)
<b>CHANGE IN CASH AND SHORT-TERM INVESTMENTS</b>	-	(3,554)	(8,265)	-
Cash and short-term investments, beginning of period	-	3,554	8,265	-
<b>CASH AND SHORT-TERM INVESTMENTS, END OF PERIOD</b>	-	-	-	-

*See accompanying notes to the consolidated financial statements*

# PROGRESS ENERGY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Unaudited) (tabular amounts are in \$ thousands except for trust units and per trust unit amounts)*

Progress Energy Trust (“Progress” or the “Trust”) is an open-ended, unincorporated investment trust governed by the laws of the province of Alberta. The principal undertaking of the Trust is to indirectly explore for, develop and hold interests in petroleum and natural gas properties through investments in securities of subsidiaries and royalty interests in petroleum and natural gas properties. Progress Energy Ltd. carries on the business of the Trust and directly owns the petroleum and natural gas properties and assets related thereto. The Trust owns, directly and indirectly, 100 percent of the common shares (excluding the exchangeable shares – see note 8) of Progress Energy Ltd. The activities of Progress Energy Ltd. are financed through interest bearing notes from the Trust and third party debt. The convertible debentures are direct obligations of the Trust. Under the Trust Indenture, the Trust may declare payable to unitholders all or any part of the income of the Trust, which is primarily comprised of interest earned on debt notes issued to Progress Energy Ltd., as well as, amounts attributed to a net profits interest (“NPI”) agreement entered into with Progress Energy Ltd. The aggregate amounts received by the Trust each period are based on the consolidated cash flow from operations before changes in non-cash working capital each period, as adjusted on a discretionary basis, for cash withheld to fund capital expenditures.

Pursuant to the terms of the NPI agreement, the Trust is entitled to a payment from Progress Energy Ltd. each month equal to the amount by which 99% of the gross proceeds from the sale of production exceed 99% of certain deductible expenditures (as defined). Under the terms of the NPI agreement, deductible expenditures may include amounts, determined on a discretionary basis, to fund capital expenditures, to repay third party debt and to provide for working capital required to carry out the operations of Progress Energy Ltd.

### Relationship with ProEx Energy Ltd.

A technical services agreement (“Technical Service Agreement”) is currently in place between the Trust and ProEx Energy Ltd. (“ProEx”) whereby the Trust provides personnel and certain administrative and technical services in connection with the management, development, exploitation and operation of the assets of ProEx and the marketing of its production. ProEx has granted stock options and shares under its long term incentive plan to employees of Progress as service providers. The Trust provides these services to ProEx on an expense reimbursement basis, based on ProEx’s monthly capital activity and production levels relative to the combined capital activity and production levels of both the Trust and ProEx. Total expense reimbursed by ProEx for the three and six months ended June 30, 2007 was \$1.3 million and \$2.8 million, respectively (2006 – \$0.9 million and \$2.0 million).

As at June 30, 2007, accounts payable included \$3.1 million (2006 – \$5.7 million) payable to ProEx which includes standard joint venture amounts including revenue. These amounts were paid subsequent to June 30, 2007.

On April 2, 2007, Progress acquired all of the issued and outstanding shares of a private company for \$523.8 million, net of certain assets retained by the vendor. In conjunction with the acquisition, on April 2, 2007, Progress disposed of certain assets of the private company to ProEx for \$134.4 million.

## 1. SUMMARY OF ACCOUNTING POLICIES

The interim consolidated financial statements of the Trust have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Trust for the year ended December 31, 2006, except for the change described in note 2. The disclosures provided below are incremental to those included with the annual consolidated financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Trust's annual report for the year ended December 31, 2006.

Progress is involved in the exploration, development and production of petroleum and natural gas in British Columbia, Alberta and Saskatchewan. The consolidated financial statements include the accounts of the Trust and its wholly owned subsidiary. The consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The preparation of financial statements in conformity with Canadian GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

