POWER TO PERFORM

PARAMOUNT
ENERGY TRUST

2008 **Q1**

FIRST QUARTER SUMMARY

Maximize Cash Flow

- Production increased 30% to 183.8 MMcfe/d from 141.7 MMcfe/d in the first quarter of 2007, due primarily to the acquisition of natural gas assets in central Alberta in June 2007 ("Birchwavy Assets") as well as ongoing exploitation and optimization in east central Alberta and early production additions in the Northern district core areas from a successful winter capital program.
- Realized natural gas prices decreased to $7.29 per Mcfe for the three months ended March 31, 2008 from $8.94 per Mcfe for the comparative quarter in 2007. In 2007, realized gains on financial instruments of $14.3 million as a result of the Trust's commodity price hedging activity significantly improved PET's realized gas price.
- Funds flow measured $56.2 million ($0.51 per Trust Unit) for the three months ended March 31, 2008 compared to $65.6 million ($0.76 per Trust Unit) for the first quarter of 2007. Lower realized gas prices in 2008 accounted for 93% of the reduction in funds flow over the comparative periods.
- Further price management is in place through March 2009. For the period from April 1, 2008 to December 31, 2008, the weighted average price on financial hedges and physical forward sales contracts for an average of 102,000 GJ/d is $7.48 per GJ.

Accretive Acquisitions

- Integration of the Birchwavy Assets into PET's operational structure continued with activity proceeding on many of the value-adding upside opportunities identified as part of the acquisition as well as delineation of new prospects on the acquired properties.
- The Trust disposed of several minor non-core assets in southern Alberta and Saskatchewan over the past six months realizing proceeds of $14.5 million. The assets sold averaged production of 2.5 MMcfe/d for the fourth quarter of 2007.

Asset Optimization

- PET successfully completed the execution of a $46 million winter capital program including drilling, recompletion, facilities optimization and workover programs primarily on PET's winter-only access assets in northeast Alberta.
- The Trust drilled 37 wells (30.2 net), yielding 35 gas wells (28.6 net) for a 95% net success rate.
- Production additions from the winter program totaled approximately 18 MMcfe/d, the majority of which were onstream as of April 1, 2008, translating into production addition costs of $15,333 per flowing BOE/d. Current production is approximately 195 MMcfe/d.
- PET is ready to proceed with the remainder of its 2008 capital expenditure program, budgeted at $62 million over the final three quarters of the year, once sites become accessible following winter break-up.

Healthy Balance Sheet

- Net bank debt at March 31, 2008 was $346 million.
- The Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP") contributed $1.2 million to PET's balance sheet in Q1. In March 2008 PET suspended the optional cash purchase component of its DRIP plan. The distribution reinvestment portion of the plan continues to be available to Unitholders at 94% of PET's market price.
- Significant improvement in the forward market for natural gas coupled with PET's current hedging portfolio has increased the Trust's financial flexibility substantially. Projected exit net bank debt to 2008 projected cash flow is 1.0 times at current gas prices.

Maximize Unitholder Value

- Distributions payable for the first quarter of 2008 totaled $0.30 per Trust Unit, comprised of $0.10 per Trust Unit paid on February 15, March 17 and April 15. Cumulative distributions to the end of the quarter since inception in February 2003 totaled $12.224 per Trust Unit.
- PET's payout ratio for the first three months of 2008 was 59% of funds flow.

CANADA'S PREMIUM NATURAL GAS TRUST

Paramount Energy Trust ("PET" or the "Trust") is a fully functional oil and gas business operating in a sustainable cash flow distributing trust structure. Since inception our primary goal has been to generate premium returns while growing a focused low risk, low exposure exploration and production business. Since operations as a trust commenced in February 2003, there has been substantial value creation: Cash distributions approximating 150% of our initial net asset value have been paid to Unitholders while sustaining production and reserves per Unit and growing the land base and inventory of opportunities. PET's team is accountable, entrepreneurial and motivated by excellence. We will continue to be focused on maximizing Unitholder value through the four pillars of our business plan while managing the Trust through volatile commodity price cycles, evolving market conditions and the government's proposed changes to the trust structure in Canada in 2011.

FINANCIAL AND OPERATING HIGHLIGHTS

($Cdn thousands except volume and per Trust Unit amounts)	Three months ended March 31 2008	2007	% Change
Financial			
Revenue, including realized gains and losses on financial instruments	**121,878**	113,984	7
Funds flow (1)	**56,191**	65,597	(14)
Per Trust Unit (2)	**0.51**	0.76	(33)
Net earnings (loss)	**(85,660)**	(39,261)	118
Per Trust Unit (2)	**(0.78)**	(0.46)	70
Distributions	**33,109**	41,275	(20)
Per Trust Unit (3)	**0.30**	0.48	(38)
Payout ratio (%) (1)	**58.9**	62.9	(6)
Total assets	**1,185,784**	807,027	47
Net bank and other debt outstanding (4)	**346,314**	279,471	24
Convertible debentures, at principal amount	**236,109**	161,134	47
Total net debt (4)	**582,423**	440,605	32
Unitholders' equity	**221,376**	163,264	36
Capital expenditures			
Exploration and development	**46,444**	63,284	(27)
Acquisitions, net of dispositions	**(6,346)**	2,840	(323)
Other	**426**	371	15
Net capital expenditures	**40,524**	66,495	(39)
Trust Units outstanding (thousands)			
End of period	**110,760**	86,358	28
Weighted average	**110,169**	85,816	28
Incentive Rights outstanding	**6,898**	3,352	106
Trust Units outstanding at May 8, 2008	**110,966**		
Operating			
Production			
Total natural gas (Bcfe) (7)	**16.7**	12.8	30
Daily average natural gas (MMcfe/d) (7)	**183.8**	141.7	30
Gas over bitumen deemed production (MMcf/d) (5)	**20.0**	19.8	1
Average daily (actual and deemed - MMcfe/d) (5)	**203.8**	161.5	26
Per Trust Unit (cubic feet equivalent/d/Unit) (2)	**1.85**	1.88	(2)
Average natural gas prices ($/Mcfe)			
Before financial hedging and physical forward sales (6)	**7.05**	7.32	(4)
Including financial hedging and physical forward sales (6)	**7.29**	8.94	(18)
Land (thousands of net acres)			
Undeveloped land holdings	**1,932**	1,226	58
Drilling (wells drilled gross/net)			
Gas	**35/28.6**	77/60.4	(55)/(53)
Dry	**2/1.6**	7/6.2	(71)/(74)
Total	**37/30.2**	84/66.6	(56)/(55)
Success rate (%)	**95/95**	92/91	3/4

(1) These are non-GAAP measures. Please refer to "Significant Accounting Policies and Non-GAAP Measures" included in management's discussion and analysis.

(2) Based on weighted average Trust Units outstanding for the period.

(3) Based on Trust Units outstanding at each distribution date.

(4) Net debt includes net working capital (deficiency) before short-term financial instrument assets and liabilities. Total net debt includes convertible debentures measured at principal amount. Please refer to "Significant Accounting Policies and Non-GAAP Measures" included in management's discussion and analysis.

(5) The deemed production volume describes all gas shut-in or denied production pursuant to a decision report, corresponding order or general bulletin of the Alberta Energy and Utilities Board ("AEUB"), or through correspondence in relation to an AEUB ID 99-1 application. This deemed production volume is not actual gas sales but represents shut-in gas that is the basis of the gas over bitumen financial solution which is received monthly from the Alberta Crown as a reduction against other royalties payable.

(6) PET's commodity hedging strategy employs both financial forward contracts and physical natural gas delivery contracts at fixed prices or price collars. In calculating the Trust's natural gas price before financial and physical hedging, PET assumes all natural gas sales based on physical delivery fixed-price or price collar contracts during the period were instead sold at AECO daily index.

(7) Production amounts are based on the Trust's interest before royalties.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("MD&A") of PET's operating and financial results for the three months ended March 31, 2008 as well as information and estimates concerning the Trust's future outlook based on currently available information. This discussion should be read in conjunction with the Trust's consolidated financial statements and accompanying notes for the three months ended March 31, 2008 and 2007 as well as the Trust's audited consolidated financial statements and accompanying notes and MD&A for the years ended December 31, 2007 and 2006. Readers are referred to the advisories regarding forecasts, assumptions and other forward-looking information contained in the "Forward Looking Information" section of this MD&A. The date of this MD&A is May 8, 2008.

Mcf equivalent (Mcfe) may be misleading, particularly if used in isolation. In accordance with National Instrument 51-101 ("NI 51-101"), an Mcfe conversion ratio for oil of 1 bbl: 6 Mcf has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead. For natural gas, gigajoules ("GJ") are converted to Mcf at a conversion ratio of 1.0546 GJ: 1 Mcf.

SIGNIFICANT ACCOUNTING POLICIES AND NON-GAAP MEASURES

Successful efforts accounting

The Trust follows the successful efforts method of accounting for its petroleum and natural gas operations. This method differs from the full cost accounting method in that exploration expenditures, including exploratory dry hole costs, geological and geophysical costs, lease rentals on undeveloped properties as well as the cost of surrendered leases and abandoned wells are expensed rather than capitalized in the year incurred. However, to make reported funds flow in this MD&A comparable to industry practice the Trust reclassifies geological and geophysical costs as well as surrendered leases and abandonment costs from operating to investing activities.

Funds flow

Management uses funds flow from operations before changes in non-cash working capital ("funds flow"), funds flow per Trust Unit and annualized funds flow to analyze operating performance and leverage. Funds flow as presented does not have any standardized meaning prescribed by Canadian Generally Accepted Accounting Principles ("GAAP") and therefore it may not be comparable to the calculation of similar measures for other entities. Funds flow as presented is not intended to represent operating profits for the period nor should it be viewed as an alternative to funds flow provided by operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP. Funds flow is reconciled to its closest GAAP measure, funds flow provided by operating activities, as follows:

Funds flow GAAP reconciliation	Three months ended March 31	
($ thousands except per Trust Unit amounts)	**2008**	2007
Cash flow provided by operating activities	**52,901**	66,949
Exploration costs [(1)]	**3,024**	4,224
Expenditures on asset retirement obligations	**1,716**	1,831
Changes in non-cash operating working capital	**(1,450)**	(7,407)
Funds flow	**56,191**	65,597
Funds flow per Trust Unit [(2)]	**$ 0.51**	$ 0.76

(1) Certain exploration costs are added back to funds flow in order to be more comparable to other energy trusts that use the full cost method of accounting for oil and gas activities. Exploration costs that are added back to funds flow include seismic expenditures, dry hole costs and expired leases and are considered by PET to be more closely related to investing activities than operating activities.

(2) Based on weighted average Trust Units outstanding for the period.

Additional significant accounting policies and non-GAAP measures are discussed elsewhere in this MD&A.

OPERATIONS

Production

Natural gas production by core area (MMcfe/d)	Three months ended March 31 2008	2007
Northern district		
West Side	**37.7**	40.5
East Side	**25.6**	23.9
Athabasca	**52.8**	60.1
Northern district total	**116.1**	124.5
Southern district		
Birchwavy West	**24.9**	3.1
Birchwavy East	**29.1**	3.8
East Central	**3.7**	1.8
Southern district total	**57.7**	8.7
Severo Energy Corp.	**7.6**	4.3
Other	**2.4**	4.2
Total	**183.8**	141.7
Deemed production from gas over bitumen financial solution	**20.0**	19.8
Total actual and deemed production	**203.8**	161.5

Average production measured 183.8 MMcfe/d for the three months ended March 31, 2008, a 30 percent increase from 141.7 MMcfe/d reported in the first quarter of 2007. The significant increase in production is due to the acquisition of natural gas properties and related assets located primarily in east central Alberta (the "Birchwavy Acquisition") which closed on June 26, 2007 as well as continuing development of the Trust's existing properties. In addition, completion, recompletion and workover operations were undertaken on more than 225 wellbores. PET's winter capital program added approximately 18 MMcf/d (first 12 months average) of new production. Including the deemed production volume related to the gas over bitumen financial solution, average aggregate daily production (actual and deemed) increased 26 percent to 203.8 MMcfe/d from 161.5 MMcfe/d in the first quarter of 2007.

Production decreased three percent from 190.3 MMcfe/d in the fourth quarter of 2007 as a result of the disposition of several minor non-core assets in southern Alberta and Saskatchewan over the past six months as well as extreme cold weather-related downtime in the Northern district core areas in late January and February. The assets which were sold in late 2007 and the first quarter of 2008 averaged production of 2.5 MMcfe/d for the fourth quarter of 2007.

Capital expenditures

Capital expenditures ($ thousands)	Three months ended March 31 2008	2007
Exploration and development expenditures (1)	**45,821**	61,239
Crown and freehold land purchases	**623**	2,045
Acquisitions	**36**	4,893
Dispositions	**(6,382)**	(2,053)
Other	**426**	371
Total capital expenditures	**40,524**	66,495

(1) Exploration and development expenditures for the three months ended March 31, 2008 include approximately $3.0 million in exploration costs (three months ended March 31, 2007 - $4.2 million) which have been expensed directly on the Trust's statement of earnings (loss) in accordance with the successful efforts method of accounting. Exploration costs including seismic expenditures, dry hole costs and expired leases are considered by PET to be more closely related to investing activities than operating activities, and therefore they are included with capital expenditures in this table.

Exploration, development and land expenditures totaled $46.4 million for the three months ended March 31, 2008, and were concentrated on drilling, workover, completion and tie-in activities primarily in the Trust's three core areas in northeast Alberta, as well as seismic program acquisition for delineation and refinement of prospects in that area and Crown and freehold land purchases to replenish the prospect inventory. PET drilled 37 wells (30.2 net) with a 95 percent net success rate in the quarter. In addition, tie-in activities on 13 wells drilled in the Southern district in late 2007 brought on new production volumes in the first quarter of 2008.

PET acquired 27,000 net acres of Crown and freehold lands at an average price of $23 per acre in the first quarter of 2008, as compared to 48,000 net acres at a price of $43 per acre for the comparative period in 2007. Of the net acreage acquired in the current quarter, 23,000 acres relate to the purchase of oil sands leases within the Athabasca core area.

Dispositions of $6.4 million for the three months ended March 31, 2008 were comprised primarily of minor non-core natural gas properties in southern Alberta and Saskatchewan bringing total proceeds from disposition of non-core properties in the last six months to $14.5 million.

