



## Progress Energy Delivers Strong Production Growth

Rising production and natural gas prices generate strong cash flow growth

	Three Months Ended March 31	
	2008	2007
<b>FINANCIAL HIGHLIGHTS</b>		
<b>Income Statement</b> (\$ thousands, except per unit amounts)		
Petroleum and natural gas revenue	123,075	85,477
Cash flow <sup>1</sup>	68,115	53,080
Per unit – diluted <sup>2</sup>	0.61	0.60
Cash distributions declared	29,365	24,831
Per unit	0.30	0.30
<b>Payout Ratio</b>		
Excluding exchangeable shares	43%	47%
Including exchangeable shares	49%	54%
<b>Balance Sheet</b> (\$ thousands)		
Working capital deficiency	13,653	22,161
Bank debt	311,060	109,598
Convertible debentures	122,818	120,241
Total debt	447,531	252,000
Capital expenditures	41,528	43,601
<b>OPERATIONAL HIGHLIGHTS</b>		
<b>Average Daily Production</b>		
Natural gas ( <i>mcf/d</i> )	127,667	94,351
Crude oil ( <i>bbls/d</i> )	2,186	2,118
Natural gas liquids ( <i>bbls/d</i> )	2,052	1,379
Total daily production ( <i>boe/d</i> )	25,515	19,222
<b>Average Realized Prices</b>		
Natural gas ( <i>\$/mcf</i> )	8.01	7.87
Crude oil ( <i>\$/bbl</i> )	89.86	62.15
Natural gas liquids ( <i>\$/bbl</i> )	65.15	55.08
<b>Wells Drilled, Net</b>	14.1	13.1

(1) Represents cash flow from operating activities before changes in non-cash working capital.

(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.

Progress Energy Trust (“Progress” or “Company”) reported record quarterly production averaging 25,515 barrels of oil equivalent (“boe”) per day, an increase of 33 percent compared to 19,222 boe per day in the first quarter of 2007 and an increase of five percent compared to 24,240 boe per day in the fourth quarter of 2007. First quarter production included 127.7 million cubic feet (“mmcf”) per day of natural gas and 4,238 barrels per day of light and medium oil and natural gas liquids. The growth in production reflects the successful integration of the assets acquired in 2007 and the strength of the Company’s organic drilling opportunities in the Deep Basin and Foothills regions, both of which established record production levels in March of 2008.

“The acquisition of producing assets and exploration acreage in 2007 provides a tremendous platform for future reserves, production and cash flow growth in our traditional operating areas in the Deep Basin and the Foothills,” said Michael Culbert, President and CEO of Progress. “We were of the view that the acquired assets held strong unrecognized upside that could be captured as the gas price environment improved. We are now seeing natural gas prices improve materially and we expect that this will result in future cash flow growth above our current capital investment plans and distributions.”

Progress generated strong financial results with cash flow from operations of \$68.1 million or \$0.61 per unit diluted, for the first quarter of 2008, a two percent increase compared to the first quarter of 2007. Cash distributions declared totaled \$29.4 million resulting in a payout ratio of 43 percent excluding exchangeable shares which do not receive cash distributions, or 49 percent including exchangeable shares.

#### **Successful winter drilling program**

In the first quarter, the Trust maintained its steady drilling pace utilizing up to six rigs in its core areas in the Deep Basin and Foothills. Progress participated in 33 gross wells (14.1 net) with a 100 percent success rate.

In the Deep Basin of northwest Alberta, Progress drilled nine gross wells (7.1 net), all natural gas, in the quarter. The drilling program focused on the Gold Creek, Wapiti and Copton/Lynx properties and yielded results consistent with historical averages for the Deep Basin in the range of one to three mmcf per day average initial production rates.

In the Foothills of northeast British Columbia, 19 gross wells (6.0 net) were drilled targeting the pervasive Triassic Halfway anticlines and the shallower Cretaceous Gething formation. Progress together with its working interest partner, ProEx Energy, drilled seven successful Halfway wells primarily on the Bubbles property and nine successful tests in the Gething formation at Julienne, Gundy, Beg and Town South. At Julienne, a horizontal well was drilled through the two Gething shoreface sands and fracture stimulated utilizing limited entry slick-water fracture technology. Initial flow rates are encouraging.

Progress participated in a 200 square kilometer 3-D seismic program at Buckinghorse which was completed in the first quarter. The processing and interpretation of the data will set-up drilling in the late third and fourth quarter. Progress now owns over 2,400 square kilometers of 3-D data in the Foothills.

Progress also drilled and completed a new gas pool discovery well in the Stoddart area in the Fort St. John area. This discovery has setup offset development drilling for later in the year.

First quarter production in 2008 averaged 25,515 boe per day which is consistent with current production levels. The Company has approximately 1,200 boe per day behind pipe all of which is expected to be tied-in, as weather permits, in the third quarter of 2008. Production during the second quarter will be impacted by the scheduled McMahon gas processing plant turnaround which will result in a reduction of approximately 40 mmcf per day or 30 percent of Progress’ gas production for the 22 day duration. Progress will take advantage of this downtime to conduct facilities maintenance and monitor reservoir pressures of certain pools. Second quarter production is expected to average in the range of 22,000 to 22,500 boe per day.

### **Continuously adding exploration acreage**

Progress continues to actively acquire land through crown land sales and purchases having added approximately 35,000 net undeveloped acres of land during the past two quarters. Essentially all of the new lands acquired were in the Company's Deep Basin and Foothills operating regions. In aggregate, the Company controls approximately 600,000 acres of undeveloped land largely concentrated in the Deep Basin of northwest Alberta and the Foothills of northeast British Columbia. The Trust maintains an active land acquisition and disposition program.

### **Maintaining financial strength**

Capital investment in the first quarter was approximately \$41.5 million including \$30.1 million for drilling and completions, \$8.6 million for facilities construction and \$2.6 million for land and seismic data acquisition. At the end of the first quarter, \$311.1 million was outstanding on total credit facilities of \$375.0 million. Debt to trailing 12-month cash flow was 1.9 times or approximately 1.4 times excluding the convertible debentures.

“With the outlook for natural gas prices improving, we expect to generate cash flow beyond our initial capital investment plans and current distributions,” said Mr. Culbert. “This will create the opportunity to increase our capital expenditures towards the upper end of our original capital range of \$110 to \$125 million while paying down debt and continuing with our consistent and steady stream of distributions.”

### **Strong natural gas prices and low cost structure**

The Trust's average gas price in the quarter was \$8.01 per thousand cubic feet (“mcf”) inclusive of 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.

Operating expenses averaged \$5.89 per boe in the first quarter of 2008 compared to \$6.38 per boe in the first quarter of 2007. Per boe operating costs, transportation and general and administrative expenses, key components of the Trust's cash costs, were essentially unchanged in the first quarter of 2008 compared to the same period in 2007 reflecting the Trust's ability to maintain its low cost structure because of its concentration of assets and continued investment in infrastructure.

Progress has hedged approximately 60 percent of its summer natural gas production, or approximately 70 mmcf per day through to October 31, 2008 at an average net floor price of \$7.75 per mcf, using a series of swaps and calls.

Progress recently entered into hedges for the period from November 1, 2008 to March 31, 2009 on approximately 18 mmcf per day, or 15 percent of its winter production, at an average net floor price of \$9.60 per mcf, again using a series of swaps and calls.

### **Outlook**

Progress expects 2008 production to average approximately 23,500 boe per day which includes the impact of a scheduled 22 day turnaround at the Spectra-owned McMahon gas processing facility. Capital investment for 2008 is forecast at between \$110 and \$125 million and includes the drilling of 45 to 55 net wells.

Natural gas prices have continued to strengthen through the winter as natural gas storage in North America has been drawn down to levels consistent with the 5-year average. Growing domestic supply in the US is offset by low LNG imports, falling Western Canadian production and increasing industrial demand which in aggregate have provided support for the rise in prices. As well, world oil prices have continued to establish record levels.