## 2. CHANGE IN ACCOUNTING POLICY

On January 1, 2007 Progress adopted the new accounting standards regarding the recognition, measurement, disclosure and presentation of financial instruments. In conjunction with the adoption of these new standards, the Trust elected not to use hedge accounting for its natural gas derivative contracts under its risk management program. The fair value of the commodity contracts is recognized at each reporting period with the change in the fair value being classified as an unrealized gain or loss on the statement of earnings. In accordance with the transitional provisions of the standards, the accounting for hedging relationships for prior periods is not retroactively adjusted, therefore, there has been no restatement of the prior periods. On adoption, the Trust recognized a current asset of \$15.6 million for the fair value of its natural gas derivative contracts and an increase to the future income tax liability and accumulated other comprehensive income of \$5.1 million and \$10.5 million, respectively. The \$10.5 million in accumulated other comprehensive income will be amortized through other comprehensive income and unrealized gain or loss on financial instruments on the statement of earnings over the term of the contracts. As a result, for the three months ended June 30, 2007 \$1.8 million, net of tax, was charged to other comprehensive income with a corresponding unrealized gain on financial instruments of \$2.7 million and a charge to future income tax expense of \$0.9 million. For the six months ended June 30, 2007 \$8.1 million, net of tax, was charged to other comprehensive income with a corresponding unrealized gain on financial instruments of \$12.0 million and a charge to future income tax expense of \$3.9 million.

The impact of the change in fair value from January 1, 2007 to June 30, 2007 is disclosed in note 12. Certain comparative amounts have been reclassified to conform to the presentation adopted in 2007.

## 3. CORPORATE ACQUISITION

On April 2, 2007 Progress acquired all of the issued and outstanding shares of a private company for \$523.8 million, net of certain assets retained by the vendor. In conjunction with the acquisition, on April 2, 2007, Progress disposed of certain assets of the private company to ProEx for \$134.4 million. The resulting net cash consideration of \$389.4 million was financed by the issuance of 21.0 million trust units at a price of \$12.00 per trust unit for proceeds of \$252.0 million (\$238.7 million net of issue costs) and through increased bank debt. Included in the acquisition was approximately \$719.0 million of tax pools which are available to Progress to shelter future taxable income. As a result a \$136.5 million future income tax asset was

recognized on the acquisition. Using the purchase method of accounting, the net assets acquired and consideration paid were as follows:

<b>Net assets acquired</b>	
Working capital	814
Bank debt	(9,123)
Property, plant and equipment	266,823
Future income taxes	136,487
Asset retirement obligations	(5,638)
<b>Total net assets acquired</b>	<b>389,363</b>
<b>Consideration</b>	
Cash	519,497
Proceeds of asset disposition	(134,400)
Acquisition costs	4,266
<b>Total purchase price</b>	<b>389,363</b>

The above amounts are estimates which were made by Management at the time of the acquisition based on information currently available. Amendments may be made to these amounts as values subject to estimate are finalized.

#### 4. PROPERTY, PLANT AND EQUIPMENT

	June 30 2007	December 31 2006
Property, plant and equipment	1,369,784	1,001,785
Conversions of exchangeable shares	47,102	46,014
Accumulated depletion and depreciation	(366,308)	(303,368)
<b>Property, plant and equipment, net</b>	<b>1,050,578</b>	<b>744,431</b>

On May 31, 2007 Progress acquired certain petroleum and natural gas assets in the Deep Basin region of northwest Alberta for \$40.9 million, net of final closing adjustments.

The conversion of exchangeable shares held by previous Progress Energy Ltd. shareholders to Trust units is accounted for as a step-purchase. Consequently a charge of \$1.1 million was made to property, plant and equipment for the six months ended June 30, 2007 (2006 - \$11.7 million).

The calculation of 2007 depletion and depreciation expense included an estimated \$53.3 million for future development costs associated with proved undeveloped reserves and excluded \$25.6 million for the estimated future net realizable value of production equipment and facilities and \$101.7 million for the estimated value of unproven properties. Depletion and depreciation expense for the three and six months ended June 30, 2007 was \$37.6 million and \$62.9 million, respectively (2006 - \$22.4 million and \$45.6 million).

Included in the Trust's property, plant and equipment balance is \$19.7 million, net of accumulated depletion, related to asset retirement obligations (\$29.2 million before accumulated depletion) (Refer to note 6).

The Trust capitalized approximately \$1.6 million of geological and geophysical compensation costs associated with the exploration and development of capital assets during the six months ended June 30, 2007 (2006 - \$0.9 million).

## 5. BANK DEBT

	June 30 2007	December 31 2006
Direct advances	11,159	-
Banker's acceptances	250,000	75,000
Total bank debt	261,159	75,000

At June 30, 2007 the Trust's credit facilities consisted of a \$340 million extendible revolving term credit facility and a \$35 million working capital credit facility with a syndicate of banks resulting in total credit facilities of \$375 million. The facilities are available on a revolving basis for a period of at least 364 days until May 27, 2008, and such initial term out date may be extended for further 364 day periods at the request of the Trust, subject to approval by the banks. Following the term out date, the facilities will be available on a non-revolving basis for a one year term, at which time the facilities would be due and payable. Various borrowing options are available under the facilities including prime rate based advances and banker's acceptance loans. Average cost of borrowing under these facilities for the six months ended June 30, 2007 was 5.1 percent (2006 – 5.0 percent). The credit facilities are secured by a \$1 billion fixed and floating charge debenture on the assets of the Trust and by a guarantee and subordination provided by Progress in respect of the Trust's obligations. The \$375 million borrowing base is subject to semi-annual review by the banks.