MARKETING

Natural gas prices

	Three months ended March 31	
Natural gas prices ($/Mcfe, except percent amounts)	**2008**	2007
Reference prices		
AECO Monthly Index	**7.13**	7.46
AECO Daily Index	**7.98**	7.40
Alberta Gas Reference Price (1)	**7.12**	7.05
Average PET prices		
Before financial hedging and physical forward sales (2)	**7.05**	7.32
Percent of AECO Monthly Index (%)	**99**	98
Before financial hedging (3)	**7.12**	7.82
Percent of AECO Monthly Index (%)	**100**	105
After financial hedging and physical forward sales ("Realized" natural gas price)	**7.29**	8.94
Percent of AECO Monthly Index (%)	**102**	120

(1) Alberta Gas Reference Price is the price used to calculate Alberta Crown royalties. Alberta Gas Reference Price for March is an estimate.

(2) PET's commodity hedging strategy employs both financial forward contracts and physical natural gas delivery contracts at fixed prices or price collars. In calculating the Trust's natural gas price before financial hedging and physical forward sales, PET assumes all natural gas sales based on physical delivery fixed-price or price collar contracts during the period were instead sold at AECO Monthly Index.

(3) Natural gas price before financial hedging includes physical forward sales contracts for which delivery was made during the reporting period but excludes realized gains and losses on financial instruments.

Realized natural gas prices decreased by 18 percent for the three months ended March 31, 2008 to $7.29 per Mcfe from $8.94 per Mcfe in 2007, as compared to a four percent decrease in AECO Monthly Index prices from quarter to quarter. The Trust's realized gas price exceeded the AECO Monthly Index price by two percent for the current period as a result of $2.8 million in realized gains on financial forward natural gas contracts as well as $1.2 million in net revenues from physical forward gas sales contracts that settled at fixed prices above the AECO Monthly Index for the period. In the three months ended March 31, 2007, PET realized $14.3 million in financial instrument gains, of which $8.5 million related to early termination of fixed-price forward financial contracts, leading to the higher realized gas price in that quarter.

Risk management

PET's risk management strategy is focused on using financial instruments to mitigate the effect of commodity price volatility on funds flow and distributions, to lock in attractive economics on acquisitions and to take advantage of perceived anomalies in natural gas markets. The Trust maintains a balanced gas price risk management portfolio using both financial hedge arrangements and physical forward sales to hedge up to a maximum of 50 percent of forecast production including gas over bitumen deemed volumes. PET will also enter into foreign exchange swaps and physical or financial swaps related to the differential between natural gas prices at the AECO and NYMEX trading hubs in order to mitigate the effects of fluctuations in foreign exchange rates and basis differentials on the Trust's realized gas price. The term "financial instruments" includes all financial and physical risk management contracts. Although PET considers these risk management contracts to be effective economic hedges against potential gas price volatility, the Trust does not follow hedge accounting for its financial instruments.

PET's hedging activities are conducted by an internal Risk Management Committee under guidelines approved by the administrator's Board of Directors. PET's hedging strategy though designed to protect cash flow and distributions is opportunistic in nature. The Trust may elect to reduce or increase its hedging contracts depending on perceived position in the commodity price cycle. The Trust mitigates credit risk by entering into risk management contracts with financially sound, credit-worthy counterparties.

PET's hedging strategy has been focused on locking in periodic strength in AECO and NYMEX forward prices over the past two years to ensure a base level of production revenue, despite weakness in spot prices related to such factors as high gas storage levels, increases in liquefied natural gas ("LNG") imports into North America and variable cooling and heating demand. PET estimates that additional realized natural gas revenues and funds flows of $51.0 million in 2006, $62.5 million in 2007 and $4.0 million for the first quarter of 2008 can be attributed to the Trust's risk management program.

The first quarter of 2008 saw a significant shift in several fundamental price drivers within natural gas markets. The arrival of extremely cold winter weather in major consuming regions, particularly in the northeastern United States, had the effect of increasing natural gas usage and reducing storage levels. LNG imports also decreased dramatically as strong demand in Europe and Asia diverted LNG shipments to other global markets outside North America, further reducing storage levels such that natural gas storage in the U.S. exited the winter heating season almost exactly at five-year average levels. These factors contributed to a 41 percent increase in AECO spot gas prices from $6.32 per GJ on December 31, 2007 to $8.89 per GJ on March 31, 2008 and a corresponding increase in AECO forward prices over the quarter.

As at December 31, 2007, PET had a mark-to-market financial instrument asset of $20.0 million recorded on its balance sheet in respect of forward financial and physical natural gas contracts outstanding as of that date. As a result of the significant increase in natural gas prices during the quarter, a net mark-to-market financial instrument liability of $59.2 million was recorded at March 31, 2008. The difference of $79.2 million was included as an unrealized loss on financial instruments in the current period. PET's funds flow and its ability to pay distributions is not impacted by these unrealized mark-to-market amounts.

For a complete list of PET's outstanding financial instruments as at March 31, 2008, please see note 12 to the interim unaudited consolidated financial statements as at and for the three months ended March 31, 2008.

PET continued to supplement its risk management program after the end of the first quarter. Financial and physical natural gas forward sales arrangements at May 8, 2008 are as follows:

Financial hedges and physical forward sales contracts

Type of Contract	PET Buys/Sells	Volumes at AECO (GJ/d) (2)	Price ($/GJ) (1)	AECO/NYMEX Futures Market Price ($/GJ) (3)	Term
Financial	Sells	7,500	8.48		May 2008
Financial	Buys	(5,000)	8.29		May 2008
Period Total		**2,500**	**8.48**	**8.92**	**May 2008**
Financial	Sells	12,500	9.47		June 2008
Financial	Buys	(2,500)	9.45		June 2008
Period Total		**10,000**	**9.47**	**9.63**	**June 2008**
Financial	Sells	99,500	7.41		May – October 2008
Financial	Buys	(17,500)	7.04		May – October 2008
Physical	Sells	8,000	7.00		May – October 2008
Physical	Buys	(2,500)	6.56		May – October 2008
Period Total		**87,500**	**7.38**	**9.62**	**May – October 2008**
Financial – NYMEX	Sells	10,000	US $7.70		May – October 2008
Physical – NYMEX	Sells	5,000	US $6.68		May – October 2008
Period Total – NYMEX		**15,000**	**US $7.36**	**US $11.41**	**May – October 2008**
Physical	Sells	2,500	7.45		May – December 2008
Physical	Buys	(2,500)	6.63		May – December 2008
Period Total		**-**	**-**		**May – December 2008**
Financial	Sells	103,500	7.85		November 2008 – March 2009
Financial	Buys	(12,500)	8.30		November 2008 – March 2009
Physical	Sells	10,000	8.22		November 2008 – March 2009
Physical	Buys	(7,500)	7.70		November 2008 – March 2009
Period Total		**93,500**	**7.88**	**10.46**	**November 2008 – March 2009**
Financial – NYMEX	Sells	2,500	US $9.42		November 2008 – March 2009
Financial – NYMEX	Buys	(2,500)	US $9.26		November 2008 – March 2009
Period Total – NYMEX		**-**	**-**		**November 2008 – March 2009**
Financial	Sells	62,500	7.35		April – October 2009
Financial	Buys	(50,000)	7.24		April – October 2009
Physical	Sells	5,000	8.65		April – October 2009
Physical	Buys	(5,000)	8.45		April – October 2009
Period Total		**12,500**	**7.44**	**8.77**	**April – October 2009**
Financial	Sells	17,500	8.24		November 2009 – March 2010
Physical	Buys	(17,500)	8.14		November 2009 – March 2010
Period Total		**-**	**-**		**November 2009 – March 2010**

(1) Average price calculated using weighted average price for sell contracts.

(2) All transactions are at AECO unless identified specifically as a NYMEX transaction. NYMEX transactions are measured in US$ per MMBTU.

(3) Futures market reflects AECO/NYMEX forward market prices as at May 8, 2008. NYMEX forward prices are measured in US$ per MMBTU.

In addition to the fixed price contracts above, PET has entered into a costless financial collar to sell 5,000 GJ/d for the November 2008 through March 2009 term at a floor price of $7.00 per GJ and a ceiling price of $8.00 per GJ.

As at May 8, 2008 the Trust had also entered into financial and forward physical gas sales arrangements to fix the basis differential between the NYMEX and AECO trading hubs as follows. The price at which these contracts settle is equal to the NYMEX index less a fixed basis amount.

AECO-NYMEX basis contracts

Type of contract	PET Buys/Sells	Volumes at NYMEX (MMBTU/d)	Price (US$/MMBTU)	Term
Financial – basis	Sells	5,000	(0.98)	May – October 2008
Financial – basis	Buys	(5,000)	(1.05)	May – October 2008
Physical – basis	Sells	37,500	(0.97)	May – October 2008
Physical – basis	Buys	(22,500)	(1.05)	May – October 2008
Period Total		**15,000**	**(0.97)**	**May – October 2008**
Physical – basis	sold	17,500	(0.45)	April – October 2010
Physical – basis	bought	(17,500)	(0.73)	April – October 2010
Financial – basis	sold	15,000	(0.55)	April – October 2011
Financial – basis	bought	(15,000)	(0.55)	April – October 2011

FINANCIAL RESULTS

Revenue

	Three months ended March 31	
Revenue ($ thousands)	**2008**	2007
Oil and natural gas revenues, before financial hedging (1)	**119,071**	99,693
Realized gains (losses) on financial instruments (2)	**2,807**	14,291
Total revenue	**121,878**	113,984

(1) Includes revenues related to physical forward sales contracts which settled during the period.

(2) Realized gains (losses) on financial instruments include settled financial forward contracts and options.

Oil and natural gas revenues increased to $121.9 million for the three months ended March 31, 2008 compared to $114.0 million for the first quarter of 2007 primarily due to a 30 percent increase in production levels offset by an 18 percent decline in realized natural gas prices. The Trust includes realized gains and losses on financial forward contracts in its calculation of realized natural gas prices after hedging.

Funds flow

	Three months ended March 31			
		2008		2007
Funds flow reconciliation	**$ millions**	**$/Mcfe**	$ millions	$/Mcfe
Production (Bcfe)		**16.7**		12.8
Revenue (1)	**121.9**	**7.29**	114.0	8.94
Royalties	**(17.7)**	**(1.06)**	(14.7)	(1.15)
Operating costs	**(33.1)**	**(1.98)**	(25.4)	(1.99)
Transportation costs	**(3.6)**	**(0.21)**	(2.7)	(0.21)
Operating netback from production (3)	**67.5**	**4.04**	71.2	5.59
Gas over bitumen royalty adjustments	**4.3**	**0.25**	5.0	0.39
Lease rentals	**(0.6)**	**(0.04)**	(1.0)	(0.07)
General and administrative (2)	**(7.0)**	**(0.42)**	(4.0)	(0.32)
Interest on bank and other debt (2)	**(4.2)**	**(0.25)**	(3.1)	(0.25)
Interest on convertible debentures (2)	**(3.8)**	**(0.22)**	(2.5)	(0.20)
Funds flow (2) (3)	**56.2**	**3.36**	65.6	5.14

(1) Revenue includes realized gains and losses on financial instruments.

(2) Excludes non-cash items.

(3) This is a non-GAAP measure; see "Significant accounting policies and non-GAAP measures" in this MD&A.

Royalties

For the three months ended March 31, 2008, PET's average royalty rate (royalties as a percentage of revenues including gains and losses on financial instruments) climbed to 14.5 percent from 12.9 percent in the first quarter of 2007. The higher royalty rate in the current quarter is due to PET's realized natural gas price being closer to the average Alberta Gas Reference Price for the period (102 percent of the Alberta Gas Reference Price as opposed to 127 percent of the Alberta Gas Reference Price in 2007). Alberta Crown royalties are based on the Alberta Gas Reference Price. Royalty expense increased from $14.7 million for the three months ended March 31, 2007 to $17.7 million for the current period as a result of higher natural gas production volumes.

New Alberta Royalty Regime

On October 25, 2007, the Government of Alberta announced a "New Royalty Framework" for oil and natural gas royalties in the Province of Alberta. New royalty rates will apply to all production effective January 1, 2009. While detailed Regulations have yet to be released, PET's initial assessment is that, based on the Trust's profile of well productivity for the first quarter of 2008 and at various natural gas prices, the effect of the new royalty framework on funds flow including estimated deductions for capital cost allowance and custom processing would be approximately as shown below. Crown royalty rates would rise relative to their current levels at higher gas prices and decrease relative to their current levels at lower gas prices. The rates presented are for Crown royalties only and do not include freehold and overriding royalties paid to landowners.

				AECO Gas Price ($/GJ)
Estimated change in royalty rate	**$6.00**	**$7.00**	**$8.00**	**$10.00**
Crown royalty rate under current royalties	11.2%	11.9%	12.4%	13.1%
Estimated Crown royalty rate under revised royalties	5.6%	9.3%	12.0%	17.6%
Increase (decrease) in royalty rate (percentage points)	(5.6%)	(2.6%)	(0.4%)	4.5%
Percentage increase (decrease) in royalty rate (%)	(50.0%)	(21.8%)	(3.0%)	34.4%

PET estimates that its total royalty rate for the three months ended March 31, 2008 including Crown, freehold and overriding royalties would have been 11.3 percent under the New Royalty Framework as opposed to the 14.5 percent actually incurred for the current quarter under the current royalty structure. The Crown royalty rate for the current quarter would have been approximately 8.3 percent under the New Royalty Framework compared to 11.7 percent under the current structure.

Operating costs

Unit-of-production costs decreased one percent in the first three months of 2008, resulting from PET having a higher proportion of its production volumes in central Alberta in comparison to the first quarter of 2007. This was offset by $1.0 million in processing fee adjustments related to prior years that were received and recorded in the current quarter. Much of the Trust's northeast Alberta properties are only accessible for maintenance and workover activities in the winter months and therefore tend to incur higher operating costs in the first quarter of the year. PET currently estimates operating costs to average $1.70 per Mcfe for the full year of 2008. Total operating costs increased to $33.1 million in the three months ended March 31, 2008 from $25.4 million for the same period in 2007 due to increased production volumes in the current quarter.