### **2008 Annual Meeting of Unitholders**

The Annual Meeting of Unitholders is scheduled for Thursday, May 1, 2008 at 3:30 p.m. (Calgary time) at the Calgary Petroleum Club.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis ("MD&A") of financial results is dated April 30, 2008 and is to be read in conjunction with the accompanying unaudited consolidated interim financial statements and related notes for the period ended March 31, 2008 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, 2007. 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 certain industry benchmarks such as operating netback and total debt to cash flow 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 total debt to cash flow 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 total debt to cash flow ratio is calculated by dividing total debt at the end of the period (comprised of the working capital deficit, outstanding bank debt and the debt portion of the Trust's convertible unsecured debentures) by the 12 month trailing cash flow from operating activities before changes in non-cash working capital.

**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 granted stock options and shares to employees and executives of Progress as service providers and has also participated in a long term incentive plan by granting ProEx common shares to employees of Progress, excluding the executives. To facilitate this plan, Progress purchases ProEx common shares and is reimbursed by ProEx for the cost incurred. As at March 31, 2008 173,789 ProEx shares (2007 – nil) had been purchased for future distribution under the plan. The ProEx common shares will be held until the vesting date, two years from the date of grant. 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.

On April 2, 2007, Progress acquired all of the issued and outstanding shares of a private company for \$527.4 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. Progress made a single bid on behalf of ProEx and Progress and the ultimate purchase price was based on the prices that each of Progress and ProEx were willing to pay for the assets that they had selected to acquire. The resale of assets from Progress to ProEx was based on these allocations. The technical services committee reviewed the details of the transaction prior to the purchase and sale agreement being signed. All lands are managed in accordance with the Protocol Arrangement.

On November 30, 2007, Progress and ProEx jointly acquired certain assets in the Foothills region of British Columbia. The total cost of the acquisition of \$17.9 million was split in accordance with working interests currently held in the surrounding area. As a result, Progress acquired a 20 percent interest in the assets (\$3.6 million) and ProEx an 80 percent interest (\$14.3 million).

## **CORPORATE ACQUISITION**

On April 2, 2007, Progress acquired all of the issued and outstanding shares of a private company for \$527.4 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 \$393.0 million was financed by the issuance of 21,000,000 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 \$720.9 million of tax pools which are available to Progress to shelter future taxable income resulting in the recognition of a \$137.2 million future income tax asset.

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 (“US”) 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		
	March 31		
	2008	2007	Change
<b>Daily Production</b>			
Natural gas ( <i>mcf/d</i> )	127,667	94,351	35%
Crude oil ( <i>bbls/d</i> )	2,186	2,118	3%
Natural gas liquids ( <i>bbls/d</i> )	2,052	1,379	49%
Total daily production ( <i>boe/d</i> )	25,515	19,222	33%
Natural gas as a % of total production	83%	82%	

For the three months ended March 31, 2008 (the “Quarter”), Progress’ production averaged 25,515 boe per day consisting of 127,667 mcf per day of natural gas, 2,186 bbls per day of crude oil and 2,052 bbls per day of natural gas liquids. Production during the Quarter was 33 percent higher than the same period in 2007 of 19,222 boe per day due to the Corporate Acquisition and successful drilling results. The Trust’s production portfolio for the Quarter was weighted 83 percent to natural gas, nine percent to crude oil and eight percent to natural gas liquids.

Natural gas production increased 35 percent to 127,667 mcf per day for the Quarter compared to 94,351 mcf per day for the same period in 2007 due to the Corporate Acquisition, as well as successful drilling in the fourth quarter of 2007 and the Quarter in the northeast British Columbia Foothills and the Deep Basin of northwest Alberta regions. Crude oil and natural gas liquids production for the Quarter of 4,238 bbls per day was 21 percent higher than the same period in 2007 of 3,497 bbls per day due to the Corporate Acquisition and successful drilling.

Management anticipates production to average approximately 23,500 boe per day in 2008. The second quarter will be impacted by the scheduled McMahon gas processing plant turnaround (scheduled every three years) which will result in a reduction of approximately 40,000 mcf per day (6,667 boe per day) or 30 percent of Progress’ gas production for a 22 day period. Progress will take advantage of this downtime to conduct facilities maintenance and monitor reservoir pressures of certain pools. Second quarter production is expected to average in the range of 22,000 to 22,500 boe per day.

## Production by Region

(boe/d)	Three Months Ended		
	March 31		
	2008	2007	Change
Foothills	6,868	4,149	66%
Fort St. John Plains	1,907	1,939	(2)%
Deep Basin – Ojay	911	-	
Milo	254	365	(30)%
Total British Columbia	9,940	6,453	54%
Deep Basin	13,021	9,836	32%
Central Alberta	1,708	1,994	(14)%
Other	591	700	16%
Total Alberta	15,320	12,530	22%
Saskatchewan	255	239	7%
Total daily production	25,515	19,222	33%

## Pricing

### Natural Gas Markets

Progress' realized natural gas price for the Quarter was \$8.01 per mcf (2007 - \$7.87 per mcf) compared to the AECO daily index average of \$7.49 per gigajoule (“gj”) and the AECO monthly index average of \$6.76 per gj (2007 - \$7.02 per gj and \$7.07 per gj, respectively). Progress markets its natural gas at a mix of daily and monthly pricing.

The first three months of 2008 turned out to be amongst the coldest of the past 5 to 10 years in many regions of North America which created significant natural gas demand for heating and power generation. The result was strong withdrawals from natural gas storage facilities which at one point set a new record high one week draw-down. US natural gas storage began the winter heating season at a record high of 3.545 trillion cubic feet, but was depleted down to approximately equal to the five year average exit level of 1.248 trillion cubic feet. North American natural gas prices steadily increased through the Quarter in response to the high demand and increasing support from crude oil as it increased in value.

The outlook for natural gas prices remains strong given the forecast growth in North American demand, smaller than expected 2008 imports of liquefied natural gas and relatively flat 2008 production profile for North America.

### Oil Markets

Progress' realized prices for its liquids streams for the Quarter were \$89.86 per bbl (2007 - \$62.15 per bbl) for crude oil and \$65.15 per bbl (2007 - \$55.08 per bbl) for natural gas liquids.

Crude oil prices continued to increase through the Quarter as low world crude inventories were further affected by numerous global supply-side factors and increased demand from the growing economies in China and India. A new record high West Texas Intermediate (“WTI”) crude oil price of US\$119.90/bbl was set on April 28, 2008. A portion of the rising prices can be attributed to a weakening American dollar from the sub-prime mortgage situation.

Global oil demand is forecast to increase into the future based on demand from developing countries which compete for oil and refined products. The supply side is the limiting factor as OPEC continues to maintain current production levels and stating that adequate supply is already available. Non-OPEC producing countries continue

to produce at capacity but are often limited by geo-political events and shortages of oilfield equipment and personnel. Progress' crude oil production consists of predominantly light crude and does not include any heavy oil.

## Commodity Prices

	Three Months Ended		
	March 31		
	2008	2007	Change
<b>Average Benchmark Prices</b>			
Natural gas – AECO (daily) (\$/gj)	7.49	7.02	7%
Natural gas – AECO (monthly) (\$/gj)	6.76	7.07	(4)%
Natural gas – Station #2 (daily) (\$/gj)	7.43	6.75	10%
Crude oil – WTI (US\$/bbl)	98.02	57.83	69%
Crude oil – Edmonton par price (Cdn\$/bbl)	97.22	67.14	45%
Exchange rate (US\$/Cdn\$)	1.0040	1.1716	(14)%
<b>Average Realized Prices</b>			
Natural gas (\$/mcf)	8.01	7.87	2%
Crude oil (\$/bbl)	89.86	62.15	45%
Natural gas liquids (\$/bbl)	65.15	55.08	18%

## Price Risk Management

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 nil (2007 - \$7.0 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 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.