## 6. CONVERTIBLE DEBENTURES

The 6.75 percent debentures and the 6.25 percent debentures (the "Debentures") have been classified as debt, net of issue costs and net of the fair value of the conversion feature at the date of issue which has been classified as part of unitholders' equity. The issue costs will be amortized over the term of the Debentures and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issue costs and the interest paid are expensed within interest and financing expense on the consolidated statements of earnings. If the Debentures are converted to units, a portion of the value of the conversion feature under unitholders' equity will be reclassified to unitholders' capital along with the conversion price paid.

The 6.75 percent debentures and the 6.25 percent debentures pay interest semi-annually and are convertible at the option of the holder at any time into fully paid trust units at a conversion price of \$15.00 per trust unit and \$19.50 per trust unit, respectively. The 6.75 percent debentures mature on June 30, 2010 and the 6.25 percent debentures mature on September 30, 2011, at which time they are due and payable. The Trust may elect to satisfy the interest and principal obligations by the issuance of trust units. The following table sets forth a reconciliation of the Debenture activity:

	Six Months Ended June 30					
	2007			2006		
	6.75%	6.25%	Total	6.75%	6.25%	Total
<b>Debentures</b>						
Principal, beginning of period <sup>1</sup>	55,727	75,000	130,727	86,182	-	86,182
Converted to Trust Units	-	-	-	(27,143)	-	(27,143)
Principal, end of period	55,727	75,000	130,727	59,039	-	59,039
<b>Debt portion, beginning of period<sup>1</sup></b>						
Debt portion, beginning of period <sup>1</sup>	52,300	67,305	119,605	79,381	-	79,381
Accretion	252	467	719	279	-	279
Amortization of issue costs	233	325	558	263	-	263
Converted to Trust Units <sup>2</sup>	-	-	-	(25,030)	-	(25,030)
Debt portion, end of period	52,785	68,097	120,882	54,893	-	54,893
<b>Equity portion, beginning of period<sup>1</sup></b>						
Equity portion, beginning of period <sup>1</sup>	2,756	4,946	7,702	4,261	-	4,261
Converted to Trust Units	-	-	-	(1,342)	-	(1,342)
Equity portion, end of period	2,756	4,946	7,702	2,919	-	2,919

(1) The 6.75 percent debentures were issued February 2, 2005 and the 6.25 percent debentures were issued August 22, 2006.

(2) Net of unamortized issue costs.

Total interest charged to earnings for the three months ended June 30, 2007 was \$2.8 million (2006 - \$1.3 million) which includes \$0.4 million of debenture accretion (2006 - \$0.1 million) and \$0.3 million of amortized issue costs (2006 - \$0.1 million).

Total interest charged to earnings for the six months ended June 30, 2007 was \$5.5 million (2006 - \$2.8 million) which includes \$0.7 million of debenture accretion (2006 - \$0.3 million) and \$0.6 million of amortized issue costs (2006 - \$0.3 million).

## 7. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations were estimated based on the Trust's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately \$58.3 million which will be incurred over the next 41 years with the majority of costs incurred between 2009 and 2020. A credit adjusted risk-free rate of eight percent was used to calculate the fair value of the asset retirement obligations. The following reconciles the Trust's asset retirement obligations:

	Six Months Ended June 30	
	2007	2006
Balance, beginning of period	24,148	20,906
Liabilities incurred	810	2,649
Liabilities settled	(110)	(1,711)
Acquisition ( <i>Note 3</i> )	5,638	-
Disposition	-	(374)
Accretion expense	1,116	822
Balance, end of period	31,602	22,292

## 8. NON-CONTROLLING INTEREST – EXCHANGEABLE SHARES

The non-controlling interest on the consolidated balance sheet consists of the book value of exchangeable shares issued to Progress Energy Ltd. shareholders and the fair value of exchangeable shares issued to Cequel Energy Inc. shareholders as part of a Plan of Arrangement that became effective on July 2, 2004, plus net earnings attributable to the exchangeable shares, less exchangeable shares (and related cumulative earnings) redeemed. The non-controlling interest charge on the consolidated statement of earnings represents the share of net earnings attributable to the exchangeable shares based on the trust units issuable for exchangeable shares in proportion to total trust units issued and issuable each period end.