Transportation costs

Transportation costs on a unit-of-production basis were unchanged at $0.21 per Mcfe but increased $0.9 million to $3.6 million for three month period ended March 31, 2008 as compared to the three month period ended March 31, 2007 due to higher production volumes. PET has reduced its transportation expenses by an average of approximately $0.05 per Mcfe over the past two years as the Trust has pursued arrangements to market gas directly to end users proximal to the Trust's northeast Alberta operations at market-based prices. These contracts benefit from reduced transportation costs.

Operating netback

Despite the 30 percent increase in production volumes, lower realized gas prices resulted in a $3.7 million decrease in PET's operating netback to $67.5 million for the three months ended March 31, 2008 from $71.2 million for the three months ended March 31, 2007.

Operating netback reconciliation ($ millions)	
Production increase	**35.5**
Price decrease, including realized gains on financial instruments	**(27.6)**
Royalty increase	**(3.0)**
Transportation cost increase	**(0.9)**
Operating cost increase	**(7.7)**
Increase (decrease) in net operating income	**(3.7)**

General and administrative costs

General and administrative expenses increased to $8.0 million for the three months ended March 31, 2008 compared to $4.8 million for the three months ended March 31, 2007. The increase is due primarily to higher staff levels related to the Birchwavy Acquisition and the resulting expansion of PET's production base and number of core operational areas. In addition PET moved its head office to rental space in December 2007 following the sale of its previous premises and as a result the Trust now incurs rental expense. Approximately $0.3 million of the increase is due to higher non-cash stock-based compensation expense resulting from a higher number of unit incentive rights ("Incentive Rights") outstanding. General and administrative expenses are typically highest in the first and second quarters of each year due to annual compensation programs and activities related to the Trust's year end including audit and reserve evaluation fees and year end reporting to Unitholders.

Interest

Interest and other expense totaled $3.8 million for the three months ended March 31, 2008 as compared to $3.1 million for the comparable period in 2007. Interest expense has increased primarily as a result of higher average bank debt of $337 million in the first quarter of 2008 as compared to $237 million for the first quarter of 2007, partially offset by a gain on investment of $0.4 million related to the increase in market value of the Trust's investment in Cordero Energy Inc. ("Cordero"), a publicly traded oil and gas exploration company. The investment was obtained in the third quarter of 2007 as a result of the acquisition by Cordero of Sebring Energy Ltd., a private oil and gas company in which the Trust had an investment through an exchange of undeveloped lands for shares in 2005. In February 2008 Cordero announced that all of its outstanding shares would be acquired for cash by a government-owned utility. As of April 15, 2008 the minimum 66.667% number of tendered Cordero shares required to proceed with mandatory take-up of the remaining outstanding shares had not been achieved, and as such the deadline for the offer was extended to April 29, 2008 and again to May 13, 2008.

Interest on convertible debentures for the three months ended March 31, 2008 increased by $1.5 million compared to the three months ended March 31, 2007 due primarily to the issuance of $75 million of 6.5 percent convertible unsecured subordinated debentures in June 2007 as partial funding for the Birchwavy Acquisition. Included in convertible debenture interest expense is $0.8 million of non-cash expenses related primarily to the amortization of debt issue costs as compared to $0.5 million for the comparative period in 2007.

Gas over bitumen royalty adjustments

In 2004 and 2005 the Government of Alberta enacted amendments to the royalty regulation with respect to natural gas ("Royalty Regulation"), which provide a mechanism whereby the Government may prescribe additional royalty components to effect a reduction in the royalty calculated through the Crown royalty system for operators of gas wells which have been denied the right to produce by the AEUB as a result of certain bitumen conservation decisions. The formula for calculation of the royalty reduction provided in the Royalty Regulation is:

0.5 x ((deemed production volume x 0.80) x (Alberta Gas Reference Price - $0.3791/GJ))

The Trust's net deemed production volume for purposes of the royalty adjustment was 20.0 MMcf/d in the first quarter of 2008. Deemed production represents all PET natural gas production shut-in or denied production pursuant to a decision report, corresponding order or general bulletin of the AEUB, or through correspondence in relation to an AEUB ID 99-1 application. In accordance with IL 2004-36, the deemed production volume related to wells shut-in is reduced by ten percent per year on the anniversary date of the shut-in order. Deemed production increased 0.2 MMcf/d from 19.8 MMcf/d for the three months ended March 31, 2007 as a result of the acquisition of approximately 2.0 MMcf/d of deemed production in the second quarter of 2007, offset by the annual ten percent reduction in deemed production volumes discussed previously.

The majority of royalty adjustments received have been recorded on PET's balance sheet rather than reported as income as the Trust cannot determine if, when or to what extent the royalty adjustments may be repayable through incremental royalties if and when gas production recommences. Royalty adjustments may be repayable to the Crown in the form of an overriding royalty on gas production from wells which resume production within the gas over bitumen area. However, all royalty adjustments are recorded as a component of funds flow.

In the second quarter of 2006, PET disposed of certain shut-in gas wells in the gas over bitumen area. As part of the disposition agreement, the Trust continues to receive the gas over bitumen royalty adjustments related to the sold wells, although the ownership of the natural gas reserves is transferred to the buyer. As such, any overriding royalty payable to the Crown when gas production recommences from the affected wells is no longer PET's responsibility. As a result of this disposition, the gas over bitumen royalty adjustments received by the Trust for the affected wells are now considered revenue since they will not be repaid to the Crown.

For the three months ended March 31, 2008 the Trust received $4.3 million in gas over bitumen royalty adjustments, of which $0.8 million was classified as revenue and $3.5 million was recorded on the Trust's balance sheet, as compared to $5.0 million received in the first quarter of 2007. Cumulative royalty adjustments received to March 31, 2008 total $81.8 million.

Funds flow

As a result of the variables discussed above, funds flow netbacks decreased 35 percent from $5.14 per Mcfe in the first quarter of 2007 to $3.36 per Mcfe in the first quarter of 2008. Realized gas prices were $1.65 per Mcfe lower in the first quarter of 2008 relative to the comparable 2007 period, accounting for 93 percent of the reduction. Funds flow decreased by 14 percent to $56.2 million ($0.51 per Trust Unit) for the three months ended March 31, 2008 from $65.6 million ($0.76 per Trust Unit) in the 2007 period. The decrease in funds flow per Trust Unit from 2007 was primarily due to the increased number of Trust Units outstanding as a result of financing activities for the Birchwavy Acquisition combined with the decrease in realized prices described above.

Depletion, depreciation, accretion and exploration expense

In accordance with successful efforts accounting, PET expenses exploration costs including seismic expenditures, dryhole costs and expired leases. Exploration expenses decreased to $3.7 million for the three months ended March 31, 2008 from $5.2 million for the first quarter of 2007 primarily due to lower seismic expenditures during the 2008 period.

Depletion, depreciation and accretion ("DD&A") expense increased from $46.8 million in the first quarter of 2007 to $56.2 million in 2008 due primarily to increased production volumes. PET's depletion rate decreased eight percent to $3.36 per Mcfe in the three months ended March 31, 2008 as compared to $3.67 per Mcfe in the first quarter of 2007. The decrease in the DD&A rate for the first quarter of 2008 as compared to the DD&A rate in 2007 is due to the low cost of proved reserve additions provided by the Birchwavy Acquisition.

Earnings (Loss)

The Trust reported a net loss of $85.7 million ($0.78 per basic and diluted Trust Unit) for the three months ended March 31, 2008 as compared to a net loss of $39.3 million ($0.46 per basic and diluted Trust Unit) for the 2007 period. The net loss in 2008 is primarily due to a $79.2 million unrealized loss on financial instruments driven by the significant increase in AECO natural gas prices during the period.

Asset retirement obligation

The Trust's asset retirement obligation is estimated by a third party consulting firm based on PET's net ownership interest in all wells and facilities and estimated costs to abandon wells, decommission facilities and reclaim leases and roads, discounted at a credit-adjusted interest rate to arrive at a net present value figure. The timing of asset retirement expenditures is estimated based on the reserve life of assets according to the Trust's external reserve report prepared as of December 31, 2007. These expenditures are currently expected to occur over the next 25 years with the majority of costs incurred between 2015 and 2020. PET's asset retirement obligation decreased from $194.1 million at December 31, 2007 to $193.6 million at March 31, 2008 as accretion expense and additional obligations from first quarter drilling activity were offset by obligations disposed of in conjunction with non-core property dispositions and asset retirement expenditures of $1.7 million for the current period.

Income taxes and proposed changes to trust tax legislation

On June 22, 2007, new legislation was passed (the "Trust Tax Legislation") pursuant to which certain distributions will be subject to a trust-level tax and will be characterized as dividends to the Unitholders, commencing January 1, 2011.

Once the Trust Tax Legislation becomes applicable to PET, distributions to PET's unitholders will no longer be deductible in computing trust taxable income. In conjunction with the trust level tax, the personal tax on distributions will be similar to the tax paid on a dividend received from a taxable Canadian corporation. This will effectively reduce the income available for distribution to PET's Unitholders, with the end result being a two-tiered tax structure similar to that of corporations and the double taxation of distributions for Unitholders who hold their Trust Units in registered accounts such as RRSP, RRIF and RESP accounts.

The new trust tax applies to PET effective January 1, 2011 assuming the Trust continues to comply with the "normal growth" provisions as outlined by the federal government. Specifically "normal growth" includes equity growth within certain "safe harbour" limits measured by reference to a Specified Investment Flow Through's ("SIFT") market capitalization as of the end of trading on October 31, 2006. The safe harbour calculation is calculated as a percentage of the market value of the SIFT's issued and outstanding publicly-traded trust units and not including any convertible debt, options or other interests convertible into or exchangeable for trust units. Those safe harbour limits are 40 percent for the period from November 1, 2006 to December 31, 2007, and 20 percent each for calendar 2008, 2009 and 2010. These limits are cumulative, so that any unused limit for a period carries over into the subsequent period. Additional details of the guidelines include the following:

(i) new equity for these purposes includes units and debt that is convertible into units, and may include other substitutes for equity;

(ii) replacing debt that was outstanding as of October 31, 2006 with new equity, whether by a conversion into trust units of convertible debentures or otherwise, will not be considered growth for these purposes and will therefore not affect the safe harbour; and

(iii) the exchange, for trust units, of exchangeable partnership units or exchangeable shares that were outstanding on October 31, 2006 will not be considered growth for these purposes and will therefore not affect the safe harbour where the issuance of the trust units is made in satisfaction of the exercise of the exchange right by a person other than the SIFT.

The Trust's market capitalization as of the close of trading on October 31, 2006, having regard only to its issued and outstanding publicly-traded Trust Units, was approximately $1.4 billion, which means the Trust's safe harbour equity growth amount for the period ending December 31, 2007 was approximately $560 million, and for each of calendar 2008, 2009 and 2010 is an additional approximately $280 million, not including equity issued to replace the Trust's debt that was outstanding on October 31, 2006, including convertible debentures. Failure to comply with the "normal growth" provisions as outlined would result in the Trust being subject to the new tax immediately, as opposed to January 1, 2011. Since October 31, 2006 PET has issued approximately $372 million of new Trust Units and convertible debentures through the public offering completed on June 20, 2007, the Trust's Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP Plan") and Unit Incentive Plan.

Currently, the Trust Tax Legislation provides that the tax rate will be the federal general corporate income tax rate (which is anticipated to be 16.5 percent in 2011, and 15 percent in 2012) plus the provincial SIFT tax factor (which is set at a fixed rate of 13 percent), for a combined tax rate of 29.5 percent in 2011 and 28 percent in 2012.

On February 26, 2008, the Minister of Finance announced that instead of basing the provincial component of the tax on a flat rate of 13 percent, the provincial component will instead be based on the general provincial corporate income tax rate in each province in which PET has a permanent establishment (the "Provincial SIFT Tax Proposal"). For purposes of calculating this component of the tax, the general corporate taxable income allocation formula will be used. Specifically, PET's taxable distributions will be allocated to provinces by taking half of the aggregate of:

- that proportion of the Trust's taxable distributions for the year that the Trust's wages and salaries in the province are of its total wages and salaries in Canada; and
- that proportion of the Trust's taxable distributions for the year that the Trust's gross revenues in the province are of its total gross revenues in Canada.

Under the Provincial SIFT Tax Proposal PET would be considered to have a permanent establishment in Alberta, where the provincial tax rate in 2011 is expected to be ten percent, which will result in an effective tax rate of 26.5 percent in 2011 and 25 percent in 2012. Taxable distributions that are not allocated to any province would instead be subject to a ten percent rate constituting the provincial component. There can be no assurance, however, that the Provincial SIFT Tax Proposal will be enacted as proposed.

PET has not recorded a future income tax liability as a result of the Trust Tax Legislation being enacted. Based on production forecasts for PET's proved reserves included in the independent reserve report as at December 31, 2007, the tax values of the Trust's assets are projected to exceed the related book values by January 1, 2011, the date the direct tax on distributions within the Trust becomes effective. PET has estimated tax pools of $710 million at March 31, 2008 and intends to maximize the preservation of tax pools over the transition period in order to minimize the tax consequences faced by the Trust in 2011 and future years.

SUMMARY OF QUARTERLY RESULTS

Quarterly results				Three months ended
($ thousands except where noted)	**Mar 31, 2008**	Dec 31, 2007	Sept 30, 2007	June 30, 2007
Natural gas revenues before royalties (1)	**121,878**	109,919	98,508	104,451
Natural gas production (MMcfe/d)	**183.8**	190.3	193.1	155.0
Funds flow (2)	**56,191**	59,622	41,212	72,669
Per Trust Unit - basic	**0.51**	0.55	0.38	0.81
Net earnings (loss)	**(85,660)**	(4,970)	5,246	9,128
Per Trust Unit - basic	**(0.78)**	(0.05)	0.05	0.10
- diluted	**(0.78)**	(0.05)	0.05	0.10
Realized natural gas price ($/Mcfe)	**7.29**	7.07	5.66	8.80
Average AECO Monthly Index price ($/Mcf)	**7.13**	6.00	5.64	7.37

Quarterly results				Three months ended
($ thousands except where noted)	Mar 31, 2007	Dec 31, 2006	Sept 30, 2006	June 30, 2006
Natural gas revenues before royalties (1)	99,693	94,564	96,576	97,856
Natural gas production (MMcfe/d)	141.7	144.6	154.6	162.9
Funds flow (2)	65,597	58,166	60,770	56,605
Per Trust Unit - basic	0.76	0.69	0.72	0.68
Net earnings (loss)	(39,261)	(68,254)	19,619	21,816
Per Trust Unit - basic	(0.46)	(0.80)	0.23	0.26
- diluted	(0.46)	(0.80)	0.23	0.26
Realized natural gas price ($/Mcfe)	8.94	7.83	7.36	6.85
Average AECO Monthly Index price ($/Mcf)	7.46	6.36	6.03	6.27

(1) Excludes realized gains (losses) on financial instruments.