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 was amortized through other comprehensive income and unrealized gain or loss on the statement of earnings over the term of the contracts. For the three months ended March 31, 2007, \$6.3 million, net of tax, was amortized through other comprehensive income with a corresponding pre-tax unrealized gain of \$9.4 million and a charge to future income tax expense of \$3.1 million.

At March 31, 2008 the fair value of the natural gas financial contracts was a liability of \$24.7 million (2007 - \$2.0 million). The decrease in value for the Quarter of \$24.7 million (2007 - \$17.6 million) was due to the increase in forward natural gas prices and has been recognized as an unrealized loss on financial instruments on the statement of earnings.

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 annual 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 10 in the unaudited interim consolidated financial statements.

	<b>Contract Natural Gas Volumes</b> ( <b>'000 gj/d</b> )	<b>% of Estimated Production</b>
Second quarter of 2008	80.0	50
Third quarter of 2008	80.0	50
Fourth quarter of 2008	58.0	36
First quarter of 2009	20.0	13

## Revenue

For the Quarter, petroleum and natural gas revenue increased 44 percent to \$123.1 million from \$85.5 million for the same period in 2007 due to higher natural gas production as a result of the Corporate Acquisition and successful drilling, as well as higher commodity prices. Production revenue for the Quarter consisted of \$93.0 million from natural gas sales, \$17.9 million from crude oil sales and \$12.2 million from the sale of natural gas liquids.

<i>(\$ thousands)</i>	<b>Three Months Ended</b> <b>March 31</b>		
	<b>2008</b>	<b>2007</b>	<b>Change</b>
Natural gas sales	93,036	66,794	39%
Crude oil sales	17,875	11,847	51%
Natural gas liquids sales	12,164	6,836	78%
Petroleum and natural gas revenue	123,075	85,477	44%

<i>(\$ thousands)</i>	<b>Natural Gas</b>	<b>Crude Oil &amp; NGLs</b>	<b>Total</b>
Three months ended March 31, 2007 petroleum and natural gas revenue	66,794	18,683	85,477
Price variance	2,657	7,397	10,054
Production variance	23,585	3,959	27,544
Three months ended March 31, 2008 petroleum and natural gas revenue	93,036	30,039	123,075

## Royalties

For the Quarter, royalties increased 36 percent to \$27.4 million from \$20.2 million for the same period in 2007 due to higher revenues, as a result of higher production and commodity prices. Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. The Trust's average royalty rate for the Quarter was 22.2 percent compared to 23.6 percent in 2007. 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.

Management anticipates, based on current commodity prices and royalty regimes, the average royalty rate for 2008 will be approximately 25.0 percent of petroleum and natural gas revenue.

On October 25, 2007 the Alberta government announced the New Royalty Framework (“framework”), which is proposed to take effect on January 1, 2009. Progress has reviewed the information currently provided by the government and believes that the changes to Alberta royalties may increase Progress’ Alberta royalty rate from 27 percent to 31.5 to 36.0 percent based on current production and a realized natural gas price of between \$7.00 to \$9.00 per gj. Using the same production and price assumptions, Progress’ royalty rate is estimated to increase from 25 percent to between 27.5 to 29.0 percent.

The framework proposes a new simplified royalty formula for natural gas that will operate on a sliding scale determined by commodity prices, well productivity and drilling depth. Progress’ Deep Basin well depths range between 2,300 to 2,700 meters which will be eligible for the new measured depth drilling formula. Progress is attracted to the Deep Basin region because of the quality and pedigree of the region with its higher than average well productivity and multi zone drilling targets. The new royalty formula will increase Progress’ royalties payable but is not expected to materially impact the economics of development drilling in the Deep Basin. It is expected to have a negative impact on grassroots exploration drilling in Alberta. Progress, however, does have the opportunity to shift its capital investment program into British Columbia. In the Quarter, 61 percent of Progress’ revenue was from the province of Alberta.

#### **Operating Expenses**

Operating expenses during the Quarter increased 24 percent to \$13.7 million from \$11.0 million for the same period in 2007. The increase is the result of higher production in 2008 compared to the same period in 2007, reflecting the impact of the Corporate Acquisition and successful drilling. On a boe basis, operating expenses for the Quarter decreased eight percent to \$5.89 from \$6.38 in the same period in 2007 as a result of efficiencies obtained on the assets acquired in the Corporate Acquisition.

Management anticipates operating expense for the remainder of 2008 to average approximately \$6.50 per boe.

#### **Transportation Expenses**

Transportation expenses for the Quarter increased 67 percent to \$4.6 million compared to \$2.8 million for the same period in 2007. The increase is due to higher production in the Quarter compared to the same period in 2007. On a boe basis, transportation expenses during the Quarter increased 24 percent to \$1.99 compared to \$1.60 for the same period in 2007. The increase for the Quarter is due to higher transportation and treatment tolls associated with the Corporate Acquisition including higher treatment tolls associated with the Slave Point production at the Bubbles property. 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 months ended March 31, 2008 compared to the same period in 2007:

	Three Months Ended March 31	
	2008	2007
<b>Natural Gas Properties (\$/mcf)</b>		
Sales price	8.33	8.00
Realized gain on financial instruments	-	0.77
Royalties	(1.89)	(1.91)
Operating expenses	(0.87)	(0.97)
Transportation expenses	(0.33)	(0.26)
Operating netback – natural gas properties	5.24	5.63
<b>Oil Properties (\$/bbl)</b>		
Sales Price	80.74	59.23
Royalties	(15.80)	(13.04)
Operating expenses	(12.22)	(10.57)
Transportation expenses	(1.92)	(1.99)
Operating netback – oil properties	50.80	33.63
<b>All Properties (\$/boe)</b>		
Sales Price	53.01	49.41
Realized gain on financial instruments	-	4.04
Royalties	(11.80)	(11.67)
Operating expenses	(5.89)	(6.38)
Transportation expenses	(1.99)	(1.60)
Operating netback – all properties	33.33	33.80

## General and Administrative Expenses

For the Quarter, general and administrative expenses net of overhead recoveries, (“G&A”) increased 61 percent to \$3.2 million (\$1.36 per boe) compared to \$2.0 million (\$1.14 per boe) for the same period in 2007. The increase in G&A for the Quarter 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 \$2.3 million (2007 - \$1.4 million).

The Trust capitalized approximately \$0.3 million of G&A during the Quarter (2007 - \$0.2 million). The majority of these costs represent geological and geophysical salaries.

Management anticipates G&A expenses to average in the range of \$1.00 to \$1.10 per boe in 2008.

## Unit Based Compensation Expenses

### *Performance Units*

The Progress performance unit plan (the “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, except for performance units granted to the Trust’s executives effective July 2, 2007 which can range from 0 to 3 times. 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*

Awards granted under the LTI component of the Plan will vest over three years with 40 percent vesting on the second anniversary of the date of grant and 60 percent vesting on the third anniversary of the date of grant. An additional 15 percent grant will be paid if the holder holds the units they receive on the second anniversary date for one additional year. As at March 31, 2008 194,433 units are outstanding under the LTI component at an average value of approximately \$14.12 per unit, resulting in a total compensation cost of \$2.7 million of which \$2.4 million will be recognized through unit based compensation expense and \$0.3 million will be capitalized 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 25 percent to \$1.9 million (\$0.80 per boe) compared to \$1.5 million (\$0.86 per boe) for the same period in 2007. The increase is due to the performance units granted effective July 2, 2007, the units granted May 3, 2007 under the LTI component, as well as an increase in the performance factor in the second quarter of 2007 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.