	Six months ended June 30			
	2007		2006	
	Number	Amount	Number	Amount
<b>Exchangeable Shares</b>				
Balance, beginning of period	9,642,540	122,592	11,388,751	127,205
Exchanged for trust units	(316,466)	(4,049)	(1,480,512)	(16,906)
Non-controlling interest expense		6,982		8,609
Balance, end of period	9,326,074	125,525	9,908,239	118,908

The exchangeable shares can be converted, at the option of the holder, into trust units at any time and are listed on the Toronto Stock Exchange under the symbol PGE. If the number of exchangeable shares outstanding is less than 1,600,000, the Trust can elect to redeem the exchangeable shares for trust units or an amount in cash equal to the amount determined by multiplying the exchange ratio on the last business day prior to the redemption date by the current market price of a trust unit on the last business day prior to such redemption date. The number of trust units issued upon conversion is based on the exchange ratio in effect

on the date of conversion. The exchange ratio is calculated monthly based on the five day weighted average trust unit trading price preceding the monthly effective date. The exchangeable shares are not eligible for cash distributions.

#### Retraction of Exchangeable Shares

Exchangeable shareholders may redeem their shares at any time by delivering their share certificates to the Trustee, together with a properly completed retraction request. The retraction price will be satisfied with trust units equal to the amount determined by multiplying the exchange ratio on the last business day prior to the retraction date by the number of exchangeable shares redeemed.

#### Redemption of Exchangeable Shares

On July 2, 2009 the exchangeable shares will be redeemed by the Trust unless the Board of Directors of Progress Energy Ltd. elect to extend the redemption period. The exchangeable shares will be redeemed by either issuing units or payment in cash for an amount equivalent to the value of the exchangeable shares at the current exchange ratio.

### 9. UNITHOLDERS' EQUITY

The Trust Indenture provides that an unlimited number of trust units may be authorized and issued. Each trust unit is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any distributions from the Trust and in the assets in the event of termination or winding-up of the Trust. All trust units are of the same class with equal rights and privileges.

#### Unitholders' Capital

	Six months ended June 30			
	2007		2006	
	Number	Amount	Number	Amount
<b>Trust Units</b>				
Balance, beginning of period	75,457,291	739,998	71,302,265	681,263
Issued for cash <i>(Note 3)</i>	21,000,000	252,000	-	-
Exchangeable shares converted	422,991	4,815	1,788,907	24,654
Unit based compensation	381,367	5,102	-	-
Issued on conversion of convertible debentures	-	-	1,809,523	26,372
Unit issue costs <i>(Note 3)</i>		(13,304)		-
Balance, end of period	97,261,649	988,611	74,900,695	732,289

On June 28, 2007 381,367 units were issued to settle the performance units vesting on July 2, 2007, resulting in \$5.1 million being transferred from contributed surplus to unitholders' capital.

#### Redemption Right

Unitholders may redeem their trust units for cash at any time, up to a maximum value of \$250,000 in any calendar month, by delivering their unit certificates to the Trustee, together with a properly completed notice requesting redemption. The redemption amount per trust unit will be the lesser of 90 percent of the simple average closing price of the trust units on the principal market on which they are traded for the 10 day trading period after the trust units have been validly tendered for the redemption and the closing market price of the trust units on the principal market on which they are traded on the date on which they were validly tendered for redemption, or if there was no trade of the trust units on that date, the average of the last bid and ask prices of the trust units on that date.

## Net Earnings Per Unit

The following table summarizes the weighted average trust units used in calculating net earnings per unit:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Weighted average trust units - basic	96,611,973	74,667,967	86,205,745	73,741,056
Trust units issuable on conversion of exchangeable shares <sup>1</sup>	12,905,538	12,422,806	12,982,483	13,062,641
Performance units	447,974	466,282	568,599	429,441
Weighted average trust units - diluted	109,965,485	87,557,055	99,756,827	87,233,138

(1) Calculated based on the weighted average exchangeable shares outstanding during the period at the period end exchange ratio.

An adjustment to the numerator of \$4.2 million and \$7.0 million for the three and six months ended June 30, 2007 (2006 - \$4.7 million and \$8.6 million) is required in the diluted earnings per unit calculation to provide for earnings attributable to non-controlling interest. Units potentially issuable on the conversion of the Debentures are anti-dilutive and are not included in the calculation of diluted weighted average units for the three and six months ended June 30, 2007.