(2) These are non-GAAP measures; see "Significant accounting policies and non-GAAP measures" in this MD&A.

Natural gas revenues were highest in the first quarter of 2008 and the fourth quarter of 2007 due to higher production levels as a result of the Birchwavy Acquisition, and in the second quarter of 2007 due to $18.6 million in realized gains on early termination of financial forward natural gas contracts. Funds flows are dependent on cash netbacks for gas production, and as such were highest in the first and second quarter of 2007 when the realized gas price was highest and lowest in the third quarter of 2007 when the realized gas price dropped to $5.66 per Mcfe.

Net earnings were highest in the second and third quarters of 2006 as a result of unrealized gains on financial instruments and the reclassification of certain gas over bitumen royalty adjustments into earnings, respectively. The net loss in the fourth quarter of 2006 was due to impairment charges at east central Alberta and Saskatchewan and higher DD&A expenses as compared to previous quarters. The net losses in the first quarter of 2007 and 2008 were due to unrealized losses of $48.5 million and $79.2 million respectively on the change in mark-to-market value of PET's financial instruments during the periods.

LIQUIDITY AND CAPITAL RESOURCES

Net debt ($ thousands except per Trust Unit and percent amounts)	**March 31, 2008**	Three months ended December 31, 2007
Bank debt	**331,819**	342,190
Convertible debentures, measured at principal amount	**236,109**	236,109
Working capital deficiency (surplus) (1)	**14,495**	(6,519)
Net debt	**582,423**	571,780
Trust Units outstanding (thousands)	**110,760**	109,557
Market price at end of period ($/Trust Unit)	**8.30**	6.30
Market value of Trust Units	**919,308**	690,209
Total capitalization (1)	**1,501,731**	1,261,909
Net debt as a percentage of total capitalization (%)	**38.8**	45.3
Annualized funds flow (1)	**224,764**	238,488
Net debt to annualized funds flow ratio (times) (1)	**2.6**	2.4

(1) These are non-GAAP measures; see "Significant accounting policies and non-GAAP measures" in this MD&A. Annualized funds flow in the prior year column is for the fourth quarter of 2007.

PET has a demand credit facility with a syndicate of Canadian chartered banks. The revolving feature of the facility expires on May 26, 2008 if not extended. Pursuant to the terms of the credit facility agreement, the Trust will request an extension of the facility until May 2009, and expects that this request will be granted. Upon expiry of the revolving feature of the facility, should it not be extended, amounts outstanding as of the expiry date will have a term to maturity date of one additional year. The borrowing base on the facility is currently $400 million. Collateral for the credit facility is provided by a floating-charge debenture covering all existing and acquired property of the Trust as well as unconditional full liability guarantees from all subsidiaries in respect of amounts borrowed under the facility. Bank debt decreased to $331.8 million at March 31, 2008, as compared to $342.2 million at December 31, 2007 as a result of funds flows in excess of distributions during the period and proceeds of $8.1 million received through the Trust's distribution reinvestment program. In addition to amounts outstanding under the credit facility PET has outstanding letters of credit in the amount of $4.38 million.

PET's working capital deficiency increased to $14.5 million at March 31, 2008 from a surplus of $6.5 million at December 31, 2007. PET will typically experience a working capital deficiency during periods of active capital spending as revenues are received 25 days after the month of delivery while the majority of operating and capital expenditures are paid over a 45 to 60 day time frame. As at March 31, 2008 a significant portion of the costs related to the Trust's winter capital program were included in accounts payable and accrued liabilities at the balance sheet date, leading to the increased working capital deficiency as compared to December 31, 2007.

At March 31, 2008 PET had convertible debentures outstanding as follows:

Convertible debentures	**6.50%**	**2006 – 6.25%**	**2005 – 6.25%**	**8%**
Principal outstanding ($ millions)	75.0	100.0	55.3	5.9
Maturity date	June 30, 2012	April 30, 2011	June 30, 2010	September 30, 2009
Conversion price ($ per Trust Unit)	14.20	23.80	19.35	14.20
Fair market value ($ millions)	$69.7	$97.2	$55.3	$6.0

Fair values of debentures are calculated by multiplying the number of debentures outstanding at March 31, 2008 by the quoted market price per debenture at that date. None of the debentures were converted into Trust Units during the three months ended March 31, 2008.

Net debt to annualized funds flow increased to 2.6 times for the quarter ended March 31, 2008 from 2.4 times for the quarter ended December 31, 2007 as a result of expenditures related to the Trust's winter capital program. PET anticipates that net debt to annualized funds flow will decrease in future quarters in 2008 as production additions from the capital program will lead to increased cash flows and quarterly capital expenditures will be lower.

A reconciliation of the increase in net debt from December 31, 2007 to March 31, 2008 is as follows:

Reconciliation of net debt ($ millions)	
Net debt, December 31, 2007	571.8
Exploration and development and other capital expenditures	46.8
Acquisitions, net of dispositions	(6.3)
Funds flow	(56.2)
Distributions	33.1
Proceeds from DRIP plan	(8.1)
Increase in value of marketable securities	(0.4)
Expenditures on asset retirement obligations	1.7
Net debt, March 31, 2008	**582.4**

PET has a distribution reinvestment and optional Trust Unit purchase plan ("DRIP plan") which provides Unitholders with the opportunity to reinvest monthly cash distributions to acquire additional Trust Units at 94 percent of the Treasury Purchase Price, which is defined as the daily volume weighted average trading price of the Trust Units for the ten trading days immediately proceeding a distribution payment date ("Treasury Purchase Price"). As well, subject to thresholds and restrictions described in the DRIP plan, it contains a provision for the purchase by Canadian unitholders of additional Trust Units with optional cash payments of up to $100,000 per participant per fiscal year of PET at the same six percent discount to the Treasury Purchase Price. No additional commissions, service or brokerage fees are charged to the Unitholder for these transactions. Through the DRIP Plan $8.1 million was invested by Unitholders during the three months ended March 31, 2008 and a total of 1,202,000 Trust Units were issued at an average price of $6.78 per Trust Unit. Effective March 2008, no Trust Units are available under the optional cash purchase component of the DRIP until further notice.

Distributions

Distributions are determined monthly by the Board of Directors of the Trust's administrator taking into account PET's forecasted production, capital spending and cash flow, forward natural gas price curves, the Trust's current hedging position, targeted debt levels and debt repayment obligations. The following items are considered in arriving at cash distributions to Unitholders:

- Exploration and development expenditures;
- Projected production additions;
- Debt repayments to the extent required or deemed appropriate by management to preserve balance sheet strength for future opportunities;
- Base production forecasts;
- Current financial and physical forward natural gas sales contracts;
- Forward market for natural gas prices;
- Site reclamation and abandonment expenditures; and
- Working capital requirements.

Distributions for the first quarter of 2008 totaled $33.1 million or $0.30 per Trust Unit consisting of $0.10 per Trust Unit paid on February 15, March 17 and April 15. The Trust's payout ratio, which is the ratio of distributions to funds flow, was 58.9 percent in the current quarter as compared to 62.9 percent for the first quarter of 2007. PET's distributions are less than funds flow as the Trust retains a portion of its funds flow to finance capital expenditures and debt repayments. The payout ratio in future periods will largely be determined by the Trust's capital spending plans and resulting production levels, royalty rates, operating costs and natural gas prices, which have experienced significant volatility in 2008.

PET anticipates that distributions and capital expenditures for the remainder of 2008 and 2009 will be funded by funds flow and proceeds from the Trust's DRIP plan; however changes in natural gas prices, cash netbacks and production levels can affect future capital spending plans and distributions. Acquisitions will continue to be funded through a combination of internally generated funds, equity offerings and debt financing.

	Three months ended March 31	
Distributions ($ thousands)	**2008**	2007
Cash flows from operating activities	**52,901**	66,949
Net earnings (loss)	**(85,660)**	(39,261)
Distributions	**33,109**	41,275
Excess (shortfall) of cash flows from operating activities over distributions	**19,792**	25,674
Excess (shortfall) of net earnings (loss) over distributions	**(118,769)**	(80,536)

The Trust targets long-term sustainability of both its production base and distributions to Unitholders. As such, PET's distribution rates are designed to result in an excess of cash flows from operating activities over distributions which will provide the majority of the funding for PET's exploration and development expenditures for the respective periods. The excess of $19.8 million for the three months ended March 31, 2008 and $25.7 million for the three months ended March 31, 2007 compare to exploration and development expenditures on PET's cash flow statement of $43.4 million and $59.1 million for those periods, respectively. The Trust's capital expenditures are typically highest in the first quarter of the year, as many of PET's northeast Alberta assets are only accessible in the winter months. In periods where the excess of cash flows from operating activities over distributions is less than exploration and development expenditures, the shortfall is funded by proceeds from the Trust's DRIP program, additional bank borrowings and external financing activities as appropriate.

The Trust has an excess of distributions over net earnings in all periods presented and distributions are likely to continue to exceed net earnings in future periods. PET does not typically compare distributions to earnings due to the significant impact of non-cash items on earnings, such as unrealized gains and losses on financial instruments and DD&A, which have no impact on the Trust's ability to pay distributions. Where distributions exceed net earnings, a portion of the cash distributions declared may represent an economic return of capital to the Trust's Unitholders.

2008 Outlook and Sensitivities

Significant improvement in the forward market for natural gas coupled with PET's current hedging and physical forward sales portfolio has increased the Trust's financial flexibility substantially. As at May 8, 2008, the current actual and forward market for natural gas for April through December 2008 is $9.60 per GJ at AECO. Combined with actual prices to the end of the first quarter, the AECO Monthly Index forecast for 2008 by the forward market is $8.89 per GJ. The following table reflects PET's projected realized gas price, monthly funds flow and payout ratio at the current monthly distribution of $0.10 per Trust Unit for 2008 at certain AECO natural gas price levels and incorporating the Trust's current financial hedges and physical forward sales contracts.

	Average AECO Monthly Index Gas Price April to December 2008 ($/GJ)			
Funds flow sensitivity analysis	**$ 7.00**	**$ 8.00**	**$ 9.00**	**$ 10.00**
Oil and natural gas production (MMcfe/d)	188	188	188	188
Realized gas price (1) ($/Mcfe)	7.36	7.79	8.23	8.66
Funds flow (2) ($million/month)	18.6	20.0	22.3	24.2
Per Trust Unit ($/Unit/month)	0.167	0.180	0.201	0.218
Payout ratio (2) (%)	60	56	48	46
Ending net debt ($million)	568	551	523	501
Ending net debt to funds flow ratio (3) (times)	2.5	2.3	2.0	1.7

(1) PET's weighted average forward price on an average of 102,000 GJ/d for the period from April 1 to December 31, 2008 is $7.48 per GJ.

(2) These are non-GAAP measures; see "Significant accounting policies and non-GAAP measures" in management's discussion and analysis.

(3) Calculated as ending net debt (including convertible debentures) divided by estimated annualized funds flow.

OTHER SIGNIFICANT ACCOUNTING POLICIES AND NON-GAAP MEASURES

Payout ratio

Payout ratio refers to distributions measured as a percentage of funds flow for the period and is used by management to analyze funds flow available for development and acquisition opportunities as well as overall sustainability of distributions. Funds flow does not have any standardized meaning prescribed by GAAP and therefore payout ratio may not be comparable to the calculation of similar measures for other entities.

Operating and funds flow netbacks

Operating and funds flow netbacks are used by management to analyze margin and funds flow on each Mcfe of oil and natural gas production. Operating and funds flow netbacks do not have any standardized meaning as prescribed by GAAP and therefore may not be comparable to the calculation of similar measures for other entities. Operating and funds flow netbacks should not be viewed as an alternative to funds flow from operations, net earnings per Trust Unit or other measures of financial performance calculated in accordance with GAAP.

Unitholders' equity before distributions and cumulative distributions since inception

Unitholders' equity before distributions and cumulative distributions since inception are used by management to compare total equity before any reduction for distributions from period to period. Unitholders' equity before distributions and cumulative distributions since inception do not have any standardized meaning as prescribed by GAAP and therefore may not be comparable to the calculation of similar measures for other entities. Unitholders' equity before distributions and cumulative distributions since inception should not be viewed as alternatives to Unitholders' equity or other measures calculated in accordance with GAAP.

Total capitalization

Total capitalization is equal to net debt including convertible debentures plus market value of issued equity and is used by management to analyze leverage. Total capitalization as presented does not have any standardized meaning prescribed by GAAP and therefore it may not be comparable with the calculation of similar measures for other entities. Total capitalization is not intended to represent the total funds from equity and debt received by the Trust.

Revenue, including realized gains (losses) on financial instruments

Revenue, including realized gains (losses) on financial instruments is used by management to calculate the Trust's net realized natural gas price taking into account monthly settlements on financial forward natural gas sales and foreign exchange contracts. These contracts are put in place to protect PET's funds flows from potential volatility in natural gas

prices, and as such any related realized gains or losses are considered part of the Trust's natural gas price. Revenue, including realized gains (losses) on financial instruments does not have any standardized meaning as prescribed by GAAP and should not be reviewed as an alternative to Revenue or other measures calculated in accordance with GAAP.

Working capital (deficiency)

Working capital and working capital deficiency are calculated by the Trust as current assets less current liabilities, excluding assets and liabilities relating to financial instruments, in order to analyze short-term cash requirements without including mark-to-market balances that may settle for significantly different amounts than those presented on the balance sheet. Working capital (deficiency) as presented does not have any standardized meaning prescribed by GAAP and therefore it may not be comparable with the calculation of working capital (deficiency) for other entities.