As at March 31, 2008 the total outstanding performance units and units under the LTI component amounted to two percent of the total outstanding trust units and units which may be issued on the exchange of exchangeable shares using performance factors of 1.5, 1.5 and 1.0 for the performance units vesting in 2008, 2009 and 2010, respectively.

Performance Units	Three Months Ended	
	March 31	
	2008	2007
Balance, beginning of period	1,388,200	1,300,717
Granted	2,400	11,350
Settled	-	-
Forfeited	(57,100)	(4,750)
Balance, end of period	1,333,500	1,307,317

  

Vesting Date	2008	2007
July 2, 2008 <sup>1</sup>	472,800	381,367
July 2, 2009 <sup>1</sup>	379,050	510,700
July 2, 2010	481,650	415,250
Total	1,333,500	1,307,317

(1) Using the current anticipated performance factor of 1.5 times, 709,200 trust units and 568,575 trust units, respectively, will be issued on the vesting of the 2008 and 2009 performance units.

Units under LTI Component	Three Months Ended March 31	
	2008	2007
Balance, beginning of period	189,485	-
Granted	9,779	-
Forfeited	(4,831)	-
Balance, end of period	194,433	-
<b>Vesting Date</b>		
May 1, 2009	77,773	-
May 1, 2010	116,660	-
Total <sup>1</sup>	194,433	-

(1) If the units vesting May 1, 2009 are held by the LTI holder until May 1, 2010 an additional 29,165 units will be issued by the Trust.

### Interest and Financing Expenses

Interest and financing expenses during the Quarter increased 67 percent to \$6.3 million compared to \$3.8 million for the same period in 2007. The increase is due to the increase in bank debt to fund the Corporate Acquisition and capital expenditures during the last half of 2007 and for the Quarter.

(\$ thousands)	Three Months Ended March 31	
	2008	2007
Interest on bank debt	3,588	1,060
Interest on Debentures	2,097	2,090
Amortization of Debenture issue costs	279	279
Accretion on debt portion of Debentures <sup>1</sup>	365	357
Total interest and financing expense	6,329	3,786

(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 51 percent to \$39.1 million compared to \$25.8 million for the same period in 2007. The increase was due to the Corporate Acquisition. On a boe basis, DD&A for the Quarter was \$16.82 compared to \$14.91 for the same period in 2007.

### Taxes

On June 12, 2007 the federal government’s bill regarding the taxation of distributions from trusts beginning January 1, 2011 passed the third reading making it substantively enacted in accordance with Canadian GAAP. As a result, 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 \$6.9 million compared to a recovery of \$2.0 million in same period in 2007. The higher recovery in the Quarter is due to lower earnings as a result of the higher unrealized loss on financial instruments as compared to the same period in 2007.

As a result of the Corporate Acquisition, Progress recognized a \$137.2 million future income tax asset for the difference between the \$720.9 million in tax pools acquired over the value assigned to the assets. Progress' estimated tax pool balances as at March 31, 2008 total approximately \$1.2 billion.

### 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.

<i>(\$ thousands, except unit amounts)</i>	Three months ended March 31			
	2008		2007	
	Number	Amount	Number	Amount
<b>Exchangeable Shares</b>				
Balance, beginning of period	9,173,083	126,384	9,642,540	122,592
Exchanged for trust units	(364,897)	(5,036)	(256,866)	(3,266)
Non-controlling interest expense		1,094		2,741
Balance, end of period	<b>8,808,186</b>	<b>122,442</b>	9,385,674	122,067

The charge to net earnings of \$1.1 million for 2008 and \$2.7 million for 2007 represents the net earnings attributable to the exchangeable shares over the period.

### Net Earnings and Comprehensive Income

Net earnings for the Quarter decreased 51 percent to \$8.0 million compared to \$16.4 million for the same period in 2007. The decrease is due to the unrealized loss on financial instruments of \$24.7 million for the three months ended March 31, 2008 as a result of increasing forward natural gas prices since the time the hedges were entered into. Basic and diluted net earnings for the Quarter were \$0.08 per unit compared to \$0.22 per unit basic and diluted for the same period in 2007.

Other comprehensive income for the three months ended March 31, 2008 was nil compared to a loss of \$6.3 million for the same period in 2007. The prior period amount relates 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). Total comprehensive income for the three months ended March 31, 2008 was \$8.0 million compared to \$10.1 million for the same period in 2007.

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

	Three Months Ended							
	Mar 31 2008	Dec 31 2007	Sept 30 2007	June 30 2007	Mar 31 2007	Dec 31 2006	Sept 30 2006	June 30 2006
<i>(\$ thousands, except per unit amounts)</i>								
Petroleum and natural gas revenue	123,075	99,592	88,480	108,503	85,477	75,182	72,328	71,439
Net earnings	8,034	9,922	11,909	31,947	16,425	21,538	20,252	28,425
Per unit basic	0.08	0.10	0.12	0.33	0.22	0.29	0.27	0.38
Per unit diluted	0.08	0.10	0.12	0.33	0.22	0.28	0.27	0.38

- (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 for the third and fourth quarters of 2006 and the first quarter of 2007 increased as a result of increased production from drilling, as well as, higher 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 increased in the second quarter of 2007 due to the Corporate Acquisition and decreased for the third and fourth quarter due to lower natural gas prices and slightly lower production. For the Quarter, revenue and net earnings increased as a result of higher production and commodity prices. Net earnings for the Quarter includes an unrealized loss on financial instruments of \$24.7 million due to strengthening future natural gas prices as compared to when the hedges were entered into.

### Distributions

Management monitors the Trust's distribution payout policy with respect to forecasted net cash flow, debt levels and capital expenditures. As a crude oil and natural gas trust, Progress has a declining asset base and therefore relies on ongoing development activities and acquisitions to replace production and add additional reserves. Progress' future crude oil and natural gas production and reserves are highly dependent on its success in exploiting its asset base and acquiring additional reserves. The success of these activities, along with natural gas prices are the main factors influencing the sustainability of the Trust's distributions.

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. Distributions for the Quarter were \$29.4 million compared to \$24.8 million for the same period in 2007.

For the three months ended March 31, 2008, cash flow from operating activities (after changes in non-cash working capital) of \$62.2 million, exceeded cash distributions of \$29.4 million. This was consistent with the three months ended March 31, 2007 in which cash flow from operating activities (after changes in non-cash working capital) of \$48.7 million exceeded cash distributions of \$24.8 million.

For the three months ended March 31, 2008, cash distributions of \$29.4 million exceeded net earnings of \$8.0 million. This is consistent with the three months ended March 31, 2007 in which cash distributions of \$24.8 million exceeded net earnings of \$16.4 million. Net earnings includes significant non-cash charges which for the Quarter were \$59.9 million. Included in that amount was an unrealized loss on financial instruments for natural gas hedging contracts. The loss in value reflects the strengthening of future natural gas prices which may benefit the Trust in the future. Net earnings also include fluctuations in future income taxes due to changes in tax rates and tax rules. In addition, other non-cash charges such as DD&A are not a good proxy for the cost of maintaining our productive capacity given the natural declines associated with crude oil and natural gas assets. In these instances, where distributions exceed net earnings, a portion of the cash distribution paid to unitholders may represent an economic return of the unitholders' capital.

For the Quarter, cash distributions and capital spending combined totaled \$70.9 million, which was higher than the cash flow from operating activities (after changes in non-cash working capital) of \$62.2 million. For the three months ended March 31, 2007 cash distributions and capital spending exceeded the cash flow from operating activities (after changes in non-cash working capital) by \$19.7 million. Progress relies on access to

capital markets to the extent cash distributions and net capital expenditures exceed cash flow from operations (after changes in non-cash working capital). Over the long term Progress expects to fund distributions and capital expenditures with its cash flow, however, it will continue to fund acquisitions and growth through additional debt and equity. In the crude oil and natural gas sector, because of the nature of reserve reporting, the natural reservoir declines and the risks involved in capital investment, it is not possible to distinguish between capital spent on maintaining productive capacity and capital spent on growth opportunities. Therefore, maintenance capital is not disclosed separately from development capital spending.