## Performance Unit Incentive Plan

The Trust has established a Performance Unit Incentive Plan (the “Plan”) for employees and directors of the Trust or its subsidiary that includes both performance units and units under a long term incentive component. The number of units reserved for issuance under the Plan shall not exceed 5 percent of the aggregate number of issued and outstanding units of the Trust and including the number of units which may be issued on the exchange of the outstanding exchangeable shares, which may be converted into trust units.

### *Performance Units*

Under the Plan, performance units shall be granted by the Board of Directors of Progress Energy Ltd. from time to time at its sole discretion. The performance units will vest on the third anniversary of the date of grant and actual payment will be determined based on the performance of the Trust relative to its peers. Performance factors range from 0.5 to 1.5 times the initial performance units granted. Over the three year term the performance units will attract distributions. The Trust expects to pay out the distribution portion in cash while the units earned will be issued from treasury.

### *Long Term Incentive Component*

During the Quarter, the performance unit incentive plan (the “Plan”) was modified to include a new long term incentive component (“LTI component”) for non-executive employees. Awards granted under the LTI component of the Plan will vest over three years with 40% vesting on the second anniversary of the date of grant and 60% vesting on the third anniversary of the date of grant. An additional 15% grant will be paid if the holder holds the units received on the second anniversary date for one additional year. On May 3, 2007, the Trust granted 182,542 units to its employees at a value of \$14.49 per unit, resulting in a total compensation cost of \$2.6 million to be recognized through unit based compensation expense over the vesting period.

On June 28, 2007 381,367 units were issued to settle the performance units vesting on July 2, 2007, resulting in \$5.1 million being transferred from contributed surplus to unitholders’ capital.

As at June 30, 2007 there are 510,700 performance units outstanding that were granted effective July 2, 2005. During the Quarter, the estimated performance factor for this grant was increased from 1.0 to 1.5 based on the Trust’s operating performance. The fair value of the performance units using a performance factor of 1.5 was approximately \$11.6 million of which \$10.0 million will be amortized through unit based

compensation expense and \$1.6 million will be capitalized over the vesting period with a corresponding increase to contributed surplus. Actual performance factors will not be determined until the end of the performance period.

As at June 30, 2007, there are 416,850 performance units outstanding that were granted effective July 2, 2006. During the Quarter, the estimated performance factor for this grant was increased from 1.0 to 1.5 based on the Trust's operating performance. The fair value of the performance units using a performance factor of 1.5, was approximately \$9.4 million. Over the three year vesting period, approximately \$8.2 million will be amortized through unit based compensation expense and \$1.2 million will be capitalized over the vesting period with a corresponding increase to contributed surplus. Actual performance factors will not be determined until the end of the performance period.

For the three and six months ended June 30, 2007 \$2.6 million and \$4.0 million, respectively were charged to unit based compensation expense (2006 – \$1.0 million and \$2.0 million) and \$0.4 million and \$0.7 million, respectively were capitalized (2006 – \$0.2 million and \$0.3 million) relating to the total performance units and units under the LTI component outstanding.

	Six Months Ended June 30	
	2007	2006
<b>Performance Units</b>		
Balance, beginning of period	1,300,717	899,567
Granted	12,950	10,800
Settled	(381,367)	-
Forfeited	(4,750)	(5,400)
Balance, end of period	927,550	904,967
<b>Vesting Date</b>		
July 2, 2007	-	383,867
July 2, 2008	510,700	521,100
July 2, 2009	416,850	-
Total	927,550	904,967

	Six Months Ended June 30	
	2007	2006
<b>Units under LTI Component</b>		
Balance, beginning of period	-	-
Granted	182,542	-
Balance, end of period	182,542	-
<b>Vesting Date</b>		
May 1, 2009	73,017	-
May 1, 2010	109,525	-
Total	182,542	-

The following table reconciles the Trust's contributed surplus:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Balance, beginning of period	10,934	4,701	9,210	3,530
Unit based compensation expense	2,563	1,008	4,049	2,015
Unit based compensation capitalized	415	165	653	329
Settlements	(5,102)	-	(5,102)	-
Balance, end of period	8,810	5,874	8,810	5,874

#### Accumulated other comprehensive income

As described in note 2, the adoption of the new accounting policies regarding financial instruments resulted in an amount being recognized in accumulated other comprehensive income for the fair value of the Trust's natural gas derivative contracts at January 1, 2007. The amount recognized in accumulated other comprehensive income was \$10.5 million, representing the value of the asset of \$15.6 million net of future income taxes of \$5.1 million. This amount will be charged to the statement of earnings over the term of the contracts with a corresponding decrease to other comprehensive income.