INTERNAL CONTROLS

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 disclosure. PET's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of March 31, 2008 that the Trust's disclosure controls and procedures are effective to provide reasonable assurance that material information related to PET, including its consolidated subsidiaries, is made known to them by others within those entities. During the three months ended March 31, 2008, there have been no changes in PET's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

NEW ACCOUNTING STANDARDS

The Canadian Institute of Chartered Accountants ("CICA") has released new accounting standards for implementation effective January 1, 2008, as follows:

a) Section 3031 – Inventories. The new standard replaces the previous inventories standard and prescribes certain methods for valuing inventories. The adoption of this standard has had no material impact on PET's consolidated financial statements.

b) Section 3862 – Financial Instruments - Disclosures and Section 3863 - Financial Instruments - Presentation. The new disclosure standard requires increased disclosure regarding the Trust's financial instruments, the risks associated with these instruments and how the risks are managed. The new presentation standard carries forward the former presentation requirements. The required disclosures are contained in Notes 1a) and 12 to the Trust's interim unaudited consolidated financial statements.

c) Section 1535 - Capital Disclosures. The new standard requires the Trust to disclose its definition of capital and its objectives, policies and processes for managing its capital structure. The required disclosures are contained in Note 12 to the Trust's interim unaudited consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

The MD&A is based on the Trust's consolidated financial statements which have been prepared in Canadian dollars in accordance with GAAP. The application of GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. PET bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

The critical accounting estimates employed by PET in the preparation of its consolidated financial statements are discussed in the MD&A for the year ended December 31, 2007. In addition, the following critical accounting estimate was used in the consolidated financial statements for the three months ended March 31, 2008.

Purchase price allocation

Corporate acquisitions are accounted for by the purchase method of accounting whereby the purchase price is allocated to the assets and liabilities acquired based on their fair value, as estimated by management at the time of acquisition. The excess of the purchase price over the fair values represents goodwill. In order to estimate fair values, management has to make various assumptions including commodity prices, reserves acquired and discount rates. Differences from these estimates may impact the future financial statements of the Trust.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PET's operations are affected by a number of underlying risks both internal and external to the Trust. These risks are similar to those affecting others in both the conventional oil and gas royalty trust sector and the conventional oil and gas producers sector. The Trust's financial position, results of operations and cash available for distribution to Unitholders are directly impacted by these factors.

Income taxes

The Trust Tax Legislation results in a tax applicable at the trust level on certain income from publicly traded mutual fund trusts at rates of tax comparable to the combined federal and provincial corporate tax and treats distributions as dividends to the Unitholders. Existing trusts will have a four-year transition period and, subject to the qualification below, the new tax will apply in January 2011. Once applied the new tax will affect PET's funds flow and may impact cash distributions from the Trust.

In light of the foregoing, the Trust Tax Legislation has reduced the value of the Trust's units which increases the cost to PET of raising capital in the public capital markets for acquisition opportunities. PET's access to capital markets could also be affected by this legislation. In addition, the Trust Tax Legislation is expected to place PET and other Canadian energy trusts at a competitive disadvantage relative to industry competitors, including U.S. master limited partnerships, which will continue to not be subject to entity-level taxation. There can be no assurance that PET will be able to reorganize its legal and tax structure to substantially mitigate the expected impact of the Trust Tax Legislation.

Gas over bitumen issue

On July 24, 2007 the Alberta Energy and Utilities Board ("EUB") released Decision 2007-056 related to the application for shut-in of certain natural gas production in northeast Alberta. Although PET does not produce natural gas in the area identified in Decision 2007-056, the EUB did note in its conclusions that a broad bitumen conservation strategy may be required for all areas where natural gas production may interfere with eventual bitumen recovery. It is possible that such a strategy, when drafted and implemented by the EUB, will affect future natural gas production from reservoirs owned by the Trust and located within the gas over bitumen areas of concern. Decision 2007-056 did not specifically provide a timeline or process for arriving at a general bitumen conservation strategy.

Depletion of reserves

The Trust has certain unique attributes which differentiate it from some other oil and gas industry participants. Distributions, absent commodity price increases or cost effective acquisition and development activities, will decline over time in a manner consistent with declining production from typical oil and natural gas reserves. PET will not be reinvesting cash flow in the same manner as other industry participants as one of the main objectives of the Trust is to maximize long-term distributions. Accordingly, absent capital injections, PET's initial production levels and reserves will decline.

PET's future oil and natural gas reserves and production and therefore its funds flows will be highly dependent on PET's success in exploiting its reserve base and acquiring additional reserves. Without reserves additions through acquisition or development activities, the Trust's reserves and production will decline over time as reserves are exploited.

To the extent that external sources of capital including the issuance of additional Trust Units become limited or unavailable PET's ability to make the necessary capital investments to maintain or expand its oil and natural gas reserves will be impaired. To the extent that PET is required to use funds flow to finance capital expenditures or property acquisitions, the level of distributions will be reduced.

PET reinvests capital to minimize the effects of natural production decline on its asset base. The Trust currently estimates that capital expenditures of $100 million to $130 million annually are required to maintain production at current levels. There can be no assurance that PET will be successful in developing or acquiring additional reserves on terms that meet the Trust's investment objectives.

Other risks and uncertainties affecting PET's operations are substantially unchanged from those presented in the MD&A for the year ended December 31, 2007.

FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information with respect to PET.

The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "outlook" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in our forward-looking statements. We believe the expectations reflected in these forward-looking statements are reasonable. However, we cannot assure the reader that these expectations will prove to be correct. The reader should not unduly rely on forward-looking statements included in this report. These statements speak only as of the date of the MD&A.

In particular, this MD&A contains forward-looking statements pertaining to the following:

- the quantity and recoverability of PET's reserves;
- the timing and amount of future production;
- prices for natural gas produced;
- operating and other costs;
- business strategies and plans of management;
- supply and demand for natural gas;
- expectations regarding PET's access to capital to fund its acquisition, exploration and development activities;
- the disposition swap, farm in, farm out or investment in certain exploration properties using third party resources;
- the use of exploration and development activity and acquisitions to replace and add to reserves;
- the impact of changes in natural gas prices on funds flow after hedging;
- drilling, completion, facilities and construction plans;
- the existence, operations and strategy of the commodity price risk management program;
- the approximate and maximum amount of forward sales and hedging to be employed;
- the Trust's acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived there from;
- the impact of Canadian federal and provincial governmental regulation on the Trust relative to other issuers;
- PET's treatment under governmental regulatory regimes;
- the goal to sustain or grow production and reserves through prudent asset management and acquisitions;
- the emergence of accretive growth opportunities; and
- PET's ability to benefit from the combination of growth opportunities and the ability to grow through the capital markets.

PET's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A which include but are not limited to:

- volatility in market prices for natural gas;
- risks inherent in PET's operations;
- uncertainties associated with estimating reserves;
- competition for, among other things; capital, acquisitions of reserves, undeveloped lands, skilled personnel, equipment for drilling, completions, facilities and pipeline construction and maintenance;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and process problems;

- general economic conditions in Canada, the United States and globally;
- industry conditions including fluctuations in the price of natural gas;
- royalties payable in respect of PET's production;
- governmental regulation of the oil and gas industry, including environmental regulation;
- fluctuation in foreign exchange or interest rates;
- unanticipated operating events that can reduce production or cause production to be shut-in or delayed;
- stock market volatility and market valuations; and
- the need to obtain required approvals from regulatory authorities.

The above list of risk factors is not exhaustive. The forward-looking statements contained in this MD&A are made as at the date of this MD&A and PET does not undertake any obligation to update publicly or to revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Additional information on PET, including the most recent filed annual report and annual information form, can be accessed from SEDAR at www.sedar.com or from the Trust's website at www.paramountenergy.com.

CONSOLIDATED BALANCE SHEETS

As at	March 31, 2008	December 31, 2007
($ thousands)		
Assets		
Current assets		
Accounts receivable	**$ 72,986**	$ 65,160
Marketable securities (note 3)	**1,426**	1,069
Financial instruments (notes 2 and 12)	**-**	18,447
	74,412	84,676
Property, plant and equipment (notes 4 and 5)	**1,081,354**	1,097,338
Goodwill	**29,129**	29,129
Financial instruments (notes 2 and 12)	**889**	1,564
	$ 1,185,784	$ 1,212,707
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 77,831**	$ 48,754
Distributions payable	**11,076**	10,956
Financial instruments (notes 2 and 12)	**60,128**	-
	149,035	59,710
Long term bank debt (note 7)	**331,819**	342,190
Gas over bitumen royalty adjustments (note 15)	**63,048**	59,593
Asset retirement obligations (note 11)	**193,606**	194,132
Convertible debentures (note 8)	**224,958**	224,135
Non-controlling interest (note 6)	**1,942**	2,012
Unitholders' equity		
Unitholders' capital (note 9)	**1,091,406**	1,083,250
Equity component of convertible debentures (note 8)	**7,338**	7,338
Contributed surplus (note 10)	**9,500**	8,446
Deficit	**(886,868)**	(768,099)
	221,376	330,935
	$ 1,185,784	$ 1,212,707

See accompanying notes

Basis of presentation: note 1

Commitments and contingency: notes 12, 13 and 15

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND DEFICIT

	Three months ended March 31	
	2008	2007
($ thousands except per unit amounts, unaudited)		
Revenue		
Natural gas	**$ 119,071**	$ 99,693
Royalties	**(17,729)**	(14,687)
Realized gain on financial instruments (notes 2 and 12)	**2,807**	14,291
Unrealized loss on financial instruments (notes 2 and 12)	**(79,250)**	(48,493)
Gas over bitumen revenue (note 15)	**793**	875
	25,692	51,679
Expenses		
Operating	**33,037**	25,389
Transportation costs	**3,594**	2,686
Exploration expenses	**3,661**	5,155
General and administrative (note 10)	**8,037**	4,754
Interest and other	**3,847**	3,144
Interest on convertible debentures	**4,574**	3,049
Gain on sale of property, plant and equipment	**(1,528)**	-
Depletion, depreciation and accretion	**56,200**	46,751
	111,422	90,928
Earnings (loss) before income taxes	**(85,730)**	(39,249)
Future income tax (note 14)	**-**	-
Current taxes	**-**	-
	-	-
Net earnings (loss) before non-controlling interest	**(85,730)**	(39,249)
Non-controlling interest (note 6)	**70**	(12)
Net earnings (loss)	**(85,660)**	(39,261)
Deficit, beginning of period	**(768,099)**	(619,748)
Change in accounting policy (note 2)	**-**	30,337
Distributions declared	**(33,109)**	(41,275)
Deficit, end of period	**(886,868)**	(669,947)
Accumulated other comprehensive income	**-**	**-**
Deficit and accumulated other comprehensive income, end of period	**$ (886,868)**	$ (669,947)
Earnings (loss) per Trust Unit (note 9(c))		
Basic and diluted	**$ (0.78)**	$ (0.46)
Distributions per Trust Unit	**$ 0.30**	$ 0.48

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

($ thousands, unaudited)	Three months ended March 31 2008	2007
Cash provided by (used for)		
Operating activities		
Net earnings (loss)	**$ (85,660)**	$ (39,261)
Items not involving cash		
Depletion, depreciation and accretion	**56,200**	46,751
Trust Unit-based compensation	**1,054**	733
Unrealized loss (gain) on financial instruments	**79,250**	48,493
Gain on sale of property, plant and equipment	**(1,528)**	-
Gain on marketable securities	**(357)**	-
Non-cash interest expense on convertible debentures	**823**	539
Non-controlling interest	**(70)**	12
Gas over bitumen royalty adjustments	**3,455**	4,106
Expenditures on asset retirement obligations	**(1,716)**	(1,831)
Change in non-cash working capital	**1,450**	7,407
Cash flow provided by operating activities	**52,901**	66,949
Financing activities		
Issue of Trust Units	**3,700**	3,907
Distributions to Unitholders	**(28,652)**	(35,166)
Change in bank debt	**(10,371)**	16,467
Change in non-cash working capital	**3,150**	(2,765)
	(32,173)	(17,557)
	$ 20,728	$ 49,392
Investing activities		
Acquisition of properties and corporate assets	**(462)**	(5,264)
Exploration and development expenditures	**(43,420)**	(59,060)
Proceeds on sale of property and equipment	**6,382**	2,053
Change in non-cash working capital	**16,772**	12,879
	$ (20,728)	$ (49,392)
Change in cash	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	**$ -**	$ -
Interest paid	**$ 4,373**	$ 3,277
Taxes paid	**$ -**	$ 37

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(dollar amounts in $ thousands Cdn except as noted)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

These interim consolidated financial statements of Paramount Energy Trust ("PET" or "the Trust") have been prepared by management under the successful efforts method of accounting in accordance with Canadian generally accepted accounting principles ("GAAP") following the same accounting principles and methods of computation as the consolidated financial statements for the year ended December 31, 2007 except as described in note 1 a) below. Certain of the disclosures provided below are incremental to those included with the annual consolidated financial statements. The specific accounting principles used are described in the annual consolidated financial statements of the Trust appearing on pages 38 through 39 of the Trust's 2007 annual report and should be read in conjunction with these interim financial statements.

a) Significant new accounting disclosures – financial Instruments

Effective January 1, 2008, the Trust adopted the accounting requirements for CICA Handbook Sections 3862 ''Financial Instruments – Disclosure'', 3863 ''Financial Instruments – Presentation'', and 1535 ''Capital Disclosures''. Disclosure and presentation requirements for financial instruments are intended to provide further information on the significance of financial instruments to the entity's financial position, performance and funds flows. The Trust has presented and disclosed the nature and extent of the risks arising from financial instruments and how the entity manages such risks. Capital disclosure requirements provide an overview of the Trust's objectives, policies and processes for managing its capital structure. Adjustments to the consolidated financial statements for the three month period ended March 31, 2008 have been made in accordance with the transitional provisions for these new standards. Refer to disclosure in note 12 relating to each of the above standards.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and financial liabilities measured at amortized cost. The Trust has designated its financial instruments into the following categories applying the indicated measurement methods:

Financial instrument	Category	Measurement method
Marketable securities	Held for trading	Fair value
Financial instrument assets and liabilities	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Loans and receivables	Amortized cost
Distributions payable	Loans and receivables	Amortized cost
Long term bank debt	Loans and receivables	Amortized cost
Convertible debentures	Financial liabilities	Amortized cost

Convertible debentures are classified as debt on the balance sheet with a portion of the proceeds allocated to equity. The debt component has been measured based on amortized cost. The Trust will assess at each reporting period whether each financial asset, other than those classified as held for trading, is impaired. An impairment loss, if any, is included in net earnings.