On October 25, 2007 the Alberta government announced the New Royalty Framework (“framework”), which is proposed to take effect on January 1, 2009. Progress has reviewed the information currently provided by the government and believes that the changes to Alberta royalties may increase Progress’ Alberta royalty rate from 27 percent to 31.5 to 36.0 percent based on current production and a realized natural gas price of between \$7.00 to \$9.00 per gj. Using the same production and price assumptions, Progress’ royalty rate is estimated to increase from 25 percent to between 27.5 to 29.0 percent.

Although Progress intends to continue to make cash distributions to unitholders, these distributions are not guaranteed.

### Capital Expenditures

During the Quarter, the Trust invested \$41.5 million in capital expenditures compared to \$43.6 million in the same period in 2007.

<i>(\$ thousands)</i>	<b>Three Months Ended</b>	
	<b>2008</b>	<b>March 31 2007</b>
Land acquisitions and retention	761	2,875
Geological and geophysical	1,795	1,934
Drilling and completions	30,119	27,819
Equipping and facilities	8,634	10,714
Corporate assets	26	42
Exploration and development capital	<b>41,335</b>	43,384
Net property acquisitions (dispositions)	<b>193</b>	217
Total capital expenditures	<b>41,528</b>	43,601

During the Quarter, Progress drilled 33 gross wells (14.1 net) with a 100 percent success rate, all natural gas wells. The program included 9 gross wells (7.1 net) drilled in the Deep Basin region of northwest Alberta, 19 gross wells (6.0 net) in the Foothills of northeast British Columbia, one gross well (0.8 net) in the Fort St. John Plains region and 4 gross wells (0.2 net) in the Central Alberta region.

The Trust’s capital spending for the remainder of 2008 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. Progress’ capital investment program is expected to be between \$110 and \$125 million for 2008 and given the strength of natural gas prices is now targeting the upper end of this range.

## Liquidity and Capital Resources

<i>(\$ thousands, except per unit amounts)</i>	<b>March 31 2008</b>	<b>December 31 2007</b>
Working capital deficiency	13,653	25,459
Bank debt	311,060	296,590
Convertible debentures	122,818	122,174
Total debt	447,531	444,223
Units outstanding and issuable for exchangeable shares (thousands)	111,126	110,781
Market price per unit, end of period	12.80	10.85
Market value of trust units and exchangeable shares	1,422,413	1,201,974
Cash flow <sup>1</sup> (12 month trailing)	229,325	214,290
Total debt to cash flow ratio	1.95	2.07

(1) Represents cash flow from operating activities before changes in non-cash working capital.

At March 31, 2008 the Trust had \$311.1 million outstanding on its credit facilities, \$122.8 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 \$13.7 million, totaling \$447.5 million of total debt.

At March 31, 2008 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 Progress Energy Ltd. and by a guarantee and subordination provided by Progress Energy Ltd. in respect of the Trust’s obligations. The \$375 million borrowing base is subject to semi-annual review by the banks.

At March 31, 2008 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 March 31, 2008 the debt portion was \$122.8 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 marginally from \$296.6 million as at December 31, 2007 to \$311.1 million as at March 31, 2008. The working capital deficiency of \$13.7 million at March 31, 2008 is lower than the December 31, 2007 deficiency of \$25.6 million due to a higher accounts receivable balance as a result of higher revenues.

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 \$393.0 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 April 29, 2008 were 98,015,572 trust units, 8,808,186 exchangeable shares convertible into 13,213,688 trust units and \$130.7 million of Debentures convertible into 7,561,287 trust units.

The Trust's investing activities in the Quarter primarily consisted of expenditures on its capital program. Management anticipates that the Trust will continue to have adequate liquidity to fund future working capital and forecasted capital expenditures 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 as distributions are not guaranteed.

#### **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 through the drill bit at industry leading efficiencies and supplemented by strategic acquisitions while maintaining our financial strength. Our sustainability strategy has been strengthened by expanding our development inventory while providing an appropriate exposure to exploration upside within our existing core regions.

We expect 2008 production to average approximately 23,500 boe per day which includes the impact of a scheduled 22 day turnaround at the Spectra-owned McMahon gas processing facility. Capital investment for 2008 is forecast at between \$110 and \$125 million and includes the drilling of 45 to 55 net wells.

Natural gas prices have continued to strengthen through the winter as natural gas storage in North America has been drawn down to levels consistent with the 5-year average. Growing domestic supply in the US is offset by low LNG imports, falling Western Canadian production and increasing industrial demand which in aggregate have provided support for the rise in prices. As well, world oil prices have continued to establish record levels.

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 2011 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  
April 30, 2008

# PROGRESS ENERGY TRUST

## CONSOLIDATED BALANCE SHEETS

<i>(\$ thousands)</i>	<b>March 31 2008</b>	<b>December 31 2007</b>
	<i>(Unaudited)</i>	
<b>ASSETS</b>		
Current		
Cash and short-term investments	-	-
Accounts receivable	54,455	47,505
Prepaid expenses and deposits	13,657	9,148
Future income taxes	7,360	-
	<b>75,472</b>	<b>56,653</b>
Property, plant and equipment <i>(Note 3)</i>	1,060,802	1,055,054
Future income taxes <i>(Note 2)</i>	35,912	36,716
Goodwill	414,655	414,655
	<b>1,586,841</b>	<b>1,563,078</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	66,716	67,127
Cash distributions payable	9,802	9,748
Current income taxes payable	5,247	5,237
Fair value of financial instruments <i>(Note 10)</i>	24,692	-
	<b>106,457</b>	<b>82,112</b>
Bank debt <i>(Note 4)</i>	311,060	296,590
Convertible debentures <i>(Note 5)</i>	122,818	122,174
Asset retirement obligations <i>(Note 6)</i>	36,858	35,012
	<b>577,193</b>	<b>535,888</b>
<b>NON-CONTROLLING INTEREST</b>		
Exchangeable shares <i>(Note 7)</i>	122,442	126,384
<b>UNITHOLDERS' EQUITY</b>		
Unitholders' capital <i>(Note 8)</i>	996,680	990,946
Convertible debentures <i>(Note 5)</i>	7,702	7,702
Contributed surplus <i>(Note 8)</i>	16,465	14,468
Deficit	(133,641)	(112,310)
	<b>887,206</b>	<b>900,806</b>
	<b>1,586,841</b>	<b>1,563,078</b>

*See accompanying notes to the consolidated financial statements*

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

	Three Months Ended March 31	
<i>(\$ thousands, except per unit amounts)</i>	2008	2007
<b>REVENUE</b>		
Petroleum and natural gas	123,075	85,477
Royalties	(27,404)	(20,189)
	95,671	65,288
Realized gain on financial instruments <i>(Note 10)</i>	-	6,995
Unrealized loss on financial instruments <i>(Note 10)</i>	(24,692)	(8,232)
	70,979	64,051
<b>EXPENSES</b>		
Operating	13,666	11,041
Transportation	4,616	2,770
General and administrative	3,163	1,967
Unit based compensation <i>(Note 8)</i>	1,855	1,486
Interest and financing	6,329	3,786
Depletion, depreciation and accretion	39,062	25,793
	68,691	46,843
Earnings before taxes and non-controlling interest	2,288	17,208
<b>TAXES</b>		
Capital taxes	10	45
Future income taxes	(6,850)	(2,003)
	(6,840)	(1,958)
Net earnings before non-controlling interest	9,128	19,166
Non-controlling interest – exchangeable shares <i>(Note 7)</i>	(1,094)	(2,741)
<b>NET EARNINGS</b>	<b>8,034</b>	<b>16,425</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Amortization of fair value of financial instruments <i>(Note 10)</i>	-	(6,334)
<b>COMPREHENSIVE INCOME</b>	<b>8,034</b>	<b>10,091</b>
Deficit, beginning of period	(112,310)	(68,371)
Distributions	(29,365)	(24,831)
Deficit, end of period	(133,641)	(76,777)
<b>NET EARNINGS PER UNIT</b> <i>(Note 8)</i>		
Basic	\$0.08	\$0.22
Diluted	\$0.08	\$0.22