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Balance, beginning of period	4,209	-	-	-
Change in accounting policy, net of tax of \$5,072 (Note 2)	-	-	10,543	-
Amortization of fair value of financial instruments, net of tax of \$868 and \$3,915, respectively	(1,804)	-	(8,138)	-
Balance, end of period	2,405	-	2,405	-

## 10. TAXES

On June 12, 2007 the federal government's bill regarding the taxation of distributions from trust's beginning January 1, 2011 became substantively enacted. As a result, a recovery of \$6.6 million was recognized in the future income tax provision for the three and six months ended June 30, 2007 on the recognition of a \$6.6 million future income tax asset in the Trust.

The future income tax provision for the three and six months ended June 30, 2006 includes a recovery of \$8.2 million relating to a reduction in future federal and provincial income tax rates enacted during the period and includes the impact of certain tax balance adjustments.

## 11. SUPPLEMENTAL CASH FLOW INFORMATION

### Changes in non-cash working capital

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Accounts receivable	25,264	9,113	24,115	20,576
Prepaid expenses and deposits	(1,666)	48	(1,683)	201
Accounts payable	(16,345)	(1,696)	(14,378)	(14,605)
Current income taxes payable	10	(426)	30	(492)
Change in non-cash working capital	7,263	7,039	8,084	5,680
Relating to:				
Financing activities	(850)	-	-	-
Investing activities	(8,601)	5,927	(4,290)	1,870
Operating activities	16,714	1,112	12,374	3,810

### Interest and taxes paid

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Interest paid	5,463	4,126	9,371	8,138
Income and other taxes paid	24	178	49	583

## 12. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

The Trust's financial instruments recognized on the balance sheet consist of accounts receivable, accounts payable and accrued liabilities, bank debt, convertible debentures and derivative natural gas contracts ("financial instruments"). The fair value of these instruments, excluding the convertible debentures and the derivative natural gas contracts, approximate their carrying amounts due to their short terms to maturity or the indexed rate of interest on the bank debt. The fair value of the convertible debentures outstanding as at June 30, 2007 was approximately \$132.4 million (2006 - \$64.1 million). The fair value of the natural gas contracts is recognized on the balance sheet as described below.

### Commodity Price Contracts

The Trust has entered into several derivative natural gas financial instruments for the purpose of protecting its cash flow from operations before changes in non-cash working capital from the volatility of natural gas prices. For the three months ended June 30, 2007, the Trust's natural gas price risk management program had a net realized gain of \$0.2 million (2006 - \$9.6 million net gain). For the six months ended June 30, 2007, the Trust's natural gas price risk management program had a net realized gain of \$7.2 million (2006 - \$9.0 million net gain).

As described in note 2, the Trust recognizes the fair value of its commodity price contracts on the balance sheet each reporting period with the change in fair value being recognized as an unrealized gain or loss on the statement of earnings. On January 1, 2007 the fair value of the commodity price contracts was an asset of \$15.6 million and resulted in an increase to accumulated other comprehensive income and the future income tax liability of \$10.5 million and \$5.1 million, respectively. The \$10.5 million recognized in accumulated other comprehensive income is being amortized over the term of the contracts through other comprehensive

income with a corresponding unrealized gain on financial instruments on the statement of earnings. As a result, for the three months ended June 30, 2007 \$1.8 million, net of tax, was charged to other comprehensive income with a corresponding unrealized gain on financial instruments of \$2.7 million and a charge to future income tax expense of \$0.9 million. For the six months ended June 30, 2007 \$8.1 million, net of tax, was charged to other comprehensive income with a corresponding unrealized gain on financial instruments of \$12.0 million and a charge to future income tax expense of \$3.9 million. At June 30, 2007 the fair value was an asset of \$5.8 million, resulting in an unrealized gain for the three and six months ended June 30, 2007 of \$10.5 million and \$2.3 million, respectively, net of the amortization of the accumulated other comprehensive income.