The Trust has entered into certain financial derivative and fixed-price physical delivery sales contracts ("physical sales contracts") in order to reduce its exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Trust has not designated its financial derivative or physical sales contracts as effective accounting hedges, even though the Trust considers all commodity contracts to be effective economic hedges. As a result, all financial derivative contracts and physical sales contracts are classified as held for trading and are recorded on the balance sheet at fair value, with changes in the fair value recognized as "unrealized gains and losses on financial instruments" on the Trust's statement of earnings. Settlements of financial derivative contracts are recognized in realized gains and losses on financial instruments and settlements of physical sales contracts are recognized in oil and natural gas revenue at the time each transaction under a contract is settled.

The Trust measures and recognizes embedded derivatives separately from the host contracts when the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, when it meets the definition of a derivative and when the entire contract is not measured at fair value. Embedded derivatives are recorded at fair value. Effective January 1, 2007, the Trust assessed existing material contracts for embedded derivatives. On an on-going basis, the Trust continues to evaluate all new material contracts for existence of embedded derivatives. No material embedded derivatives have been identified throughout the course of the above procedures.

Costs incurred to issue convertible debentures are recorded against the related financial liability. The Trust has not incurred any other material costs pertaining to the acquisition of financial assets or liabilities.

2. CHANGE IN ACCOUNTING POLICY

On January 1, 2007, the PET adopted the new Canadian accounting standards for financial instruments. Prior periods have not been restated.

At January 1, 2007, the following adjustments were made to the balance sheet to adopt the new standards:

Changes to balance sheet accounts	At January 1, 2007
Financial instrument asset – current	$ 25,768
Financial instrument asset – long term	4,764
Other assets	(5,419)
Increase in assets	$ 25,113
Convertible debentures	$ 5,224
Deficit	(30,337)
Increase in liabilities and reduction in deficit	$ (25,113)

a) Financial instruments

The Trust uses financial instruments and non-financial derivatives, such as fixed-price commodity sales contracts requiring physical delivery of the underlying commodity, to manage the price risk attributable to anticipated sale of petroleum and natural gas production.

The Trust accounts for its commodity sales contracts requiring physical delivery as non-financial derivatives. Prior to adoption of the new standards, physical receipt and delivery contracts did not fall within the scope of the definition of a financial instrument. Accordingly, the fair values of these financial instruments as at January 1, 2007 were recorded as an asset on the Trust's balance sheet with an offsetting credit to deficit. Changes in fair value of these financial instruments from January 1, 2007 to December 31, 2007 as well as changes in fair values of financial forward natural gas and foreign exchange contracts between January 1, 2007 and December 31, 2007 are recorded in earnings. Financial forward natural gas and foreign exchange contracts have been accounted for as derivatives since January 1, 2006 and as such the changes in the fair value of these contracts have been recorded to earnings since that time.

b) Convertible debenture issue costs

Costs related to the issuance of the Trust's convertible debentures (see notes 3 and 8) are netted against the carrying value of the convertible debentures and amortized into earnings over the life of the convertible debentures using the effective interest rate method. Prior to January 1, 2007, transaction costs were recorded as deferred charges in other assets and recognized in net earnings on a straight-line basis over the life of the convertible debentures. On adoption, issue costs were adjusted to reflect the application of the effective interest rate method since the date of issue of the related convertible debentures.

3. MARKETABLE SECURITIES

At December 31, 2007 marketable securities were comprised of $1.1 million in an interest in Cordero Energy Inc. ("Cordero"), a publicly traded oil and gas company. PET acquired the interest in Cordero in July 2007 when it purchased all of the outstanding shares of Sebring Energy Inc ("Sebring") on the basis of 1 share of Cordero for every 12.2 shares of Sebring held. Sebring was a privately held oil and gas company, in which PET held an 11percent interest. On March 20, 2008 Cordero entered into an agreement to sell all of its outstanding shares at a price of $4.35/share to a government owned public utility company. The Trust marked-to-market the investment in Cordero to a value of $1.4 million at March 31, 2008 based on the proposed purchase price. The increase in market value of the investment of $0.3 million for the three months ended March 31, 2008 has been included in interest and other expense on the statement of earnings (loss).

4. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2008	December 31, 2007
Petroleum and natural gas properties	**$ 2,007,600**	$ 1,971,066
Asset retirement costs	**175,507**	175,679
Corporate assets	**3,043**	2,617
	2,186,150	2,149,362
Accumulated depletion and depreciation	**(1,104,796)**	(1,052,024)
	$ 1,081,354	$ 1,097,338

Property, plant and equipment at March 31, 2008 included $141.8 million (December 31, 2007 - $142.9 million) currently not subject to depletion and $30.4 million (2007 - $30.4 million) of costs related to shut-in gas over bitumen reserves which are not being depleted due to the non-producing status of the wells in the affected properties.

5. ACQUISITIONS

On June 26, 2007 PET closed the acquisition of a private oil and gas company and concurrent sale of certain net assets of the acquiree to a third party (the "Birchwavy Acquisition") for cash consideration of $391.8 million, plus $17.6 million in respect of working capital and acquisition costs of $3.8 million. The Birchwavy Acquisition was funded through the issuance of $250.5 million in subscription receipts which were converted into Trust Units upon closing of the acquisition (see note 9), $75.0 million in 6.5% convertible debentures (see note 8) and existing credit facilities. The acquisition was accounted for using the purchase method of accounting. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The Trust has not yet finalized its determination of the assets acquired and the liabilities assumed, and therefore the purchase price and the allocation of such to the acquired assets and liabilities are subject to change.

Birchwavy Acquisition reconciliation		
Cash consideration	$	391,800
Cash paid for net working capital		17,580
Acquisition costs		3,800
Cash consideration paid	$	413,180
Property, plant and equipment	$	449,014
Cash and cash equivalents		23,032
Accounts receivable		19,313
Other assets		2,026
Accounts payable and accrued liabilities		(24,364)
Asset retirement obligation		(55,841)
Cash consideration paid	$	413,180

On April 30, 2007 the Trust closed the acquisition of producing petroleum and natural gas properties and assets in Northeast Alberta (the "Craigend/ Radway/Stry Acquisition") for an aggregate purchase price of $45.2 million. The acquisition was financed through existing credit facilities.

6. NON-CONTROLLING INTEREST

In August of 2006 PET completed an internal restructuring whereby certain assets (the "Severo Assets") were transferred to Severo Energy Corporation ("Severo"), a private company, and a newly formed partnership, the Severo Energy Partnership ("Severo Partnership"). In addition, PET provided a $10.5 million promissory note to Severo in exchange for additional common shares.

In consideration for the assets and the promissory note PET received 15,000,908 common shares of Severo priced at $2.00 per share and a 1percent partnership interest in Severo Partnership which has subsequently been transferred back to Severo. Concurrent with the transaction Severo completed a private placement at $2.00 per share to employees and consultants for proceeds of $2.0 million representing approximately 6 percent of the issued common shares of Severo. As of December 31, 2007 PET owned approximately 93 percent of Severo.

PET has nominated two representatives of the two person Board of Directors of Severo. Since the Trust has retained effective control of Severo, the results, assets and liabilities of this entity have been included in these financial statements. The non-PET ownership interests of Severo are shown as non-controlling interest.

7. BANK AND OTHER DEBT

At March 31, 2008 PET had a revolving credit facility with a syndicate of Canadian chartered banks (the "Credit Facility") with a borrowing base of $400 million consisting of a demand loan of $390 million and a working capital facility of $10 million. The Trust's lenders have completed their semi-annual borrowing base redetermination, resulting in a reconfirmation of the Trust's borrowing base at $400 million through May 26, 2008. Upon expiry of the revolving feature of the facility, should it not be extended, amounts outstanding as of the expiry date will have a term to maturity date of one additional year. In addition to amounts outstanding under the Credit Facility, PET has outstanding letters of credit in the amount of $4.38 million. Collateral for the Credit Facility is provided by a floating-charge debenture covering all existing and acquired property of the Trust as well as unconditional full liability guarantees from all subsidiaries in respect of amounts borrowed under the Credit Facility.

Advances under the Credit Facility are made in the form of Banker's Acceptances ("BA"), prime rate loans or letters of credit. In the case of BA advances, interest is a function of the BA rate plus a stamping fee based on the Trust's current ratio of debt to cash flow. In the case of prime rate loans, interest is charged at the lenders' prime rate. The effective interest rate on outstanding amounts at March 31, 2008 was 4.55 percent.

8. CONVERTIBLE DEBENTURES

The Trust's 6.5% convertible unsecured subordinated debentures issued on June 20, 2007 ("6.5% Convertible Debentures") mature on June 30, 2012, bear interest at 6.5% per annum paid semi-annually on June 30 and December 31 of each year and are subordinated to substantially all other liabilities of PET including the Credit Facility. The 6.5% Convertible Debentures are convertible at the option of the holder into Trust Units at any time prior to the maturity date at a conversion price of $14.20 per Trust Unit.

The Trust's 6.25% convertible unsecured subordinated debentures issued on April 6, 2006 ("2006 6.25% Convertible Debentures") mature on April 30, 2011, bear interest at 6.25% per annum paid semi-annually on April 30 and October 31 of each year and are subordinated to substantially all other liabilities of PET including the Credit Facility. The 2006 6.25% Convertible Debentures are convertible at the option of the holder into Trust Units at any time prior to the maturity date at a conversion price of $23.80 per Trust Unit.

The Trust's 6.25% convertible unsecured subordinated debentures issued on April 26, 2005 ("2005 6.25% Convertible Debentures") mature on June 30, 2010, bear interest at 6.25% per annum paid semi-annually on June 30 and December 31 of each year and are subordinated to substantially all other liabilities of PET including the Credit Facility. The 2005 6.25% Convertible Debentures are convertible at the option of the holder into Trust Units at any time prior to the maturity date at a conversion price of $19.35 per Trust Unit.

The Trust's 8% convertible unsecured subordinated debentures ("8% Convertible Debentures") mature on September 30, 2009, bear interest at 8.0% per annum paid semi-annually on March 31 and September 30 of each year and are subordinated to substantially all other liabilities of PET including the Credit Facility. The 8% Convertible Debentures are convertible at the option of the holder into Trust Units at any time prior to the maturity date at a conversion price of $14.20 per Trust Unit.

At the option of PET, the repayment of the principal amount of the convertible debentures may be settled in Trust Units. The number of Trust Units to be issued upon redemption by PET will be calculated by dividing the principal by 95percent of the weighted average trading price for ten trading days prior to the date of redemption. The interest payable may also be settled with the issuance of sufficient Trust Units to satisfy the interest obligation.

At March 31, 2008, the Trust had $5.9 million in 8% Convertible Debentures outstanding with a fair market value of $6.0 million, $55.3 million in 2005 6.25% Convertible Debentures outstanding with a fair market value of $55.3 million, $100.0 million in 2006 6.25% Convertible Debentures outstanding with a fair market value of $97.2 million, and $75 million in 6.5% Convertible Debentures outstanding with a fair market value of $69.7 million.

Convertible debentures	**8% Series**	**2005 6.25% Series**	**2006 6.25% Series**	**6.5% Series**	**Total**
Balance, December 31, 2006	$ 5,866	$ 55,038	$ 96,487	-	$ 157,391
June 20, 2007 Issuance	-	-	-	75,000	75,000
Issue costs	-	-	-	(3,000)	(3,000)
Portion allocated to equity	-	-	-	(2,812)	(2,812)
Change in accounting policy (see note 2)	(112)	(1,436)	(3,676)	-	(5,224)
Accretion of non-cash interest expense	-	116	731	291	1,138
Amortization of debenture issue fees	47	436	863	320	1,666
Converted into Trust Units	-	-	(24)	-	(24)
Balance, December 31, 2007	$ 5,801	$ 54,154	$ 94,381	$ 69,799	$ 224,135
Accretion of non-cash interest expense	-	29	183	125	337
Amortization of debenture issue fees	12	110	215	149	486
Balance, March 31, 2008	**$ 5,813**	**$ 54,293**	**$ 94,779**	**$ 70,073**	**$ 224,958**

A reconciliation of the equity component of convertible debentures is provided below:

Balance, as at December 31, 2006	$ 4,527
Conversion of Trust Units	(1)
Equity component of 6.5% Convertible Debentures	2,812
Balance, as at December 31, 2007	$ 7,338
Conversion of Trust Units	-
Balance, as at March 31, 2008	**$ 7,338**

9. UNITHOLDERS' CAPITAL

a) Authorized

Authorized capital consists of an unlimited number of Trust Units and an unlimited number of Special Voting Units. No Special Voting Units have been issued to date.

b) Issued and Outstanding

The following is a summary of changes in Unitholders' capital:

Trust Units	Number of Units	Amount
Balance, December 31, 2006	85,186,011	$ 812,174
Units issued pursuant to Unit offering	20,450,000	250,513
Units issued pursuant to Unit Incentive Plan	244,500	1,665
Units issued pursuant to Bonus Rights Plan	981	12
Units issued pursuant to Distribution Reinvestment Plan	3,674,876	32,882
Units issued pursuant to conversion of debentures	1,050	25
Issue costs on convertible debentures converted to Trust Units	-	(1)
Trust Unit issue costs	-	(14,020)
Balance, December 31, 2007	109,557,418	1,083,250
Units issued pursuant to Distribution Reinvestment Plan	1,202,374	8,165
Trust Unit issue costs	-	(9)
Balance, March 31, 2008	**110,759,792**	**$ 1,091,406**

c) Per Unit Information

Basic per unit amounts are calculated using the weighted average number of Trust Units outstanding during the three months ended March 31, 2008 of 110,168,947 (2007 – 85,816,029). PET uses the treasury stock method for incentive and bonus rights in instances where market price exceeds exercise price thereby impacting the diluted calculations. In computing diluted per unit amounts for the three months ended March 31, 2008, nil Trust Units were added to the basic weighted average number of Trust Units outstanding (2007 – nil net Trust Units) for the dilutive effect of incentive rights and convertible debentures. In computing diluted per unit amounts for the three month periods ended March 31, 2008, 3,760,500 incentive rights, as well as 12,751,675, potentially issuable Trust Units through the Convertible Debentures (see note 8) were excluded as the exercise and conversion prices were out of the money at March 31, 2008 (three months ended March 31, 2007 – 3,027,996 incentive rights, 7,057,937 potentially issuable Trust Units through the Convertible Debentures).

d) Redemption Right

Unitholders may redeem their Trust Units at any time by delivering their Trust Unit certificates to the Trustee of PET. Unitholders have no rights with respect to the Trust Units tendered for redemption other than a right to receive the redemption amount. The redemption amount per Trust Unit will be the lesser of 90 percent of the weighted average trading price of the Trust Units on the principal market on which they are traded for the ten day period after the Trust Units have been validly tendered for redemption and the "closing market price" of the Trust Units.