*See accompanying notes to the consolidated financial statements*

**PROGRESS ENERGY TRUST**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Unaudited)*

	Three Months Ended March 31	
<i>(\$ thousands)</i>	2008	2007
<b>OPERATING ACTIVITIES</b>		
Net earnings	8,034	16,425
Unrealized loss on financial instruments <i>(Note 10)</i>	24,692	8,232
Depletion, depreciation and accretion	39,062	25,793
Non-controlling interest – exchangeable shares <i>(Note 7)</i>	1,094	2,741
Convertible debentures accretion <i>(Note 5)</i>	365	357
Amortization of convertible debenture issue costs <i>(Note 5)</i>	279	279
Amortization of commodity sales contract	(114)	(131)
Unit based compensation expense <i>(Note 8)</i>	1,855	1,486
Asset retirement expenditures <i>(Note 6)</i>	(302)	(99)
Future income taxes	(6,850)	(2,003)
	<b>68,115</b>	<b>53,080</b>
Changes in non-cash working capital <i>(Note 9)</i>	(5,918)	(4,340)
	<b>62,197</b>	<b>48,740</b>
<b>FINANCING ACTIVITIES</b>		
Increase in bank debt	14,470	34,598
Cash distributions	(29,311)	(25,715)
Changes in non-cash working capital <i>(Note 9)</i>	-	850
	<b>(14,841)</b>	<b>9,733</b>
<b>INVESTING ACTIVITIES</b>		
Deferred Acquisition <i>(Note 2)</i>	-	(27,448)
Capital expenditures	(41,528)	(43,601)
Changes in non-cash working capital <i>(Note 9)</i>	(5,828)	4,311
	<b>(47,356)</b>	<b>(66,738)</b>
<b>CHANGE IN CASH AND SHORT-TERM INVESTMENTS</b>	<b>-</b>	<b>(8,265)</b>
Cash and short-term investments, beginning of period	-	8,265
<b>CASH AND SHORT-TERM INVESTMENTS, END OF PERIOD</b>	<b>-</b>	<b>-</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 7) 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. 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 months ended March 31, 2008 was \$2.3 million (2007 – \$1.2 million).

ProEx has granted stock options and shares to employees and executives of Progress as service providers and has also participated in a new long term incentive plan by granting ProEx common shares to employees of Progress, excluding the executives. To facilitate this plan, Progress purchases ProEx common shares and is reimbursed by ProEx for the cost incurred. As at March 31, 2008 173,789 ProEx shares (2007 – nil) had been purchased for future distribution under the plan. The ProEx common shares will be held until the vesting date of May 3, 2009 and any forfeited shares will revert back to ProEx.

As at March 31, 2008, accounts payable included \$0.8 million (2007 – \$2.6 million) payable to ProEx which includes standard joint venture amounts including revenue. These amounts were paid subsequent to March 31, 2008.

On April 2, 2007, Progress acquired all of the issued and outstanding shares of a private company for \$527.4 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. Progress made a single bid on behalf of ProEx and Progress and the ultimate purchase price was based on the prices that each of Progress

and ProEx were willing to pay for the assets that they had selected to acquire. The resale of assets from Progress to ProEx was based on these allocations. The technical services committee reviewed the details of the transaction prior to the purchase and sale agreement being signed. All lands are managed in accordance with the Protocol Arrangement.

On November 30, 2007, Progress and ProEx jointly acquired certain assets in the Foothills region of British Columbia. The total cost of the acquisition of \$17.9 million was split in accordance with working interests currently held in the surrounding area. As a result, Progress acquired a 20 percent interest in the assets (\$3.6 million) and ProEx an 80 percent interest (\$14.3 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, 2007. 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, 2007.

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. CORPORATE ACQUISITION

At March 31, 2007 Progress had incurred \$27.4 million in costs related to the following acquisition which was completed subsequent to the three months ended March 31, 2007:

On April 2, 2007 Progress acquired all of the issued and outstanding shares of a private company for \$527.4 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 \$393.0 million was financed by the issuance of 21,000,000 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 \$720.9 million of tax pools which are available to Progress to shelter future taxable income. As a result a \$137.2 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	3,965
Bank debt	(9,123)
Property, plant and equipment	266,625
Future income taxes	137,203
Asset retirement obligations	(5,638)
<b>Total net assets acquired</b>	<b>393,032</b>
<b>Consideration</b>	
Cash	523,166
Proceeds of asset disposition	(134,400)
Acquisition costs	4,266
<b>Total purchase price</b>	<b>393,032</b>

## 3. PROPERTY, PLANT AND EQUIPMENT

	<b>March 31 2008</b>	<b>December 31 2007</b>
Property, plant and equipment	1,490,329	1,447,181
Conversions of exchangeable shares	48,402	47,461
Accumulated depletion and depreciation	(477,929)	(439,588)
<b>Property, plant and equipment, net</b>	<b>1,060,802</b>	<b>1,055,054</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 \$0.9 million was made to property, plant and equipment for the three months ended March 31, 2008 (2007 - \$0.8 million).

The calculation of 2008 depletion and depreciation expense included an estimated \$65.0 million for future development costs associated with proved undeveloped reserves and excluded \$26.8 million for the estimated future net realizable value of production equipment and facilities and \$91.6 million for the estimated value of unproven properties. Depletion and depreciation expense for the three months ended March 31, 2008 was \$38.3 million (2007 - \$25.3 million).

Included in the Trust's property, plant and equipment balance is \$21.6 million, net of accumulated depletion, related to asset retirement obligations (\$33.3 million before accumulated depletion) (Refer to note 6).

The Trust capitalized approximately \$0.5 million of geological and geophysical compensation costs associated with the exploration and development of capital assets during the three months ended March 31, 2008 (2007 - \$0.6 million).

#### 4. BANK DEBT

	<b>March 31 2008</b>	<b>December 31 2007</b>
Direct advances	21,060	1,590
Banker's acceptances	290,000	295,000
<b>Total bank debt</b>	<b>311,060</b>	<b>296,590</b>

At March 31, 2008 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 three months ended March 31, 2008 was 4.8 percent (2007 – 5.1 percent). The credit facilities are secured by a \$1 billion fixed and floating charge debenture on the assets of Progress Energy Ltd. and by a guarantee and subordination provided by Progress Energy Ltd. in respect of the Trust's obligations. The \$375 million borrowing base is subject to semi-annual review by the banks.

#### 5. 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.

Debentures	Three Months Ended March 31					
	2008			2007		
	6.75%	6.25%	Total	6.75%	6.25%	Total
Principal, beginning of period	55,727	75,000	130,727	55,727	75,000	130,727
Converted to Trust Units	-	-	-	-	-	-
Principal, end of period	55,727	75,000	130,727	55,727	75,000	130,727
Debt portion, beginning of period	53,274	68,900	122,174	52,300	67,305	119,605
Accretion	127	238	365	125	232	357
Amortization of issue costs	117	162	279	117	162	279
Converted to Trust Units <sup>1</sup>	-	-	-	-	-	-
Debt portion, end of period	53,518	69,300	122,818	52,542	67,699	120,241
Equity portion, beginning of period	2,756	4,946	7,702	2,756	4,946	7,702
Converted to Trust Units	-	-	-	-	-	-
Equity portion, end of period	2,756	4,946	7,702	2,756	4,946	7,702

(1) Net of unamortized issue costs.