Contracts outstanding in respect to financial instruments are as follows:

Natural Gas Contracts <sup>1</sup>	Volume	Pricing Point	Strike Price \$/gj	Cost/ Premium	Term
Swap - call spread	10,000 gj/d	AECO	\$7.45 –\$8.45	\$0.42/gj	Apr 01/07 – Oct 31/07
Swap - call spread	10,000 gj/d	AECO	\$7.41 –\$8.41	\$0.39/gj	Apr 01/07 – Oct 31/07
Swap - call spread	10,000 gj/d	AECO	\$7.42 –\$8.42	\$0.37/gj	Apr 01/07 – Oct 31/07
Swap - call spread	10,000 gj/d	AECO	\$7.43 –\$8.43	\$0.38/gj	Apr 01/07 – Oct 31/07

(1) Call spread strike prices indicate minimum floor and maximum ceiling

#### Commodity Sales Contract

The following physical gas sales contract was outstanding at June 30, 2007. This contract was acquired in conjunction with the acquisition of Champion Resources Ltd. on June 3, 2002, at which time the fair value of the contracts was a liability of \$4.1 million. This value was recorded as a liability on June 3, 2002, and is being amortized over the life of the contract. At June 30, 2007 the unamortized remaining liability was \$0.6 million.

Volume	Pricing Point	Progress Price	Term
1,000 gj/d	AECO	\$2.16/gj in 2007 escalating at 2.5% annually	Jun 1/97 – Oct 31/08

## SELECTED QUARTERLY INFORMATION

### FINANCIAL HIGHLIGHTS

(\$ thousands except per unit amounts)	Three Months Ended					
	2006				2007	
	March 31	June 30	Sept 30	Dec 31	March 31	June 30
<b>Income Statement</b>						
Petroleum and natural gas revenue	91,568	71,439	72,328	75,182	85,477	108,503
Cash flow <sup>1</sup>	47,637	45,871	47,218	49,603	53,080	58,398
Per unit - diluted	0.55	0.52	0.54	0.56	0.60	0.53
Cash distributions declared	30,836	31,412	31,626	31,689	24,831	29,092
Per unit	0.42	0.42	0.42	0.42	0.30	0.30
Net earnings	21,383	28,425	20,252	21,538	16,425	31,947
Per unit - basic	0.29	0.38	0.27	0.29	0.22	0.33
Per unit - diluted	0.29	0.38	0.27	0.28	0.22	0.33
<b>Payout Ratio</b>						
Excluding exchangeable shares	65%	68%	67%	64%	47%	50%
Including exchangeable shares	76%	80%	78%	75%	54%	56%
<b>Balance Sheet</b>						
Capital expenditures	35,984	32,489	30,875	35,304	43,601	55,834
Total debt	172,106	182,873	190,531	208,564	252,000	410,696
Unitholders' equity	687,953	694,236	696,844	688,539	689,909	933,606
<b>Trust Units (thousands, except where otherwise stated)</b>						
Units outstanding, end of period	74,315	74,901	75,448	75,457	75,799	97,262
Units issuable for exchangeable shares	12,309	12,314	12,301	12,657	12,665	12,859
Total units outstanding and issuable for exchangeable shares, end of period	86,624	87,215	87,749	88,114	88,464	110,121
Weighted average units – diluted <sup>2</sup>	86,579	87,557	88,190	88,623	89,039	109,965
Exchange ratio, end of period	1.21322	1.24284	1.27469	1.31263	1.34944	1.37885
<b>Trust Unit Trading Statistics (\$)</b>						
High	18.20	18.33	17.50	16.21	13.29	15.79
Low	14.75	14.73	14.21	10.60	11.00	12.76
Closing	17.45	16.30	15.30	12.57	13.07	12.93
Unit volume traded (thousands)	18,619	12,619	15,524	23,725	23,116	23,310
<b>Exchangeable Shares Trading Statistics (\$)</b>						
High	21.29	21.76	22.48	20.40	17.50	20.50
Low	18.49	18.28	18.60	14.90	14.84	17.90
Closing	20.70	19.57	18.60	16.21	17.50	18.60
Share volume traded (thousands)	85	15	69	31	13	27

(1) Refer to discussion in the Management Discussion and Analysis

(2) Includes exchangeable shares converted at the end of period exchange ratio.