In the event that the aggregate redemption value of Trust Units tendered for redemption in a calendar month exceeds $100,000 and PET does not exercise its discretion to waive the $100,000 limit on monthly redemptions, PET will not use cash to pay the redemption amount for any of the Trust Units tendered for redemption in that month. Instead, PET will pay the redemption amount for those Trust Units, subject to compliance with applicable laws including securities laws of all jurisdictions and the receipt of all applicable regulatory approvals, by the issuance of promissory notes of PET ("Notes") to the tendering Unitholders.

The Notes delivered as set out above will be unsecured and bear interest at a market rate of interest to be determined at the time of issuance by the Board of Directors based on the advice of an independent financial advisor. The interest will be payable monthly. The Notes will be subordinated and, in certain circumstances, postponed to all of PET's indebtedness. Subject to prepayment, the Notes will be due and payable five years after issuance.

10. INCENTIVE PLANS

a) Unit Incentive Plan

PET has adopted a Unit Incentive Plan ("Unit Incentive Plan") which permits the Administrator's Board of Directors to grant non-transferable rights to purchase Trust Units ("Incentive Rights") to its and affiliated entities' employees, officers, directors and other direct and indirect service providers. The purpose of the Unit Incentive Plan is to provide an effective long-term incentive to eligible participants and to reward them on the basis of PET's long-term performance and distributions. The Administrator's Board of Directors will administer the Unit Incentive Plan and determine participants, numbers of Incentive Rights and terms of vesting. The grant price of the Incentive Rights ("Grant Price") shall equal the per Trust Unit closing price on the trading date immediately preceding the date of the grant, unless otherwise permitted.

Prior to June 30, 2007, the exercise price of the Incentive Rights ("Exercise Price") was, subject to certain limitations, reduced by deducting from the Grant Price the aggregate amounts of all distributions on a per Trust Unit basis that PET pays its Unitholders after the date of grant which represented a return of more than 2.5 percent per quarter on PET's consolidated net property, plant and equipment on its balance sheet at each calendar quarter end ("Base Return"). The Exercise Price will be adjusted on a quarterly basis and in no case may it be reduced to less than $0.001 per Trust Unit. Effective June 30, 2007, the Base Return was reduced to nil in the formula for calculating Exercise Price reductions. The Incentive Rights are only dilutive to the calculation of earnings per Trust Unit if the exercise price is below the market price of the Trust Units. During the three month period ended March 31, 2008 the Trust recorded $1.0 million in Trust Unit compensation ($0.7 million for the three month period ended March 31, 2007).

At March 31, 2008 PET had 7.0 million Unit Incentive and Bonus Rights issued and outstanding relative to the 11.1 million (10 percent) of total Trust Units outstanding reserved under the Unit Incentive and the Bonus Rights Plans (see note 10 (b)). As at March 31, 2008, 609,125 Incentive Rights granted under the Unit Incentive Plan had vested but were unexercised (181,250 as of March 31, 2007).

PET used the binomial lattice option pricing model to calculate the estimated fair value of the outstanding Incentive Rights issued on or after January 1, 2003. The following assumptions were used to arrive at the estimate of fair value as at the date of grant:

		Year of grant
	2008	2007
Distribution yield (%)	**0.0**	0.0 – 6.3
Expected volatility (%)	**30.0**	28.5 – 29.5
Risk-free interest rate (%)	**2.66 – 3.33**	3.86 – 4.65
Expected life of Incentive Rights (years)	**3.75**	3.75 – 4.5
Vesting period of Incentive Rights (years)	**4.0**	4.0
Contractual life of Incentive Rights (years)	**5.0**	5.0
Weighted average fair value per Incentive Right on the grant date	**$ 2.14**	$ 1.82

Incentive Rights	**Average exercise price**	**Incentive Rights**
Balance, December 31, 2006	$ 14.60	3,644,675
Granted	6.97	3,661,875
Exercised	0.31	(244,500)
Forfeited	13.23	(371,175)
Balance, December 31, 2007	11.02	6,690,875
Granted	7.86	221,000
Forfeited	5.75	(13,500)
Balance, March 31, 2008	**$ 10.93**	**6,898,375**

The following summarizes information about Incentive Rights outstanding at March 31, 2008 assuming the reduced exercise price described above:

Range of exercise prices	**Number outstanding at March 31, 2008**	**Weighted average contractual life (years)**	**Weighted average exercise price/ Incentive Right**	**Number exercisable at March 31, 2008**	**Weighted average exercise price/ Incentive Right**
$ 4.59	50,000	0.6	$ 4.59	37,500	$ 4.59
$ 5.28 - $ 10.97	4,115,250	3.6	6.64	58,000	6.70
$ 11.31 - $ 15.38	1,974,000	2.5	12.70	336,375	12.63
$ 15.45 - $ 18.88	759,125	3.0	16.75	177,250	17.38
Total	6,898,375	3.0	$ 10.93	609,125	$ 12.95

A reconciliation of contributed surplus is provided below:

Balance, as at December 31, 2006	$ 5,760
Trust Unit-based compensation expense	4,287
Transfer to Unitholders' capital on exercise of Incentive Rights	(1,590)
Transfer to Unitholders' capital on exercise of Bonus Rights	(11)
Balance, as at December 31, 2007	8,446
Trust Unit-based compensation expense	1,054
Balance, as at March 31, 2008	**$ 9,500**

b) Bonus Rights Plan

PET has implemented a bonus rights plan ("Bonus Rights Plan") for certain officers, employees and direct and indirect service providers of the Administrator ("Service Providers"). Rights to purchase Trust Units ("Bonus Rights") granted under the Bonus Rights Plan may be exercised during a period (the "Exercise Period") not exceeding three years from the date upon which the Bonus Rights were granted. The Bonus Rights vest over two years. At the expiration of the Exercise Period, any Bonus Rights which have not been exercised shall expire and become null and void. Upon vesting, the plan participant is entitled to receive the vested units plus an additional number of Trust Units equal to the value of distributions on PET's Trust Units as if the Trust Units were invested in PET's Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP Plan") accrued since the grant date.

For the three month period ended March 31, 2008, nil in compensation expense was recorded in respect of the Bonus Rights granted (three month period ended March 31, 2007 - nil).

The following table shows changes in the Bonus Rights outstanding under the Bonus Rights Plan since inception:

Bonus Rights	
Balance, December 31, 2006	37,805
Granted	45,668
Exercised	(981)
Forfeited	(1,193)
Additional grants for accrued distributions	12,120
Balance, December 31, 2007	93,419
Additional grants for accrued distributions	3,945
Balance, March 31, 2008	**97,364**

11. ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligation was estimated based on PET's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future periods. PET has estimated the net present value of its total asset retirement obligations to be $193.6 million as at March 31, 2008 based on an undiscounted total future liability of $363.7 million. These payments are expected to be made over the next 25 years with the majority of costs incurred between 2015 and 2020. PET used a credit adjusted risk free rate of 7.0percent to calculate the present value of the asset retirement obligation.

The following table reconciles the Trust's asset retirement obligations:

	March 31, 2008	December 31, 2007
Obligation, beginning of year	**$ 194,132**	$ 109,437
Obligations incurred	**1,357**	11,212
Obligations acquired	**-**	65,408
Obligations disposed	**(3,595)**	-
Expenditures for obligations during the period	**(1,716)**	(2,597)
Accretion expense	**3,428**	10,672
Obligation, end of period	**$ 193,606**	$ 194,132

12. FINANCIAL RISK MANAGEMENT

The Trust has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Trust's exposure to each of the above risks, the Trust's objectives, policies and processes for measuring and managing risk, and the Trust's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Trust's risk management framework. The Board has implemented and monitors compliance with risk management policies.

The Trust's risk management policies are established to identify and analyze the risks faced by PET, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Trust's activities.

a) Credit risk

Credit risk is the risk of financial loss to the Trust if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Trust's receivables from joint venture partners and petroleum and natural gas marketers.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Trust's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large, well established purchasers with high credit ratings. The Trust historically has not experienced any collection issues with its petroleum and natural gas marketing receivables. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Trust attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure. However, the receivables are generally from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling and oil and gas production; in addition further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. The Trust does not typically obtain collateral from oil and natural gas marketers or joint venture partners, however, the Trust does have the ability in some cases to withhold production or amounts payable to joint venture partners in the event of non-payment.

The Trust manages the credit exposure related to marketable securities by monitoring the performance and financial strength of the investments and the liquidity of the securities being held.

During the period credit risk did not have any impact on the change in fair value of financial liabilities classified as held for trading.

The carrying amount of accounts receivable and marketable securities represents the maximum credit exposure. The Trust's allowance for doubtful accounts as at March 31, 2008 is $4.0 million. The entire amount of the allowance pertains to the working capital component of the Birchwavy Assets acquired in 2007 and was included as part of the purchase price equation (see note 5). The amount of the allowance was determined by assessing the probability of collection for each past due receivable related to the acquisition. The Trust is currently involved in negotiations with the seller and the joint venture partners involved in an effort to recover the full amount of the receivables in question. The total amount of receivables past due 90 days amounted to $12.8 million, as at March 31, 2008 and pertains primarily to Birchwavy assets. As at the balance sheet date, as a mitigating factor to the credit exposure, the Trust has $4.1 million payable to counterparties from which the Trust holds past due receivables.

b) Liquidity risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they are due. The Trust's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Trust's reputation.

The Trust prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Trust utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Trust has a revolving credit facility, as outlined in note 7. The lender reviews the Trust's borrowing base on a semi-annual basis. The following are the contractual maturities of financial liabilities and associated interest payments as at March 31, 2008:

Contractual repayments of financial liabilities(1)	**Total**	**2008**	**2009-2012**	**Thereafter**
Accounts payable and accrued liabilities	$ 88,907	$ 88,907	$ -	$ -
Long term bank debt – principal	331,819	-	331,819	-
Convertible debentures – principal(2)	236,109	-	236,109	-
Total	$ 656,835	$ 88,907	$ 567,928	$ -

(1) Financial instrument liabilities are based on a mark-to-market calculation as of the balance sheet date and as such, future contractual repayments are uncertain. As a result, PET has not included financial instruments as financial liabilities in the above repayments schedule.

(2) Assuming repayment of principal is not settled in Trust Units, at the option of PET.

Interest payments on financial liabilities	**Total**	**2008**	**2009-2012**	**Thereafter**
Interest payment on bank debt(1)	$ 17,362	$ 11,323	$ 6,039	$ -
Interest on convertible debentures(2)	48,461	11,285	37,176	-
Total	$ 65,823	$ 22,608	$ 43,215	$ -

(1) Assuming revolving feature of the credit facility is not extended and calculated at the March 31, 2008 effective interest rate of 4.55%, assuming a constant debt level equivalent to the balance at March 31, 2008.

(2) Assuming payment of interest is not settled in Trust Units, at the option of PET.

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Trust's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

The Trust utilizes both financial derivatives and physical delivery sales contracts to manage market risks related to commodity prices. All such transactions are conducted in accordance with the Trust's Risk Management Policy, which has been approved by the Board of Directors.

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The majority of the Trust's oil and natural gas sales are denominated in Canadian dollars. Due to the fact that the demand for oil and natural gas is substantially driven by the demand in the United States, the Trust's exposure to US dollar foreign exchange risk is indirectly driven by the price of oil and natural gas. From time to time the Trust also uses foreign exchange contracts to mitigate the effects of fluctuations in exchange rates on the Trust's cash flows. The Trust does not consider its direct exposure to foreign currency exchange rate risk to be significant; refer to commodity price risk analysis below.

As at March 31, 2008 the Trust had entered into one forward foreign exchange rate contract. The fair value of the contract as at the balance sheet date is nil, calculated based on an independent forward exchange curve. No gain or loss has been recorded in the consolidated statement of earnings with respect to this contract.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the world economic events that dictate the levels of supply and demand. The Trust has attempted to mitigate commodity price risk through the use of various financial derivative and physical delivery sales contracts. The Trust's policy is to enter into financial and forward physical gas sales contracts up to a maximum of 50 percent of forecasted production volumes including gas over bitumen deemed production, as outlined in the Trust's risk management policy.

As at March 31, 2008, the Trust has physical natural gas sales contracts which are contingent on future market prices. These contracts are not classified as financial instruments due to the fact that the settlement price corresponds directly with fluctuations in natural gas prices.

The remainder of production not subject to derivative contracts or fixed volume, non-derivative physical sales contracts is settled monthly with counterparties based on future monthly actual production and future monthly settlement prices.

For the period ended March 31, 2008 forward physical gas fixed-price sales contracts resulted in realized gains of $1.2 million that have been included in oil and natural gas revenue. In order to calculate these realized gains, PET compares the fixed price received to the AECO monthly index price and the NYMEX index.

Realized gains on financial instruments, including financial natural gas commodity contracts and foreign exchange price contracts, recognized in net earnings (loss) for three month period ended March 31, 2008 were $2.8 million ($14.3 million for the three month period ended March 31, 2007).