Total interest charged to earnings for the three months ended March 31, 2008 was \$2.7 million (2007 - \$2.7 million) which includes \$0.4 million of debenture accretion (2007 - \$0.4 million) and \$0.3 million of amortized issue costs (2007 - \$0.3 million).

## 6. 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 \$78.6 million which will be incurred over the next 40 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:

	Three Months Ended March 31	
	2008	2007
Balance, beginning of period	35,012	24,148
Liabilities incurred	1,428	514
Liabilities settled	(302)	(99)
Accretion expense	720	493
Balance, end of period	36,858	25,056

## 7. 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, as well as, 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.

	Three months ended March 31			
	2008		2007	
	Number	Amount	Number	Amount
<b>Exchangeable Shares</b>				
Balance, beginning of period	9,173,083	126,384	9,642,540	122,592
Exchanged for trust units	(364,897)	(5,036)	(256,866)	(3,266)
Non-controlling interest expense		1,094		2,741
Balance, end of period	<b>8,808,186</b>	<b>122,442</b>	9,385,674	122,067

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.

## 8. 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

	Three months ended March 31			
	2008		2007	
	Number	Amount	Number	Amount
<b>Trust Units</b>				
Balance, beginning of period	97,478,808	990,946	75,457,291	739,998
Exchangeable shares converted	536,764	5,734	341,655	3,843
Balance, end of period	98,015,572	996,680	75,798,946	743,841

### 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 March 31	
	2008	2007
Weighted average trust units - basic	97,764,390	75,683,891
Trust units issuable on conversion of exchangeable shares <sup>(1)</sup>	13,363,813	12,781,715
Performance units	1,015,580	573,777
Weighted average trust units - diluted	112,143,783	89,039,383

(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 \$1.1 million for the three months ended March 31, 2008 (2007 - \$2.7 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 months ended March 31, 2008.

## **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 five percent of the aggregate number of issued and outstanding units of the Trust and 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 except for performance units granted to the Trust’s executives effective July 2, 2007 which can range from 0 to 3 times. 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 2007, 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 percent vesting on the second anniversary of the date of grant and 60 percent vesting on the third anniversary of the date of grant. An additional 15 percent grant will be paid if the holder holds the units received on the second anniversary date for one additional year. As at March 31, 2008, 194,433 units are outstanding under the LTI component at an average value of \$14.12 per unit, resulting in a total compensation cost of \$2.7 million of which \$2.4 million will be recognized through unit based compensation expense and \$0.3 million will be capitalized over the vesting period.

As at March 31, 2008 there are 472,800 performance units outstanding that were granted in 2005. During 2007, 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 is approximately \$10.7 million of which \$9.4 million will be amortized through unit based compensation expense and \$1.3 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 March 31, 2008, there are 379,050 performance units outstanding that were granted in 2006. During 2007 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 is approximately \$8.6 million. Over the three year vesting period, approximately \$7.5 million will be amortized through unit based compensation expense and \$1.1 million will be capitalized with a corresponding increase to contributed surplus. Actual performance factors will not be determined until the end of the performance period.

As at March 31, 2008, there are 481,650 performance units outstanding that were granted in 2007. The fair value of the performance units using a performance factor of 1.0 is approximately \$6.2 million. Over the three year vesting period, approximately \$5.5 million will be amortized through unit based compensation expense and \$0.7 million will be capitalized with a corresponding increase to contributed surplus. Actual performance factors will not be determined until the end of the performance period.

For the three months ended March 31, 2008 \$1.9 million was charged to unit based compensation expense (2007 – \$1.5 million) and \$0.1 million was capitalized (2007 – \$0.3 million) relating to the total performance units and units under the LTI component outstanding.

<b>Performance Units</b>	<b>Three Months Ended March 31</b>	
	<b>2008</b>	<b>2007</b>
Balance, beginning of period	1,388,200	1,300,717
Granted	2,400	11,350
Settled	-	-
Forfeited	(57,100)	(4,750)
Balance, end of period	1,333,500	1,307,317
	<b>As at March 31</b>	
		<b>2008</b>
<b>Vesting Date</b>		
July 2, 2008 <sup>1</sup>		472,800
July 2, 2009 <sup>1</sup>		379,050
July 2, 2010		481,650
Total		1,333,500

(1) Using the current anticipated performance factor of 1.5 times, 709,200 units and 568,575 units, respectively, will be issued on the vesting of the 2008 and 2009 performance units.

<b>Units under LTI Component</b>	<b>Three Months Ended March 31</b>	
	<b>2008</b>	<b>2007</b>
Balance, beginning of period	189,485	-
Granted	9,779	-
Forfeited	(4,831)	-
Balance, end of period	194,433	-
	<b>As at March 31</b>	
		<b>2008</b>
<b>Vesting Date</b>		
May 1, 2009		77,773
May 1, 2010		116,660
Total <sup>1</sup>		194,433

(1) If the units vesting May 1, 2009 are held by the LTI holder until May 1, 2010 an additional 29,165 units will be issued by the Trust.

The following table reconciles the Trust's contributed surplus:

	<b>Three Months Ended March 31</b>	
	<b>2008</b>	<b>2007</b>
Balance, beginning of period	14,468	9,210
Unit based compensation expense	1,855	1,486
Unit based compensation capitalized	142	238
Balance, end of period	16,465	10,934

### Accumulated other comprehensive income

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 was charged to the statement of earnings over the term of the contracts with a corresponding decrease to other comprehensive income.

	Three Months Ended	
	March 31	
	2008	2007
Balance, beginning of period	-	-
Change in accounting policy, net of tax of \$5,072	-	10,543
Amortization of fair value of financial instruments, net of tax of \$3,047	-	(6,334)
Balance, end of period	-	4,209

## 9. SUPPLEMENTAL CASH FLOW INFORMATION

### Changes in non-cash working capital

	Three Months Ended	
	March 31	
	2008	2007
Accounts receivable	(6,950)	(1,149)
Prepaid expenses and deposits	(4,509)	(17)
Accounts payable	(297)	1,967
Current income taxes payable	10	20
Change in non-cash working capital	(11,746)	821
Relating to:		
Financing activities	-	850
Investing activities	(5,828)	4,311
Operating activities	(5,918)	(4,340)

### Interest and taxes paid

	Three Months Ended	
	March 31	
	2008	2007
Interest paid	5,906	3,908
Income and other taxes paid	-	25

## 10. 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 March 31, 2008 was approximately \$130.2 million (2007 - \$132.0 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 March 31, 2008, the Trust's natural gas price risk management program had a net realized gain of nil (2007 - \$7.0 million net gain).

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. 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 was 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 March 31, 2007 \$6.3 million, net of tax, was charged to other comprehensive income with a corresponding unrealized gain on financial instruments of \$9.4 million and a charge to future income tax expense of \$3.1 million. The \$9.4 million amortized through unrealized gain on financial instruments was offset by an unrealized loss of \$17.6 million for the change in mark to market for the three months ended March 31, 2007 resulting in a net loss of \$8.2 million on the statement of earnings. At March 31, 2008 the fair value was a liability of \$24.7 million, resulting in an unrealized loss for the three months ended March 31, 2008 of \$24.7 million.