## SELECTED QUARTERLY INFORMATION

### OPERATIONAL HIGHLIGHTS

	Three Months Ended					
	2006			2007		
	March 31	June 30	Sept 30	Dec 31	March 31	June 30
<b>Daily Production</b>						
Natural gas (mcf/d)	86,433	82,271	85,701	88,568	94,351	127,255
Crude oil (bbls/d)	2,605	2,099	2,056	2,030	2,118	2,134
Natural gas liquids (bbls/d)	1,390	1,478	1,327	1,269	1,379	1,485
Total daily production (boe/d)	18,401	17,288	17,667	18,060	19,222	24,828
<b>Average Realized Prices</b>						
Natural gas (\$/mcf)	8.82	6.55	6.30	7.07	7.87	7.52
Crude oil (\$/bbl)	64.45	72.79	75.69	59.26	62.15	68.37
Natural gas liquids (\$/bbl)	62.86	63.34	68.29	55.71	55.08	60.51
<b>Highlights (\$/boe)</b>						
Weighted average sales price	55.29	45.41	44.50	45.25	49.41	48.03
Realized gain/(loss) on financial instruments	(0.37)	6.08	6.47	6.29	4.04	0.08
Royalties	(14.87)	(11.94)	(11.24)	(10.29)	(11.67)	(10.51)
Operating expenses	(5.81)	(6.15)	(6.18)	(6.63)	(6.38)	(6.57)
Transportation expenses	(1.91)	(1.68)	(1.61)	(1.56)	(1.60)	(1.85)
Operating Netbacks	32.33	31.72	31.94	33.06	33.80	29.18
Other income	-	-	-	-	-	0.09
General and administrative expense	(1.08)	(1.08)	(0.79)	(0.93)	(1.14)	(1.02)
Unit based compensation	(0.61)	(0.64)	(0.84)	(0.90)	(0.86)	(1.13)
Interest and financing expenses	(1.45)	(1.60)	(2.02)	(2.16)	(2.19)	(2.61)
Unrealized gain/(loss) on financial instruments	-	-	-	-	(4.76)	4.65
Depletion, depreciation and accretion	(14.27)	(14.49)	(14.59)	(14.77)	(14.91)	(16.94)
Net earnings before taxes	14.92	13.91	13.70	14.30	9.94	12.22
Capital taxes	(0.20)	0.16	(0.03)	(0.03)	(0.03)	(0.02)
Future income taxes (recovery)	0.56	6.98	0.83	0.85	1.16	3.82
Non-controlling interest – exchangeable shares	(3.16)	(3.32)	(2.37)	(2.16)	(1.58)	(1.88)
Net earnings	12.91	18.07	12.46	12.96	9.49	14.14
<b>Drilling Results</b>						
Gross	39	15	22	30	29	6
Net – natural gas	18.8	11.0	9.8	15.6	11.7	4.8
Net – crude oil	0.8	0.4	1.6	2.0	-	-
Success Rate (percent)	93	100	95	100	89	100

## **CORPORATE INFORMATION**

### **DIRECTORS**

David D. Johnson  
Chairman  
Progress Energy Ltd.  
President & CEO  
ProEx Energy Ltd.  
Calgary, Alberta

Donald F. Archibald <sup>(1)(4)(5)</sup>  
Chairman & CEO  
Cyries Energy Inc.  
Calgary, Alberta

John A. Brussa <sup>(3)(5)</sup>  
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Frederic C. Coles <sup>(1)(2)(4)(5)</sup>  
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Independent Businessman  
Calgary, Alberta

Michael R. Culbert  
President & CEO  
Progress Energy Ltd.  
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Gary E. Perron <sup>(1)(3)(5)</sup>  
Senior Vice President and  
Managing Director  
BMO Nesbitt Burns  
Calgary, Alberta

<sup>(1)</sup> Member of Audit Committee

<sup>(2)</sup> Member of Reserve Committee

<sup>(3)</sup> Member of Compensation  
Committee

<sup>(4)</sup> Member of Technical Services  
Committee

<sup>(5)</sup> Member of Corporate Governance  
and Nominating Committee

Environment, Health and Safety matters  
are addressed by the entire Board of  
Directors

### **OFFICERS**

David D. Johnson  
Chairman

Michael R. Culbert  
President & CEO

Steven A. Allaire  
Senior Vice President

Greg W. Kist  
Vice President, Investor Relations  
and Marketing

Art A. MacNichol  
Vice President, Finance &  
Chief Financial Officer

Cindy R. Rutherford  
Vice President, Land

Neil H. Samis  
Vice President, Production

Daniel C. Topolinsky  
Vice President, Exploration

Gary R. Bugeaud  
Secretary

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Computershare Trust Company  
of Canada  
Calgary, Alberta

### **STOCK EXCHANGE**

The Toronto Stock Exchange  
trading symbols:  
Trust Units - PGX.UN  
Exchangeable Shares – PGE  
6.75% Debentures – PGX.DB  
6.25% Debentures – PGX.DB.A

### **SOLICITOR**

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Calgary, Alberta

### **AUDITOR**

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Calgary, Alberta

### **CONSULTING ENGINEERS**

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