Natural gas commodity contracts

At March 31, 2008 the Trust had entered into forward gas sales arrangements at AECO as follows:

Type of contract	PET sold/ bought	Volumes at AECO (GJ/d)		Price ($/GJ)		Term
			Fixed	Floor	Ceiling	
Financial	sold	27,500	$7.973	-	-	April 2008
Financial	bought	(12,500)	$7.958	-	-	April 2008
Financial	sold	99,500	$7.407	-	-	April 2008 – October 2008
Financial	bought	(17,500)	$7.043	-	-	April 2008 – October 2008
Physical	sold	8,000	$6.998	-	-	April 2008 – October 2008
Physical	bought	(2,500)	$6.560	-	-	April 2008 – October 2008
Physical	sold	2,500	$7.450	-	-	April 2008 – December 2008
Physical	bought	(2,500)	$6.625	-	-	April 2008 – December 2008
Financial	sold	5,000	$8.380	-	-	May 2008
Financial	sold	101,000	$7.816	-	-	November 2008 – March 2009
Financial	bought	(5,000)	$7.255	-	-	November 2008 – March 2009
Physical	sold	10,000	$8.223	-	-	November 2008 – March 2009
Physical	bought	(7,500)	$7.703	-	-	November 2008 – March 2009
Financial	sold	5,000	-	$7.000	$8.000	November 2008 – March 2009
Financial	sold	55,000	$7.291	-	-	April 2009 – October 2009
Financial	bought	(47,500)	$7.216	-	-	April 2009 – October 2009
Financial	sold	17,500	$8.237	-	-	November 2009 – March 2010
Financial	bought	(17,500)	$8.135	-	-	November 2009 – March 2010

At March 31, 2008 the Trust had entered into financial and forward physical gas sales arrangements at NYMEX as follows:

Type of contract	PET sold/bought	Volumes at NYMEX (MMBTU/d)	Price (US$/ MMBTU)	Term
Financial	sold	2,500	$9.420	April 2008
Financial	bought	(7,500)	$9.570	April 2008
Financial	sold	10,000	$7.700	April 2008 – October 2008
Physical	sold	5,000	$6.683	April 2008 – October 2008
Financial	sold	2,500	$9.420	November 2008 – March 2009
Financial	bought	(2,500)	$9.260	November 2008 – March 2009

At March 31, 2008 the Trust had entered into financial and forward physical gas sales arrangements to fix the basis differential between the NYMEX and AECO trading hubs as follows. The price at which these contracts settle is equal to the NYMEX index less a fixed basis amount. Physical basis contracts represent commitments rather than contractual obligations.

Type of contract	PET sold/bought	Volumes at NYMEX (MMBTU/d)	Price (US$/ MMBTU)	Term
Financial – basis	sold	5,000	$(0.975)	April – October 2008
Financial – basis	bought	(5,000)	$(1.045)	April – October 2008
Physical – basis	sold	37,500	$(0.969)	April – October 2008
Physical – basis	bought	(22,500)	$(1.047)	April – October 2008
Physical – basis	sold	17,500	$(0.445)	April – October 2010
Physical – basis	bought	(17,500)	$(0.731)	April – October 2010
Financial – basis	sold	15,000	$(0.547)	April – October 2011
Financial – basis	bought	(15,000)	$(0.550)	April – October 2011

At March 31, 2008 an unrealized loss of $79.3 million was recorded in the consolidated statement of earnings (loss) related to the change in fair value of financial and physical forward sales contracts from December 31, 2007 to March 31, 2008.

Commodity price sensitivity analysis

As at March 31, 2008, if future natural gas prices changed by $0.25 per GJ for AECO contracts and $0.25 per MMBTU for NYMEX contracts, with all other variables held constant, after tax net earnings for the period would have changed by $9.9 million. A potential increase in the natural gas price would result in a decrease to net earnings, while a decrease would lead to increased net earnings.

Mark to market sensitivity was based on published forward AECO and NYMEX prices. Gains and losses on NYMEX contracts were calculated based on the USD foreign exchange rate as at March 31, 2008.

Interest rate risk

The Trust utilizes a long-term debt credit facility which bears a floating rate of interest. Both of these financial liabilities are subject to interest rate risk. Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates, thereby affecting the Trust's operations.

Interest rate sensitivity analysis

For period ended March 31, 2008, if interest rates had been one percent lower or higher the impact on earnings would be as follows:

Interest rate sensitivity	1% increase	1% decrease
Impact on net earnings	$ (900)	$ 900

The net earnings impact as a result of interest rate fluctuations is based on the assumption that the lender increases or decreases the fixed term BA rate consistently, based on a market interest rate change of one percent.

PET's convertible debentures were issued at a fixed interest rate and as such the debentures are not materially impacted by market interest rate fluctuations. To ensure accounts payable, including monthly distributions, are settled on a timely basis, the Trust manages liquidity risk as previously outlined in this note, thus limiting exposure to interest rate fluctuations and other penalties potentially resulting from past due payables.

The Trust had no interest rate swap or financial contracts in place as at or during the three months ended March 31, 2008.

Capital management

The Trust's policy is to maintain a strong capital base so as to retain investor, creditor and market confidence and to sustain the future development of the business. The Trust manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Trust considers its capital structure to include unitholders' capital, bank debt, convertible debentures and working capital. In order to maintain or adjust the capital structure, the Trust may from time to time issue units or debt securities and adjust its capital spending and distributions to manage current and projected debt levels. This overall objective and policy for managing capital remained unchanged in the first quarter of 2008 from prior reporting periods.

The Trust monitors capital based on the ratio of net debt to annualized funds flow, calculated as follows for the three months ended March 31, 2008:

Net debt ($ thousands)	**March 31, 2008**
Bank debt	331,819
Convertible debentures, measured at principal amount	236,109
Working capital deficiency (surplus) (2)	14,495
Net debt	582,423
Cash flow provided by operating activities	52,901
Exploration costs (3)	3,024
Expenditures on asset retirement obligations	1,716
Changes in non-cash operating working capital	(1,450)
Funds flow	56,191
Annualized funds flow (1)	224,764
Net debt to annualized funds flow ratio (times) (1)	2.6

(1) These are non-GAAP measures; see "Significant accounting policies and non-GAAP measures" in management's discussion and analysis.

(2) Working capital deficiency (surplus) excludes short-term financial instrument assets and liabilities related to the Trust's hedging activities.

(3) Certain exploration costs are added back to funds flow in order to be more comparable to other energy trusts that use the full cost method of accounting for oil and gas activities. Exploration costs that are added back to funds flow include seismic expenditures, dry hole costs and expired leases and are considered by PET to be more closely related to investing activities than operating activities.

As at March 31, 2008, the Trust's ratio of net debt to funds flow was 2.6 to 1. This ratio is monitored continuously by the Trust, and the targeted range of net debt to funds flow varies based on such factors as, acquisitions, commodity prices, projected cash flows, capital expenditure programs and timing of such programs. In order to facilitate the management of this ratio, the Trust prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Trust's unitholders' capital, convertible debentures and working capital are not subject to external restrictions. The Trust's credit facility is subject to lender's covenants with which PET was in compliance with at March 31, 2008.

The Trust's capital structure at March 31, 2008 was as follows:

Net debt	$ 582,423
Total equity (net of deficit)	223,318
Non-controlling interest	1,942
Total capital at March 31, 2008	**$ 805,741**

Fair value of financial instruments

The Trust's financial instruments as at March 31, 2008 and March 31, 2007 include marketable securities, accounts receivable, derivative contracts, accounts payable and accrued liabilities, distributions payable, bank debt and convertible debentures.

The fair values of marketable securities and convertible debentures are based on exchanged traded values in active markets as at the balance sheet date.

The fair value of accounts receivable, accounts payable, accrued liabilities and distributions payable approximate their carrying amounts due to their short-terms to maturity.

The fair value of derivative contracts is based on the difference between the fixed contract price or fixed basis differential and readily observable estimated, external forward market price curves as at the balance sheet date, based on natural gas volumes in executed contracts.

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

13. OPERATING LEASES

a) Operating leases

As of March 31, 2008, the future minimum payments under office lease costs and related sublease recoveries under contractual agreements consisted of:

Operating leases	
2008	$ 2,232
2009	2,956
2010	2,912
2011	728
Total commitment	$ 8,828

a) Pipeline commitments

The Trust has long-term commitments to pay for gas transportation on certain major pipeline systems in western Canada. As of March 31, 2008, the future minimum payments under pipeline commitments under contractual agreements consisted of:

Pipeline commitments	
2008	$ 7,614
2009	5,517
2010	3,182
2011	1,999
2012	1,870
After 2012	877
Total commitment	$ 21,059

14. FUTURE INCOME TAXES

On June 12, 2007, Bill C-52 Budget Implementation Act, 2007 was substantively enacted by the Canadian federal government, which contains legislation to change the tax treatment of publicly traded trusts in Canada. As a result, a new 31.5 per cent tax will be applied to distributions from Canadian public income trusts effective January 1, 2011. On October 30, 2007, the Finance Minister announced a reduction of the corporate income tax rate from 22.1 percent to 15 percent by 2012. The reductions will be phased in between 2008 and 2012. Legislation enacting the measures received Royal Assent on December 14, 2007 and is therefore considered enacted for accounting purposes. On February 26, 2008, the Minister of Finance announced (the "Provincial SIFT Tax Proposal") that instead of basing the provincial component of the tax on a flat rate of 13 percent, the provincial component will instead be based on the general provincial corporate income tax rate in each province in which PET has a permanent establishment. Under the Provincial SIFT Tax Proposal PET would be considered to have a permanent establishment in Alberta, where the provincial tax rate in 2011 is expected to be 10 percent, which will result in an effective tax rate of 26.5 percent in 2011 and 25 percent in 2012. Taxable distributions that are not allocated to any province would instead be subject to a 10 percent rate constituting the provincial component. There can be no assurance, however, that the Provincial SIFT Tax Proposal will be enacted as proposed. PET has not recorded a future income tax liability at March 31, 2008, as temporary differences between book values and tax values of the Trust's assets are scheduled to reverse prior to the tax being implemented on January 1, 2011.

15. GAS OVER BITUMEN ROYALTY ADJUSTMENTS

On October 4, 2004 the Government of Alberta enacted amendments to the royalty regulation with respect to natural gas which provide a mechanism whereby the Government may prescribe a reduction in the royalty calculated through the Crown royalty system for operators of gas wells which have been denied the right to produce by the Alberta Energy and Utilities Board (the "AEUB") as a result of recent bitumen conservation decisions. Such royalty reduction was initially prescribed in December 2004, retroactive to the date of shut-in of the gas production.

If production recommences from zones previously ordered to be shut-in, gas producers may pay an incremental royalty to the Crown on production from the reinstated pools, along with Alberta Gas Crown Royalties otherwise payable. The incremental royalty will apply only to the pool or pools reinstated to production and will be established at one percent after the first year of shut-in increasing at one percent per annum based on the period of time such zones remained shut-in to a maximum of ten percent. The incremental royalties payable to the Crown would be limited to amounts recovered by a gas well operator through the reduced royalty.

At March 31, 2008 PET had received $81.8 million ($77.6 million at December 31, 2007) for cumulative gas over bitumen royalty adjustments to that date. Of this amount, $18.8 million has been recorded as revenue to date and $63.0 million has been recorded on the Trust's balance sheet.

In 2006 PET disposed of certain shut-in gas wells in the gas over bitumen area. As part of the disposition agreement, the Trust continues to receive the gas over bitumen royalty adjustments related to the sold wells, although the ownership of the natural gas reserves is transferred to the buyer. As such, any overriding royalty payable to the Crown when gas production recommences from the affected wells is no longer PET's responsibility. As a result of this disposition, the gas over bitumen royalty adjustments received by the Trust for the affected wells are now considered revenue since they will not be repaid to the Crown.

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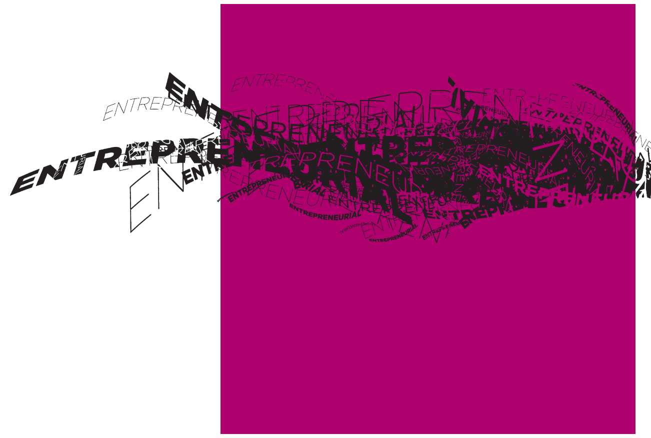
WEB www.paramountenergy.com

STOCK EXCHANGE LISTING	**TSX**
TRUST UNITS	PMT.UN
CONVERTIBLE DEBENTURES	PMT.DB PMT.DB.A PMT.DB.B PMT.DB.C



CORPORATE INFORMATION

DIRECTORS

Clayton H. Riddell
Executive Chairman

Susan L. Riddell Rose
President, Chief Executive Officer and Director (4)

Karen A. Genoway
Independent Director (2) (3) (5)

Randall E. (Randy) Johnson
Independent Director (1) (3) (5)

Robert A. Maitland
Independent Director

Donald J. Nelson
Independent Director (1) (2) (4)

John W. (Jack) Peltier
Independent Director (1) (2) (4)

Howard R. Ward
Independent Director (3) (4) (5)

(1) Member of Audit Committee
(2) Member of Reserves Committee
(3) Member of Corporate Governance
(4) Member of Environmental, Health & Safety Committee
(5) Member of Compensation Committee

OFFICERS

Susan L. Riddell Rose
President, Chief Executive Officer and Director (4)

Cameron R. Sebastian
Vice President, Finance and Chief Financial Officer

Gary C. Jackson
Vice President, Land, Legal and Acquisitions

Kevin J. Marjoram
Vice President, Engineering and Operations

Marcello M. Rapini
Vice President, Marketing

Roderick (Rick) P. Warters
Vice President, New Ventures and Geoscience

J. Christopher Strong
Acting Corporate Secretary, General Counsel

AUDITORS

KPMG LLP

BANKERS

Bank of Montreal

Canadian Imperial Bank of Commerce

The Bank of Nova Scotia

The Toronto-Dominion Bank

National Bank of Canada

ATB Financial

RESERVE EVALUATION CONSULTANTS

McDaniel & Associates Consultants Ltd.

TRUSTEE REGISTRAR AND TRANSER AGENT

Computershare Trust Company of Canada

This report contains forward-looking information with respect to Paramount Energy Trust (PET). This forward looking information is based on certain assumptions that involve a number of risks and uncertainties and are not guarantees of future performance. Actual results could differ materially as a result of changes in PET's plans, changes in commodity prices, general economic, market and business conditions as well as production, development and operating performance, regulations and other risks associated with oil and gas operations,