Contracts outstanding in respect to financial instruments are as follows:

Natural Gas Contracts <sup>(1)</sup>	Volume	Pricing Point	Strike Price \$/gj <sup>(1)</sup>	Cost/Premium	Term
Fixed Price Swap	10,000 gj/d	AECO	6.70	-	April 01/08 to Oct 31/08
Fixed Price Swap	10,000 gj/d	AECO	6.78	-	April 01/08 to Oct 31/08
Swap - call spread	10,000 gj/d	AECO	\$7.50 - \$8.50	\$0.365/gj	April 01/08 to Oct 31/08
Swap - call spread	10,000 gj/d	AECO	\$7.39 - \$8.39	\$0.370/gj	April 01/08 to Oct 31/08
Swap - call spread	10,000 gj/d	AECO	\$7.095 - \$8.095	\$0.355/gj	April 01/08 to Oct 31/08
Swap - call spread	10,000 gj/d	AECO	\$7.13 - \$8.13	\$0.355/gj	April 01/08 to Oct 31/08
Swap - call spread	10,000 gj/d	AECO	\$7.23 - \$8.23	\$0.355/gj	April 01/08 to Oct 31/08
Swap - call spread	5,000 gj/d	AECO	\$7.21 - \$8.21	\$0.360/gj	April 01/08 to Oct 31/08
Swap - call spread	5,000 gj/d	AECO	\$7.24 - \$8.24	\$0.360/gj	April 01/08 to Oct 31/08
Swap - call spread	5,000 gj/d	AECO	\$9.10 - \$12.10	\$0.840/gj	Nov 01/08 to March 31/09
Swap - call spread	5,000 gj/d	AECO	\$9.40 - \$12.40	\$0.900/gj	Nov 01/08 to March 31/09
Swap - call spread	5,000 gj/d	AECO	\$9.42 - \$12.42	\$0.920/gj	Nov 01/08 to March 31/09
Swap - call spread	5,000 gj/d	AECO	\$9.64 - \$12.64	\$0.900/gj	Nov 01/08 to March 31/09

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

## SELECTED QUARTERLY INFORMATION

### FINANCIAL HIGHLIGHTS

	Three Months Ended				
	2007				2008
	March 31	June 30	Sept 30	Dec 31	March 31
<i>(\$ thousands except per unit amounts)</i>					
<b>Income Statement</b>					
Petroleum and natural gas revenue	85,477	108,503	88,480	99,592	123,075
Cash flow <sup>1</sup>	53,080	58,398	48,085	54,727	68,115
Per unit - diluted	0.60	0.53	0.43	0.49	0.61
Cash distributions declared	24,831	29,092	30,987	29,232	29,365
Per unit	0.30	0.30	0.30	0.30	0.30
Net earnings	16,425	31,947	11,909	9,922	8,034
Per unit - basic	0.22	0.33	0.12	0.10	0.08
Per unit - diluted	0.22	0.33	0.12	0.10	0.08
<b>Payout Ratio</b>					
Excluding exchangeable shares	47%	50%	64%	53%	43%
Including exchangeable shares	54%	56%	73%	61%	49%
<b>Balance Sheet</b>					
Capital expenditures	43,601	445,197	23,433	54,174	41,528
Total debt	252,000	410,696	417,678	444,223	447,531
Unitholders' equity	689,909	933,606	916,357	900,806	887,206
<b>Trust Units</b> <i>(thousands, except where otherwise stated)</i>					
Units outstanding, end of period	75,799	97,262	97,344	97,479	98,016
Units issuable for exchangeable shares	12,665	12,859	13,093	13,302	13,110
Total units outstanding and issuable for exchangeable shares, end of period	88,464	110,121	110,437	110,781	111,126
Weighted average units – diluted <sup>2</sup>	89,039	109,965	110,936	111,413	112,144
Exchange ratio, end of period	1.34944	1.37885	1.41278	1.45015	1.48845
<b>Trust Unit Trading Statistics (\$)</b>					
High	13.29	15.79	13.44	12.25	13.40
Low	11.00	12.76	10.96	9.92	10.13
Closing	13.07	12.93	12.03	10.85	12.80
Unit volume traded (thousands)	23,116	23,310	25,679	20,726	20,341
<b>Exchangeable Shares Trading Statistics (\$)</b>					
High	17.50	20.50	18.15	17.00	18.75
Low	14.84	17.90	15.01	14.50	15.00
Closing	17.60	18.60	16.51	15.15	18.50
Share volume traded (thousands)	13	27	92	104	27

<sup>1</sup> Refer to discussion in the Management Discussion and Analysis

<sup>2</sup> Includes exchangeable shares converted at the end of period exchange ratio.

## SELECTED QUARTERLY INFORMATION

### OPERATIONAL HIGHLIGHTS

	Three Months Ended				
	2007				2008
	March 31	June 30	Sept 30	Dec 31	March 31
<b>Daily Production</b>					
Natural gas (mcf/d)	94,351	127,255	120,804	123,740	127,667
Crude oil (bbls/d)	2,118	2,134	2,268	2,068	2,186
Natural gas liquids (bbls/d)	1,379	1,485	1,370	1,548	2,052
Total daily production (boe/d)	19,222	24,828	23,772	24,240	25,515
<b>Average Realized Prices</b>					
Natural gas (\$/mcf)	7.87	7.52	5.77	6.49	8.01
Crude oil (\$/bbl)	62.15	68.37	78.77	81.67	89.86
Natural gas liquids (\$/bbl)	55.08	60.51	62.91	71.51	65.15
<b>Highlights (\$/boe)</b>					
Weighted average sales price	49.41	48.03	40.46	44.66	53.01
Realized gain/(loss) on financial instruments	4.04	0.08	2.89	1.14	-
Royalties	(11.67)	(10.51)	(8.80)	(9.54)	(11.80)
Operating expenses	(6.38)	(6.57)	(6.67)	(5.91)	(5.89)
Transportation expenses	(1.60)	(1.85)	(1.96)	(1.86)	(1.99)
Operating Netbacks	33.80	29.18	25.92	28.49	33.33
Other Income	-	0.09	0.01	-	-
General and administrative expense	(1.14)	(1.02)	(1.12)	(0.90)	(1.36)
Unit based compensation	(0.86)	(1.13)	(1.09)	(1.16)	(0.80)
Interest and financing expenses	(2.19)	(2.61)	(2.88)	(3.16)	(2.73)
Unrealized gain / (loss) on financial instruments	(4.76)	4.65	(0.27)	(0.75)	(10.64)
Depletion, depreciation and accretion	(14.91)	(16.94)	(17.08)	(16.70)	(16.82)
Net earnings before taxes	9.94	12.22	3.49	5.82	0.98
Capital taxes	(0.03)	(0.02)	(0.02)	(0.01)	-
Future income taxes recovery / (expense)	1.16	3.82	2.71	(0.76)	2.95
Non-controlling interest – exchangeable shares	(1.58)	(1.88)	(0.73)	(0.60)	(0.47)
Net earnings	9.49	14.14	5.45	4.45	3.46
<b>Drilling Results (# of Wells)</b>					
Gross	30	6	17	39	33
Net – natural gas	11.7	4.7	9.3	19.3	14.1
Net – crude oil	-	-	-	-	-
Success Rate (percent)	87	100	100	96	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  
Iteration Energy Ltd.  
Calgary, Alberta

John A. Brussa <sup>(3)(5)</sup>  
Partner  
Burnet, Duckworth and Palmer LLP  
Calgary, Alberta

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

Howard J. Crone <sup>(1)(2)(4)(5)</sup>  
Independent Businessman  
Calgary, Alberta

Michael R. Culbert  
President & CEO  
Progress Energy Ltd.  
Calgary, Alberta

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

Daniel C. Topolinsky  
Senior Vice President, Exploration

Greg W. Kist  
Vice President, Investor Relations  
and Marketing

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

Gary A. Miller  
Vice President, Operations

Cindy R. Rutherford  
Vice President, Land

James L. Stannard  
Vice President, Engineering

Gary R. Bugeaud  
Secretary

### **CORPORATE OFFICE**

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Telephone: (403) 216-2510  
Fax: (403) 216-2514

### **TRUSTEE AND TRANSFER AGENT**

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**

Burnet, Duckworth & Palmer LLP  
Calgary, Alberta

### **AUDITOR**

KPMG LLP  
Calgary, Alberta

### **CONSULTING ENGINEERS**

GLJ Petroleum Consultants Ltd.  
Calgary, Alberta

### **INVESTOR RELATIONS**

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